

# Small and mid-sized companies: Smart choices solve financial challenges



## Table of Contents

Executive summary .....	2
Scarce resources, many tasks .....	2
All the same challenges – and more .....	3
Use IT, but don't own IT .....	3
Keeping technology current .....	4
Eliminate replacement headaches .....	4
Making technology more manageable – and more affordable .....	4
Meet needs without getting bogged down .....	5
Choices required... because every customer is unique .....	5
Get the technology and get back to business .....	5
Is leasing right for your business? .....	6
For more information .....	7

## Executive summary

Small and midsize companies face unique challenges in today's fast-paced environment, often competing against much larger and better-capitalized rivals.

Smaller companies face the same marketplace challenges and complexities as their larger counterparts and must perform the same business processes — yet get the job done with far fewer resources.

For many leaders of small and midsize businesses (SMBs), management availability, staff resources and financing are all in short supply. Often, the question becomes how to do the job economically and efficiently, while making the best use of scarce capital.

### Scarce resources, many tasks

Among their many tasks, SMB leaders frequently must function as their own Chief Information Officer (CIO) — developing and implementing a plan to provide the data processing and communications equipment, software and information technology (IT) services required to make the business go.

Maintaining an up-to-date IT platform is essential for the competitive success of almost every business — and it can serve as an equalizer for small and midsize businesses. Increasingly, IT fuels everything from back-office operations to customer sales and service.

Chief among the choices facing the SMB leader/CIO is whether to buy IT systems or lease them. Given the continuing advances in IT and evolving nature of today's business environment, small and midsize companies also must develop a schedule to refresh their IT infrastructure on a regular basis.

Leasing can be a particularly attractive option for companies looking to deploy state-of-the-art technology while also conserving capital resources.

- It allows them to pay for their use of IT equipment, as opposed to paying for the equipment itself upfront.
- It simplifies bookkeeping by establishing a fixed, predictable monthly expense schedule.
- It builds in a programmed refresh cycle to anticipate changing technology and evolving business requirements.
- It may offer tax advantages.
- And it makes it easy to manage end-of-life issues such as what to do with obsolete or surplus equipment.

## All the same challenges – and more

Technology is the beating heart of today's business, and maintaining an up-to-date information technology (IT) platform is essential for the competitive success of every business. IT enables you to keep the books and manage finances, control inventory, plan new initiatives, track business progress, and sell to and service your customers.

When it comes to planning and implementing an information technology strategy, small and midsized businesses face all the financial and management challenges of their larger rivals — and more.

When you manage a smaller firm, IT challenges come in five key areas:

- Like all companies, small and midsized businesses need to update and upgrade IT equipment as new generations offering greater capabilities — or efficiencies — are introduced, and as the company itself grows or evolves. With limited resources, just staying in tune with what's available — and appropriate for your business — can be daunting.
- Similarly, small and midsized businesses often are short of capital and lack access to the range of funding sources available to big companies. According to the 2006 Global Entrepreneurship Monitor report, entrepreneurs themselves provide more than 60% of capital for startup firms, while family, friends and neighbors provide almost all the rest.<sup>1</sup> Even well after the startup phase, small and midsized companies often face difficult financial conditions. Small and midsized companies need solutions that improve cash flow and preserve capital resources for other needs.
- In very small companies there's likely no IT department at all — just the few minutes the boss or office manager can devote to the topic. Even midsized firms can't match the staff resources large firms marshal to manage financial decisions and plan key technology initiatives. In a recent survey of small United Kingdom firms, 53% of respondents agreed that "small businesses do not have the access to IT knowledge and support that larger businesses do, and this can hinder business development."<sup>2</sup> SMBs need solutions that fulfill their IT needs quickly and minimize staff involvement.
- As new technology is deployed, what to do with older or unneeded IT equipment becomes a significant issue. Small and midsized companies lack the scale to effectively remarket older PCs and other IT equipment coming offline. Similarly, they don't have time — or typically the expertise — to manage environmental and data security concerns associated with disposition.
- Even more than large firms, small and midsized companies face nonstop bottom-line pressures to minimize the total cost of ownership (TCO) for their IT infrastructure. Every IT dollar saved is a dollar you can invest elsewhere in the business.

Being small places a premium on working smart. With the right approach small and midsized companies can arrange needed financing, overcome the challenge of lean staffing and deploy state-of-the-art technology — at a cost that allows them to compete and win.

