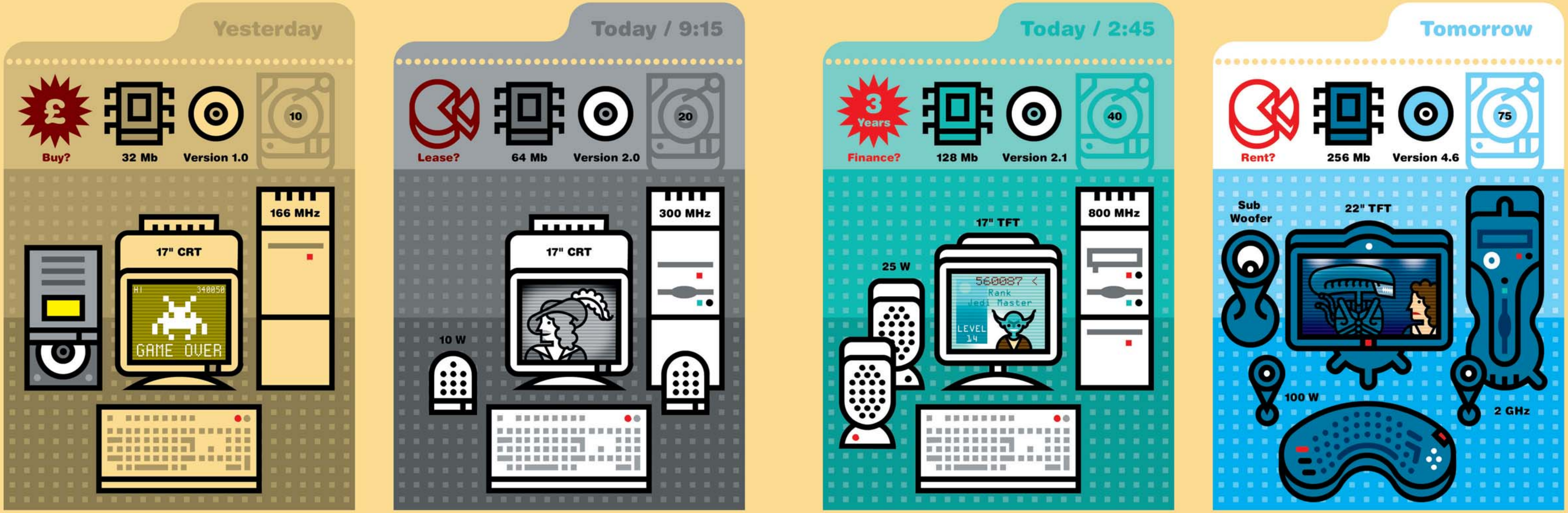


Sale or rent

Most of the time *PC Advisor* concentrates on the latest products, but it's a sad fact that IT hardware depreciates in value even more quickly than cars. Sue Medley asks if leasing office equipment makes more financial sense than buying

It's often said that no sooner do you get a new PC out of its box than it becomes out of date. Even more helpful people will tell you that the best time to buy a computer is yesterday or tomorrow, never today. Though neither of these observations is especially useful, there's some truth in them both: the market changes so rapidly that today's hardware is quickly obsolete and, as new kit becomes available, existing products drop in price like stones. But if you bought it yesterday, well, at least you've already had some use out of it.

In the mid 90s, for instance, when CD-ROM drives were in their infancy, a double-speed external drive would have set you back over £400 – and in those days many of us thought that was a reasonable price to pay. Now it's easy to pick up a combined CD-rewriter and DVD-ROM drive for under £100. Hard drives, too, are faster and larger than of yore, yet they're also much cheaper. The cost of memory has also plummeted in recent years. The days when a megabyte of memory could cost several pounds are, thankfully, long gone; now, it's less than 50p per MB.

ILLUSTRATION: LEE HASLER

So not only is PC hardware improving in quality and specification, it regularly drops in price, too. Furthermore, because of the rapid rate at which technology progresses, you'll probably be thinking seriously about upgrading your system something like every 18 months, possibly even sooner if you're a hardened gamer. With this built-in obsolescence and the fact that we all want to get the best value for our money, buying new hardware can be a real headache.

