Beyond Financing: Leasing as a Tool for Cost Control

Agenda

- **Introduction: Why People Lease Luxury Cars**
- **The Evolution of Leasing: Changing Needs**
- **Technology versus other Equipment: The Issue of "Refresh"**
- **Student-facing Technology (glitzy) versus Technology "Plumbing" (boring)**
- **Cost-control, leasing, and refresh**
  - Reducing TCO life cycle costs (i.e. out-of-warranty repairs, support costs)
  - Reducing utility costs – for technology and for HVAC
  - Reducing equipment invoice costs (e.g. looks like a rental)
  - Containing expenses for technology upgrades
  - Containing expenses for unanticipated 'plumbing' upgrades
  - Containing the impact of budget/cost overruns
- **First Places to Look for Leasing Opportunities**

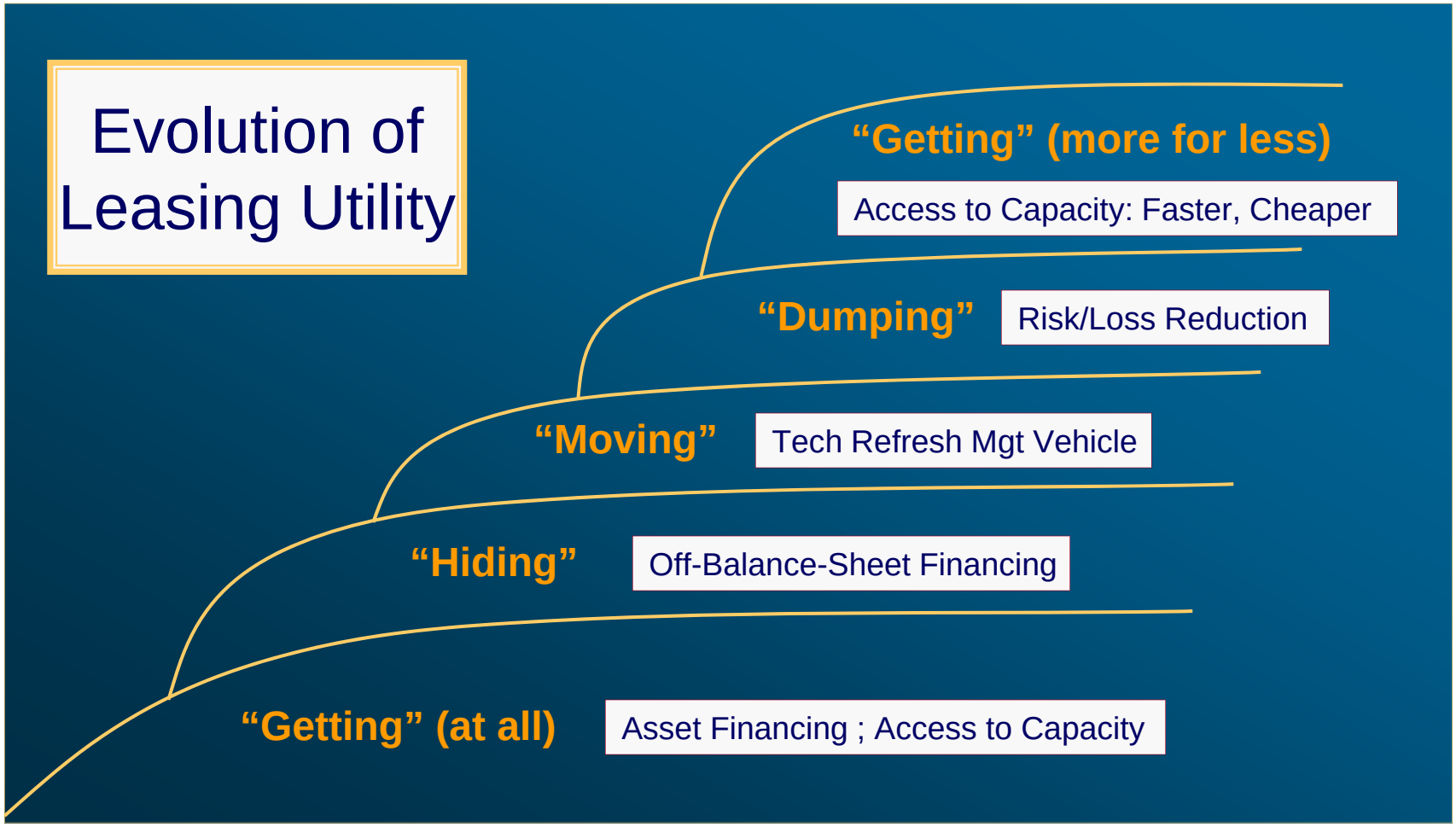
Intro: Why People Lease Luxury Cars (1)

