How to Buy New Technology Solutions

Future-proof your technology investment

When people evaluate new technology, they often ask themselves the obvious question: What do I buy? But so often, they overlook an equally important question: How should I buy?

There are three ways you can choose to pay for your new technology, two of which you are very familiar with – buying or leasing. And while both are legitimate options, TANDBERG Finance powered by TAMCO™ offers a third option that could prevent you from finding yourself surrounded by obsolete technology. It's called the SHIELD program.

"How to Buy?" Food for thought:

- Think about protecting your company's line of credit – taking a loan from a lending institution will tap into your line of credit that you may need further down the road for something unanticipated.
- Keeping the purchase off your balance sheet – Under the FASB 13 rules, certain programs will qualify for off-balance sheet financing and provide some financial benefits to your organization.
- Possible tax benefits* – many programs will provide you with tax benefits. The SHIELD program is structured to qualify as an operating expense and is tax deductible.
- Capital expense vs. operating expense – do you really want a quickly depreciating asset as a capital expense?
- The time/value of money and the Rule of 72 – consider how spending your company's capital on equipment today could actually cost you money by not getting a return. Instead, think about investing it on an appreciating asset.

Buying

First option, buying your new technology. That means paying cash or getting a loan and making payments to your lender. Buying may seem to make sense. After all, you then own your equipment, plain and simple. But what do you really own? Technology depreciates very quickly; that may not be the best investment you can make. In fact, wise investors will tell you to buy only that which appreciates and rent or lease everything else.

In addition, a loan cuts into your credit line, and you may need those funds in the future. Remember, money in hand today is worth more than tomorrow. Also consider that ownership offers practically no benefit when it comes time for replacement. Based on the Rule of 72, investing your capital into your business instead will bring better returns on your money.

The Rule of 72 states that if you invest or recycle your capital back into your business, you will not only see a return but also reveal the hidden benefit of renting. Here's how it works: simply take your corporate rate of return and divide it into 72. The answer is how long it will take to double your money. Therefore, assuming a 15% rate of return and dividing that into 72, you will double your money every 4.8 years.

So you see, although buying technology gives you ownership, it may not be the most economical means of acquisition.

Leasing

The second familiar option is leasing. Basically, you sign a contract that sets up payments with different choices at the conclusion of the contract term, and it does offer a few benefits. A $1 Out Lease or a Fair Market Value (FMV) lease both have a rent-to-own feature, but they have two major differences:

The $1 Out Lease allows you to purchase the equipment at the conclusion of the contract for one dollar, but it does not qualify as an off-balance sheet item (the advantage to "off balance sheet" treatment is that the obligation is not recorded as a liability on your balance sheet, but rather, the monthly payment is expensed as "paid").

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The FMV Lease will usually qualify as an off-balance sheet item and it leaves you with a choice – purchase your equipment at the end of the term for "fair market value" or return the equipment. The problem with this is that "fair market value" tends to be somewhat unpredictable.

Both of these leases are geared towards eventual ownership, thus giving you all the responsibility of the equipment. Another concern is that you are not protected from changing business needs. Plus, leasing has time limitations, burdensome rollover balances, and other restrictive elements.

In truth, leasing is a viable option for some, but it offers no flexibility if your technology needs change. It will most likely leave you stuck with a balloon payment that has to be rolled over into a new agreement or paid off.

The SHIELD Program

So if buying is a waste of money and leasing is an endless trap, what other option is there? This third option is the answer to the question, "How should I buy?" SHIELD is a truly unique program designed to incorporate the best aspects of renting and leasing.

With SHIELD, you choose the equipment that's right for your business today. But should that equipment become obsolete for any reason – your business grows, your needs change, whatever – you can replace your system at anytime during the contract term, no questions asked. Your contract will be forgiven and a new one will be issued – period – no balance to rollover and no hidden fees.

The monthly cost of SHIELD is not necessarily for eventual ownership; it is simply a "right to use" fee. TAMCO (TANDBERG's leasing partner) absorbs all of the risk of ownership, not you. The best part is that if you do keep your equipment for the duration of the contract, then you are in a position to make a number of choices at the end: keep it, return it, or replace it.

With the SHIELD program, your acquisition is structured to qualify for off-balance-sheet financing as well as tax-deductible payments*. It allows you to save your cash, protect your lines of credit, and – most importantly – gives you the flexibility to adapt to changes in your business climate by not handcuffing you to equipment that no longer meets your needs.

Which Method is Right for You?

Only you can answer that question. We encourage you to explore all of your options before settling on one. When you decide on what to buy, ask your sales representative about how to buy. Ask them about the SHIELD program. They can provide you with some comparative information in the form of a net present value comparative analysis, which is a great tool that shows comparisons of different acquisition methods side by side.

For more information, contact your TANDBERG Sales Representative. This program is available in the United States and all Provinces in Canada except for Quebec.

* You should speak with your tax advisor about the benefits of financing and the impact on your taxes; while some programs can provide tax benefits, every situation is different and laws vary by state.

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