## Use IT, but don't own IT

Deep down, what counts are the capabilities IT systems deliver, and how they enable companies that use them to do the best possible job for their customers. The question leaders of small and midsized companies must answer is this: What is the best, easiest and most cost-effective way I can deliver IT capabilities that help my organization win?

Few industries have experienced a more fundamental change in recent decades than information technology, and the pace of change shows no sign of slowing.

Falling behind on the IT curve and continuing to rely on older or obsolete technology can be expensive and inefficient. The continuing pace of change makes IT equipment ideal for leasing, instead of owning.

According to the U.S. Small Business Administration (SBA), “Leasing operating equipment, such as computers, vehicles, and machinery, often makes more sense than buying.”<sup>3</sup> Deciding to lease and use IT equipment — but not to own it — can help small and mid-sized companies on several levels.

## Keeping technology current

Leasing puts the latest technology in your hands and builds in a replacement cycle. According to the CCH Business Owner’s Toolkit™, “for businesses in which rapid technology changes or new equipment is common, leasing allows you to minimize the costs of purchasing equipment that is quickly antiquated.”<sup>4</sup>

At the end of the lease, you can buy your old hardware from the leasing company or turn it back and upgrade to the newest generation.

“When companies think of their IT equipment acquisitions like a utility bill — something they pay every month — it puts them in a position where they can afford the best technology available,” notes Lee Eberding, director of the small and medium business segment for HP Financial Services.

“Leasing puts you in a position where you can refresh with new equipment — cutting-edge technology. Even better, your monthly payment may not change much because the price of most IT equipment is flat or declining.”

## Eliminate replacement headaches

In addition, leasing IT equipment eliminates headaches at replacement time — because the leasing company can become responsible for securing the old equipment and managing disposition in accordance with increasingly strict environmental rules.

Leasing — or at least weighing the option — is smart business. According to the SBA’s *Audit Checklist for the Growing Business*, one question to ask when auditing a small firm’s financial management is whether the business owner considers lease versus buy possibilities when obtaining equipment.<sup>5</sup>

As the Iowa Small Business Development Council explains, “Deciding whether to buy or lease equipment is an important business consideration. Leasing rather than borrowing money to buy can help cash flow, save taxes and increase total operating capital. One reason to consider leasing equipment is that it may save downtime when equipment needs repairs.”<sup>6</sup>

## Making technology more manageable – and more affordable

With limited staff resources, SMBs need to quickly and efficiently plan, implement and finance their IT infrastructure. “It’s all about choices,” says HP Financial Services’ Eberding. “Most small and mid-sized companies have to manage their cash flow very, very carefully. Few are flush with cash.”

“Captive” financial services companies owned by a manufacturer offer advantages on several levels. As a subsidiary, they possess significant knowledge and expertise in IT — in addition to their financial services credentials. Since their primary purpose is to finance their corporate parent’s technology and services, they’re typically well-positioned to implement fast, one-stop service.

Captives also bring remarketing expertise that can translate to favorable lease rates and an opportunity to easily refresh or upgrade technology down the road.

Technology consultant and blogger Dennis Kennedy, who specializes in supporting law firms, writes, "One reason to use a computer leasing company is the expertise it will probably have on tax issues and its experience and flexibility in structuring leases."<sup>7</sup>

Leasing also can make it possible to use the latest and best technology without upfront cash. As Entrepreneur.com writer Peter Alexander points out, "Because leases rarely require a down payment, you can acquire new equipment without tapping much-needed funds."<sup>8</sup>

With less debt on the balance sheet, leasing also can improve a company's chances to obtain conventional loans for other purposes.

## Meet needs without getting bogged down

Leasing from a broad-based provider like HP Financial Services offers affordable, easy-to-understand alternatives and enables small and mid-sized companies to meet their IT needs without getting bogged down by a multitude of details and worries.

- In most cases, small and mid-sized companies can take advantage of one-stop shopping for financing of hardware, software, installation and maintenance services. HP Financial Services offers financial solutions for transactions as low as US\$349.
- Streamlined procedures are designed to move the process along quickly and make life easier for busy SMB executives. HP Financial Services' basic SMB lease agreement is just one page long. In many parts of the world, small and mid-sized companies can complete lease applications on the Web.
- HP Financial Services works with companies to plan custom-tailored technology and financial solutions designed to meet their specific requirements, from designing the financial solution to managing disposition of old IT equipment.