- **Cash Flow**
  - "I can get the *same* car for a **lower** monthly payment!"
- **Capacity**
  - "I can get a *better* car for the **same** monthly payment I could buy a *lesser* car"
- **"Tech Refresh"**
  - "I don't want to be stuck with an ***old*** luxury car—I want new features via **rollover**!"

Intro: Why People Lease Luxury Cars (2)

- **Strategic Use of Capital**
  - "I'll use my cash for the boat I want, and I can still get the car I want by leasing"
- **"Off-Balance Sheet" (Non-ownership)**
  - "In case some legal authority comes after me, at least they cannot force me to sell a car that isn't mine!"
- **Risk Management**
  - "If push comes to shove, it will be cheaper to return the car than to pay off a loan!"

The Evolution of Leasing: Changing Needs



Technology versus Other Equipment: The Issue of "Refresh"

Information Technology	General Equipment
Shorter warranties	Longer warranties
Faster obsolescence	Slower obsolescence
Variety of expected outputs increases with time	Output types remain constant over time
Load on the equipment always increases over time	Load generally stays constant within range
Parts can be upgraded independently of others	Parts cannot be upgraded independently of others
Can be re-purposed	Difficult to re-purpose
Higher 'shrink'	Lower 'shrink'

Information Technology has a different life cycle profile—periodic refresh is required

Different Profiles of IT Equipment

- **Student-facing technology**
  - Laptops, smart phones, classroom technology, video, media, tablets
  - Glitzy: easier to get funding for this
  - Volatile: changes very, very rapidly!
  - Critical: significant visible impact on organizational outcomes

- **Technology infrastructure ("plumbing")**
  - Servers in the back rooms, networks in closets, staff PCs
  - "Boring": harder to get funding for this
  - Stable platforms: changes are rapid, but more predictable and less disruptive
  - Critical: less visible, but still essential to being able to leverage the student-facing technology!

Cost-control, Leasing, and Refresh

1. **Reducing TCO life cycle costs (i.e. out-of-warranty repairs, support costs)**
2. **Reducing utility costs – for technology and for HVAC**
3. **Reducing equipment invoice costs (e.g. looks like a rental)**

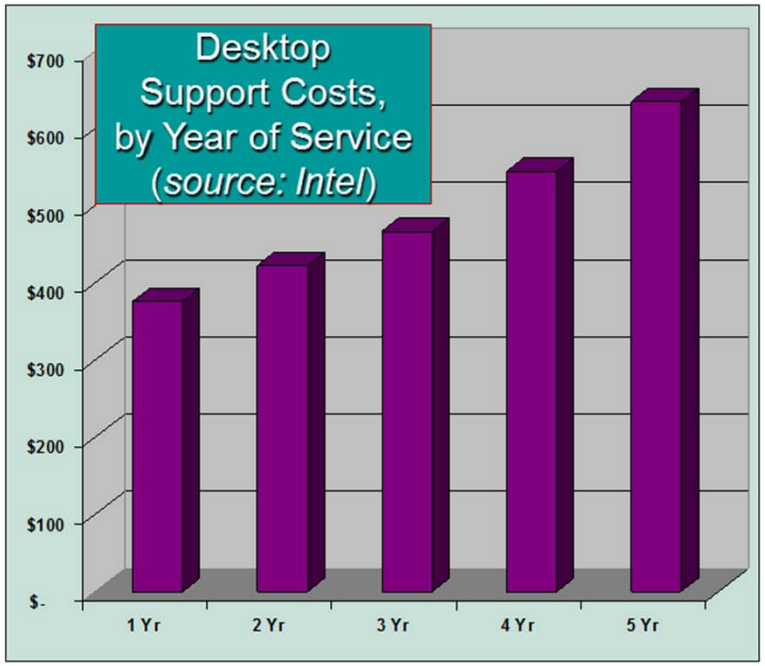
4. **Containing expenses for technology upgrades**
5. **Containing expenses for unanticipated 'plumbing' upgrades**
6. **Containing the impact of budget/cost overruns**