Home alone

For a home or small business user with a single machine, the automatic response to needing a new PC is usually to go to your local computer superstore and wave a credit card at the nearest salesman. For around £1,000 you can become the proud owner of a 2GHz multimedia Pentium 4 machine with 256MB of RAM, a 60GB hard drive and all the extras you need to make your computing life complete.

What's more, this purchase will normally come with a decent warranty (usually at least one-year onsite) with the option of extended cover. But what if your budget won't immediately run to £1,000? Some manufacturers offer six months' interest-free credit so long as the whole amount is repaid on the specified date. Others offer easy payment schemes. An initial deposit may not even be required. But it's worth being aware of the final cost because, for example, with APRs of up to 28.9 percent currently being quoted, your purchase could ultimately cost you more than half as much again.

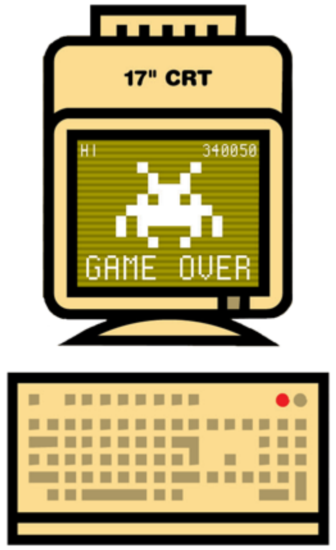
And what happens if you can't keep up the repayments? Without CPI (credit protection insurance) you could end up in debt. In the worst case, you could also lose the machine. It all depends how the finance has been arranged. Are your monthly payments made directly to the supplier or are you sending them to a finance company that has effectively loaned you the money? It makes quite a difference if money gets tight because illness strikes or you lose your job.

Spoilt for choice

If you need to buy large quantities of hardware, buying it with your own money is probably not even possible – unless you have bottomless pockets. A mainframe could set you back at least a quarter of a million pounds and even 20 PCs plus associated equipment such as printers would be a substantial outlay. Luckily, there are other options.

You can still buy outright using a bank loan or an overdraft to finance it. But two of the other main choices are to use hire purchase or a leasing company. Both these options have their own advantages and disadvantages. We'll examine these in this article, and make it easier for you to decide which would suit you better.

One of the initial facts to be aware of is the crucial difference between buying and leasing. If you buy something through HP (hire purchase) eventually it is yours. You make payments each month and, having paid the final instalment, you're left with an asset whose value you may or may not be able to realise. It can be sold on to a third party, sold as scrap or simply thrown away when it is of no more use. But if you lease hardware, it's never yours. When the lease ends, the equipment belongs to the leasing company unless special arrangements are made.



The leasing company works out what the hardware will be worth at the end of the contract and sets a payment rate to take these factors into account

Best interests

In a leasing arrangement, it is the leasing company that buys from the manufacturer, just like an individual person or business would. It then rents the hardware to the customer for an agreed period of time. To the leasing company this is purely a financial transaction. It has its own costs and ultimately wants to make a profit. There is an element of risk for that firm, just as there is in any business deal, so the leasing company works out what the hardware will be worth at the end of the contract and sets a payment rate to take all these factors into account.

Leasing companies don't generally have a price deal with a manufacturer. The price they pay is the same deal anyone else gets and they are simply treated like another customer, though a manufacturer may sometimes have contacts in the business or even a subsidiary company.

The customer takes out a contract with the leasing company at a fixed price over a specified period of time. There would be a penalty if you wanted to terminate the contract within that time. This often turns out to be a costly decision, if indeed the contract allows it at all.

Playing pool

So for the leasing customer, it's usually easier just to hang on to the hardware. It's a bit like a company having a fleet of leased cars. Rather than buying one here and another one there, it's better to lease all of them and pay a fixed rate for three years. If someone leaves the company, the car joins the pool of spare vehicles. It's simpler than sending it back and paying a penalty.

This would work in exactly the same way with a PC. So if a new employee subsequently joins the company, it isn't necessary to take out a new lease especially for them; they can simply use one of the spare PCs in the pool.

