



- JOHN BREAKEY, NETWORK INDUSTRY COLUMNIST -

Technology Investment: Practically Creative!

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When it comes to technology, it can feel like a race to get ahead of the investment curve. The pattern is always the same: buy the newest and fastest technology for the maximum life expectancy possible. From a technology perspective this seems logical but from an investment perspective it has a couple of shortcomings. Initially you are oversubscribing the capacity before you need it (future growth) and later in the cycle, you are trying to “draw blood from a stone” as the need overtakes the capacity.

I've seen too much focus on the purchase price of equipment as well as a misconception that IT has no real residual value (not to be confused with the book depreciation). The real price of anything is its net price - the difference between the amount paid and the amount recovered upon disposal. Think in terms of the old adage “one man's floor is another man's ceiling”. Consider a car where asset disposal is the norm. A car bought for \$40k, sold 3 years later for \$25k, had a real cost of \$15k. If you add \$5k in options, the resale value increases at a higher rate to the point where the option price nets to \$0.

I have you thinking ... but what can you do? Here are a few different ways of realizing an increased net asset value.

Technology Leasing

Not to be confused with classic leasing, genuine technology leasing specialists like to get involved in the equipment selection to ensure your choice has solid resale market value. Companies like MFP Leasing even get involved in the design and support.

What's the magic? These leasing companies have gained expertise in the recycle of equipment that increases the end-of-life asset value that they, in turn, share with the customer. That junk you used to throw out may be worth 25% leveraged through the leasing company. Net the 25% residual value against the leasing interest (assuming you are cash flush), and you could still be ahead of the game - and they do all the work!

Manufacturer Trade Ups

If leasing is not in the cards then trade ups can be an option. Periodically manufacturers offer special credits to entice customers to switch from the competition, or bounties to upgrade from older or lower grade equipment within the manufacturer's own product line. These trade ups are offered through their resellers so they are universally available and could reduce your net cost by an additional 10%.

Some programs are complex - i.e. products have different trade up value in certain situations - so ask questions to maximize your yield (i.e. a credit may double when purchasing a preferred product

group). The downside of trade ups is they may not be available when you need them and secondly, they eat into a “total allowed” discount, so don't expect a high yield from both on the same transaction.

Consignment Buy Backs

This solution takes advantage of system integrators who have a network of customers that appreciate the value of your disposed equipment. It is also an excellent example of a win-win partnership. The integrator offers a guaranteed buy back, paid at the time of the purchase, then shops the old equipment around with their network of contacts. Once the equipment is resold, they return an extra dividend. At UNIS LUMIN, we operate a web-based “Boneyard” between offices that finds homes for retired equipment, putting it back into useful service.

Buy Refurbished

Similar to cars, buying used is not the coolest solution but it can really stretch a limited budget or conserve cash for other projects. There are companies that retire technology early in its lifecycle due to other, overriding decision criteria (downsizing, fast growth, need to spend surplus cash) and create opportunities for others in the process. I've seen “stuff” come back to our warehouse that was never taken out of the box!

Clever solutions in this realm usually involve a solution that includes a combination of brand new technology in core areas and refurbished in less demanding areas of the organization. I recall a college that activated a whole student residence this way, saving 60% of their budget. The best refurbished technology comes with upgraded software and a full warranty replacement coverage.

Final Note

The next time you upgrade technology, calculate the net cost of the investment - perhaps it can put you ahead of the curve and even the competition. Look for vendors who can manage the investment as well as the technology. Find resellers who are savvy enough to architect a combination of trade ups, refurbished equipment, and technology leasing to maximize your cash. When deciding which technology to buy, consider what will appeal to the next “buyer”. Finally, not everything you buy is suited to this model - experiment a little and you may find a fit, save some cash and stay ahead of the investment curve!