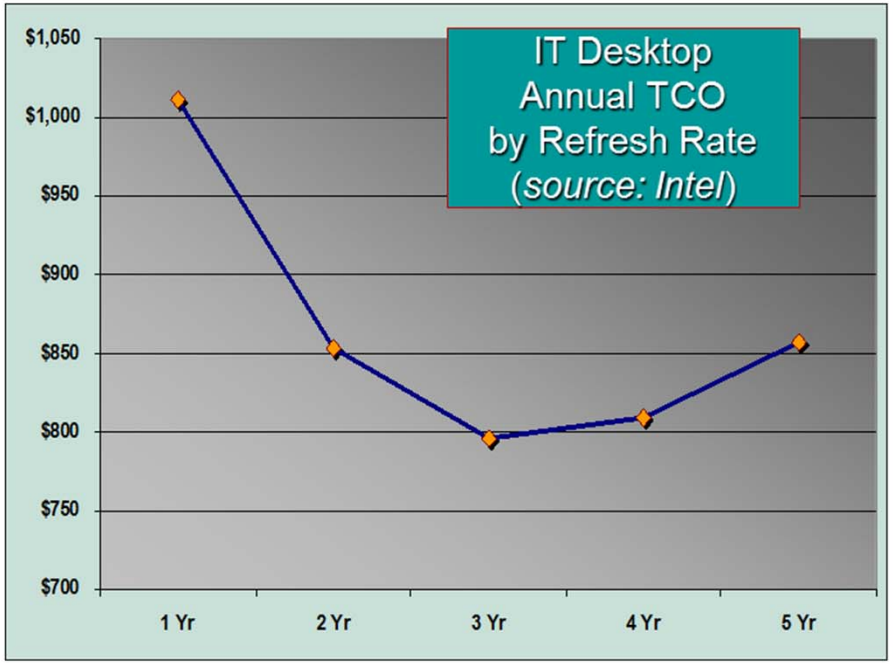
1. Reducing TCO life cycle costs

- **TCO – "Total Cost of Ownership" – applies to most types of equipment, but is highly studied for IT equipment**
- **Explicit costs in the models include: out-of-warranty repairs, patching systems for errors, help desk labor, software upgrade costs, escalated warranty costs**
- **Some of these costs are labor (and difficult to harvest), but some are invoices for repairs or for outside support services**
- **These costs rise dramatically and more visibly at the 3 year mark**

TCO life cycle costs

- Labor, Repair, Patching, and Support Costs increase with each year of usage [especially for Distributed Assets]