When it comes to maintenance, the computer manufacturer treats all its machines the same way, too. As far as it's concerned, it makes no difference whether its hardware has been bought or leased or on whose premises it is kept. In fact, the engineers usually don't even know.

But it can be tricky if the customer goes out of business. Who owns the hardware? The leasing company does and it can retrieve it because it isn't an asset of the failed business. But if receivers have closed the building, the company could find it hard to gain access to the premises to collect it.

Purchase vs credit vs leasing

Let's take a specific example, with figures provided by Watford Electronics (www.watford.co.uk; 0870 220 0700). Watford offers outright purchase, three credit options and leasing. The company gave us figures for a fictitious desktop PC with a purchase price of £1,000 including VAT.

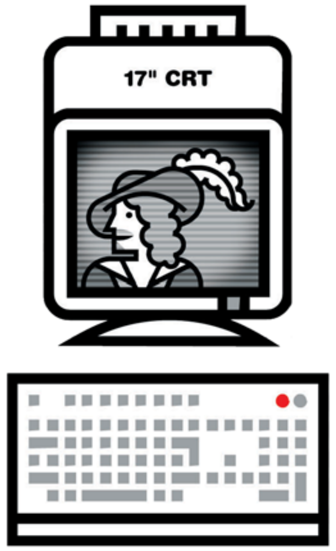
• Outright purchase
£1,000
Total £1,000

• Credit option one
10 percent deposit plus six months' interest-free credit, after which the full amount becomes payable. £100 plus £900
Total £1,000

• Credit option two
If the full amount isn't paid in 6 months, the remainder is subject to 36 monthly payments of £40.98 (28.9 percent APR). £100 plus 36x£40.98
Total £1,575.28

• Credit option three
10 percent deposit, followed by 36 monthly payments of £32.67 (19.9 percent APR). £100 plus 36 x £32.67
Total £1,276.12

• Leasing
No deposit, followed by 36 monthly payments of £44.92. Usually includes option to upgrade. 36 x £44.92
Total 1,617.12



If you buy computer equipment outright, either directly or using a loan or overdraft, you can claim 100 percent of the capital allowance

Lease or rental

Leasing and rental may sound the same, but there is a difference. Leasing is long term; rental can be long or short term. But why might you want to rent hardware? Maybe you've got to travel because of your job for a few weeks and a laptop would make your life a lot easier during that time, but you couldn't justify the expense of buying one.

Take the car analogy again: some firms such as Hertz have separate divisions for car leasing and car rental. It's often the same with computer hardware. It's more likely that a company will do one or the other but some will cover more options between leasing, selling and renting.

A PC of one's own?

So why do some people buy hardware outright and others lease? Is there any advantage, financially or in technical terms, in owning your computer? What about the tax situation? Let's look at some of these points in more detail.

If you buy computer equipment outright, either directly or using a loan or overdraft, you can claim 100 percent of the capital allowance. Your business' balance sheet will look stronger because the equipment is entered on it as an asset.

Similarly, under a HP agreement you can claim the capital allowance because you will be the ultimate owner as long as it's being used at least partly for business purposes. The amount available will be in the same proportion so, if an asset has 75 percent business use, you can claim 75 percent of the available capital allowances. The interest is also tax-deductible if the computer is being used entirely for business purposes.

Leasing is like rental in that you don't own the equipment. The leasing or hiring company claims the capital allowance, not you, but this then means they can offer a lower payment rate. There is tax relief for leasing. The whole payment can be set off against your business' profits. But if your firm is making a loss or you're using the computer for leisure purposes, it's pointless having a lease because tax relief is set against profit and, in those cases, there's no profit involved.

Please, release me

The lease type we're looking at here is the finance leasing. A finance lease runs for a specified amount of time, usually between three and five years. This is called the primary leasing period. During this time the leasing company expects to recover the entire cost of the equipment, as well as making a reasonable profit.

At the end of the contract, there may be a clause written into it that the equipment can be sold to an unrelated third party if the customer doesn't want to keep using it. The customer arranges the sale and can keep a high proportion of the proceeds, maybe as much as 95 percent.