## Choices required... because every customer is unique

HP Financial Services offers a choice of financial services options to meet customers' individual business needs.

The popular lease with an end-of-term fair market value purchase option typically carries the lowest monthly cost. At the end of the lease term, a fair market value is assigned and customers may return the equipment, purchase it at market value, or extend the lease (often at a lower monthly payment).

With a finance lease (sometimes called lease purchase), customers own the IT equipment at the end of the lease period.

## Get the technology and get back to business

From leasing to purchase financing, HP Financial Services provides solutions to help small and mid-sized companies get the technology they need... and get back to business:

- We customize the financial package that works best for individual customers, whether that's an equipment purchase or one of several leasing arrangements.
- Our comprehensive solutions can combine financing for equipment, software, training and services into one package — even including non-HP technology.

- In North America, prospective customers may take advantage of online paperless leasing, which allows them to submit, track and complete leases via the Internet.
- Getting started is easy; in many cases it's as simple as completing a one-page application and receiving a credit decision in minutes.
- Our contracting process is fast, straightforward and easy to understand. We know customers are busy, so we make it easy.
- We manage disposition of leased or surplus equipment in an environmentally sound fashion. We also offer industry-standard processes to help safeguard proprietary information that may reside on drives or in memory.

To learn more, visit us on the Web at [www.hp.com/hpfinancialservices](http://www.hp.com/hpfinancialservices) or talk with a HP Financial Services sales representative.

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## Is leasing right for your business?

Do these statements apply to your company? If so, leasing or financing IT equipment may be your best choice.

- You need to update your technology, but don't have the cash to buy it outright.
  - You need to preserve your cash for other business needs.
  - You want one-stop financing of hardware, software and services, plus the convenience of a single monthly payment.
  - Refreshing technology on a regular schedule as your business grows or changes sounds like a plan.
  - Safely disposing of old computers or other IT equipment is not your core competency.
  - You'd like to write off your IT spending every month.
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## For more information

[www.hp.com/go/hpfinancialservices](http://www.hp.com/go/hpfinancialservices)

*Asset Recovery: Balancing risk and opportunity*

[http://h20330.www2.hp.com/hpfinancialservices/downloads/Asset\\_Recovery-Balancing\\_Risk\\_and\\_Opportunity.pdf](http://h20330.www2.hp.com/hpfinancialservices/downloads/Asset_Recovery-Balancing_Risk_and_Opportunity.pdf)

*Data center consolidation: Financing options address more than just costs*

<http://h20330.www2.hp.com/hpfinancialservices/downloads/DCC.pdf>

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<sup>1</sup> *Global Entrepreneurship Monitor 2006 Financing Report*, by William D. Bygrave  
©2007 by William D. Bygrave with Mark Quill, Babson College, London Business School

<sup>2</sup> *Small businesses left behind in the IT age*, © Crimson Business Ltd 2006,  
[http://www.startups.co.uk/Small\\_businesses\\_left\\_behind\\_in\\_the\\_IT\\_age.YQ8ziltoS63ljg.html](http://www.startups.co.uk/Small_businesses_left_behind_in_the_IT_age.YQ8ziltoS63ljg.html)

<sup>3</sup> Small Business Administration Small Business Planner – Start Your Business – Lease Equipment  
<http://www.sba.gov/smallbusinessplanner/start/leaseequipment/index.html>

<sup>4</sup> "Leasing," in *CCH Business Owner's Toolkit™*, © CCH Tax and Accounting

<sup>5</sup> *Audit Checklist for the Growing Business*, © 1991 by Terry R. Armstrong, PhD. and Walter J. Wheatley, Ph.D.,  
Department of Management, University of West Florida, <http://www.sba.gov/library/pubs/eb-5.txt>

<sup>6</sup> *Financial Audit Analysis*, available from Iowa Small Business Development Centers at  
<http://www.iowasbdc.org/templates/articledisplay.cfm?ID=295>

<sup>7</sup> *Keeping Pace While Keeping Your Cash Flow: Technology Leasing for Lawyers*, by Dennis Kennedy, December 8, 2005  
© 1995 - 2005 Dennis Kennedy, <http://www.denniskennedy.com/archives/000940.html>

<sup>8</sup> "Should You Lease or Buy Your Tech Equipment?" by Peter Alexander, October 10, 2005, © Entrepreneur.com

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