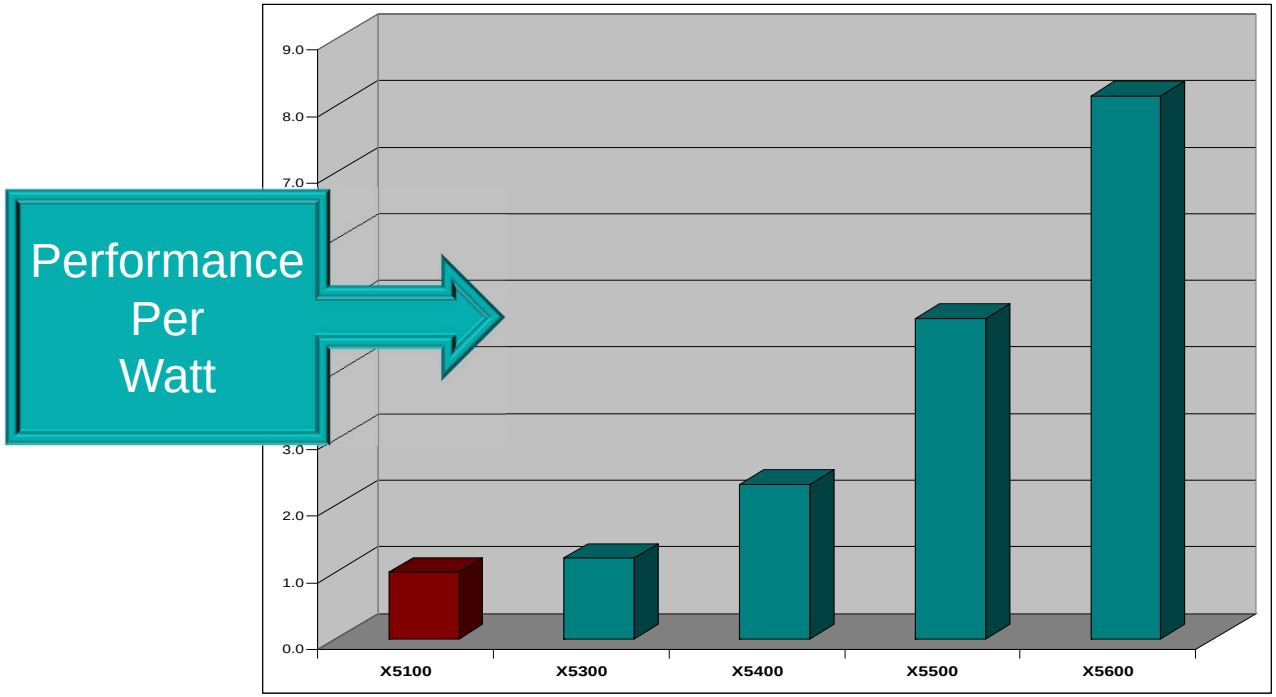




- **After the 3 year mark, Products are now *at least* 2 Product Refreshes old, with possible complications/costs in Maintenance Contracts, feature development by software firms, and Compatibility with New Adoptions**

2. Reducing Utility Costs for Tech and HVAC

- **Energy costs continue to rise, and the general rule for IT equipment is one watt of cooling for one watt of computing**
- **Energy efficiency is improving dramatically with each new generation of processor/system – Refreshing will reduce measurable energy consumption**



3. Reducing Equipment Invoice Costs

- **Leasing looks like a Rental – for 3 year or less terms, the invoice costs are less that purchasing**
- **The newer the technology, the lower the invoices (secondary market dynamics)**

Total Monthly Lease Payments versus $1,000 Purchase Price, by Refresh Cycle

Savings Range From 28% to 3%

4. Containing Expenses for Upgrades

- **Upgrades are too often done in 'spikes', representing a huge capital hit (and all the work that goes with that!) and often diverts funds from other important projects**

- **Financing can 'smooth' this expense out, and under a refresh program, result in constant monthly payments.**

- **Technology upgrades thus become 'steady state' expenses, growing performance and features for a constant, predictable budget-dollar amount**

5. Unanticipated Upgrade Costs

- **IT gear sits in a 'network' of other equipment. When one part changes, there is generally some impact on the others.**

- **Example: A technologically-advanced for-profit independent high school in Canada rolled out advanced tablets to student (from special donated funds), but did not include monies for server upgrades to handle the increased video/media traffic. The tablets were experiencing problems, making the overall project 'look bad'. The servers had to be upgraded—and quickly—without any real budget. Leasing was the only way to do this without major financial drain.**

6. Budget/Cost Overruns

- **Even the best-planned budgets suffer 'surprises', and IT projects are notorious for this!**
- **This is similar to 'unanticipated upgrades' but can apply to non-IT equipment. A budget overrun on Item X can sometimes—under duress—be offset by sale-leaseback of IT assets. Sale-leaseback can generate cash, although it is used for other management purposes as well.**
- **But even for IT equipment, budget overruns can be 'softened' by financing the 'overrun' parts.**

First Places to Look for Leasing Opportunities

- **High rate of technology change (for refresh benefits)**
  - Laptops
  - Desktops
  - Disk storage systems
- **Highly centralized technology (for upgrades and scale)**
  - Rack and blade servers
  - Central network devices (e.g. core routers, core switches)
- **Very expensive technology (for financing reasons)**
  - Lab systems
  - High-end classroom technology

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