Alternatively, if the business wants to continue using the equipment, it can enter into a secondary leasing period. This will be significantly cheaper because the equipment isn't worth so much. However, with computer hardware there is normally only a primary leasing period because, by then, the PC will be out of date.

Finance leasing is similar to HP because the business leasing the equipment is also responsible for its maintenance and insurance beyond any warranty given by the manufacturer. It can also count it as a capital item and enter it on its balance sheet.

Some leasing companies are more flexible than others. They will write in a clause that the equipment can be upgraded as part of the deal. Or that maintenance will be included. It's also worth bearing in mind that if the equipment is lost, stolen or damaged you are responsible for it – and for any outstanding balance to be paid on it.

Business advantages

These days, more business is carried on remotely than face-to-face. Business deals over lunch or games of golf have been replaced by email or phonecalls. Visiting a company's website is increasingly the first

Bear in mind that [when leasing hardware] if the equipment is lost, stolen or damaged, you are responsible for it – and for any outstanding balance to be paid on it

Application service providers

ASPs (application service providers) might be the way of the future as data communications become more secure, cost effective, reliable and speedy.

Basically all the customer has at each workstation in his office is a monitor, keyboard and mouse. These are connected to a remote server where everything else – programs, data and files – is stored. It doesn't have to be local, it could easily be at the other end of the country; it's even feasible for it to be in another country.

↑ Multrix rents applications and is supported by services such as management, maintenance, helpdesk and support

One of the keywords for an ASP is flexibility. Using an ASP gives small businesses many of the advantages that bigger ones take for granted because they have more money at their disposal. The ASP buys, staffs and maintains the servers that run the applications a customer wants to use. The customer pays for the service, usually on a fixed-term contract of up to five years, which is paid for on a month-by-month basis.

Each month, the customer can choose how many terminals and even which software licences they want according to the software employees need to do their work. A temporary change of direction in work might mean that, for a short period of time, different software would be required. This is easily catered for on a 'the more you take, the more you pay' basis, just like a snack bar.

Maintenance is covered by the ASP and many also add a helpdesk so the customer's business might not need any specialised staff on the premises, cutting costs further. One to check out is Europe-wide ASP Multrix at www.multrix.com.

For a leisure user or self-employed individual, there seem few advantages to leasing IT equipment rather than buying it. For small businesses, too, it's debatable whether the benefits are high enough

impression a prospective customer will get of it, so it's important to keep IT equipment up to date. Requirements may also change, particularly as your business grows in size.

One of the main advantages of leasing IT equipment comes down to the fact that computers go out of date so quickly. If they've been bought rather than leased, what now? Do you sell it and start again? Pay for an upgrade? How long will it take you to get to the point where you have to make that sort of expensive decision? Some leasing companies will offer an upgrade halfway through the leasing period, such as a higher spec PC than the one you currently have.

The fact that the leasing company bears the immediate cost of a major purchase, which you then have the use of, is a big plus. If your other alternative was to set up an overdraft or take out a loan with a bank or other financial institution, it means that these sources of credit are still available for future use. No loans appear on your balance sheet, making your business stronger. Overdrafts may, in theory, be repayable on demand whereas a lease cannot be withdrawn.

Lease costs are fixed for the length of the contract, so it's easy to take these payments into account when you work out your budget. With HP, it's slightly different. You can either choose to pay the same amount each month or make lower payments with a big payment at the end, known as a 'balloon'.

Home bodies

For a leisure user or self-employed individual, there seem few advantages to leasing IT equipment rather than buying it. Taking into account capital allowance on purchased equipment versus setting premiums against profits, purchasing wins, especially if you're capable of upgrading your own computer when it needs it. For small businesses, too, it's debatable whether the benefits are high enough even though, with leasing, you're able to maintain existing credit arrangements with your bank and acquire the use of a major asset without having to bear the brunt of the full cost immediately.

But larger businesses will agree that being able to replace all your IT equipment every few years without the down side of a major financial outlay each time is a big plus. This is especially true in an area like computers where technology makes big strides in a relatively short period of time and today's whizz-bang PC quickly becomes tomorrow's doorstop. But if in doubt, consult your accountant to sort out the fine detail. ■

Not sure which PC is for you? Turn to our charts which start on page 81