

[Technology + Management Smarts]

[IT as A Utility] Is it Inefficient to Own Your IT Assets?

Technology. It can be a strategic asset — or a drain on resources. Traditionally, organizations treat technology as a capital asset similar to office furniture and other equipment. Lately, there has been a growing buzz that treating “technology as a utility” can be a far more efficient approach. But what exactly does “technology as a utility” mean?

Organizations that treat technology as a utility choose not to directly *own* the technology. Instead, someone else owns the technology and the organization adopts a “pay-as-you-go” approach, much as it does for electricity, water or any other utility.

Proponents of this approach point to substantial potential benefits. And yet, the issue is complicated. Ultimately, the answer boils down to two key points:

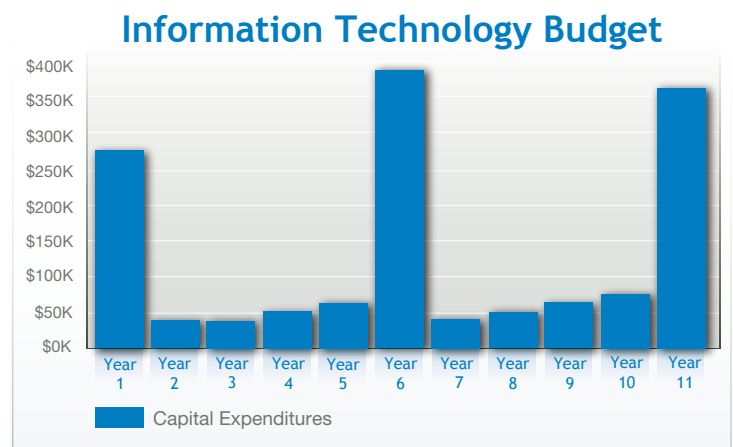
Can your organization improve the way it currently handles technology?
Is there a business case for change?

Unlike other capital assets, technology has such a short shelf life, and owning obsolete IT assets can pose many problems down the road.

Inefficiency #1: Budget unpredictability

Organizations that treat technology as capital assets typically evaluate purchases on an annual basis. Some years, purchases are made; other years, purchases

are put off. As a result, peaks and valleys develop in their IT budgets:



This scenario makes IT acquisitions a major decision. Recessions or other financially difficult periods may cause delays. And as the organization’s technology approaches obsolescence, purchasing delays put a strain on the IT department’s resources. Additionally, capital planning is typically done yearly. What happens if a mid-year purchase is required?

The result is that technology budgets become unwieldy at best and unpredictable at worst. Treating the purchase of IT assets as a capital expenditure sets the stage for *reactive* long-term planning rather than *strategically* focused long-term planning.

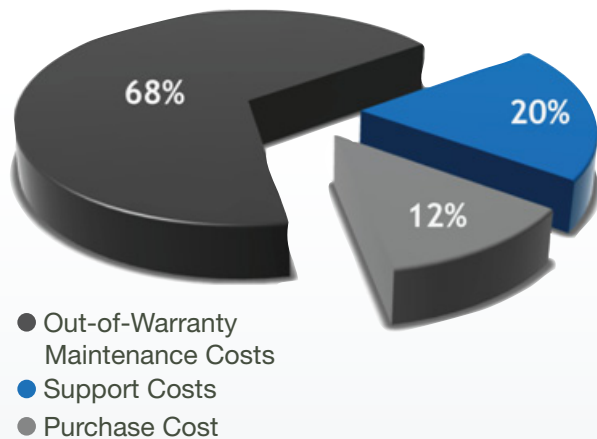
Inefficiency #2: High cost of ownership

IT equipment is expensive. On top of the purchase cost, older IT equipment is costly to maintain, even as

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the performance of the equipment declines. Consider this study¹ sponsored by Intel Corporation:

Total Cost of IT Ownership Breakdown



The study determined that support and maintenance of IT equipment accounts for an astonishing 80% of the total cost of ownership — whereas the purchase price accounts for only 20%.

For a new laptop computer with a purchase price of \$1,100, what costs will we incur if we hold onto this computer for five years?

Cash Flows for Laptop PCs					
Item	Year 1	Year 2	Year 3	Year 4	Year 5
Purchase Cost	\$1,100	—	—	—	—
Support Costs	\$716	\$825	\$953	\$1,136	\$1,368
Out-of-Warranty Repair Costs	—	—	—	\$348	\$661

This represents graphically as:

Total Cost of Computer Purchase



Over five years, this \$1,100 computer will actually cost \$7,107 when support costs and out-of-warranty repair costs are factored in. It is interesting to note that in year five the laptop costs \$1,623 to maintain — more than twice the \$716 in support costs incurred in year one.

What is more, these figures do not include the cost of replacement batteries, energy costs and the eventual disposal of the equipment. Not only is IT equipment expensive to purchase, it is even more expensive to maintain.

Inefficiency #3: Temptation to over-buy technology

When IT assets are treated as capital expenditures, budgets are often unpredictable. This unpredictability provides an incentive for department heads and CIOs to over-compensate and over-buy technology when money does become available.

A study published in Sloan Management Review found that corporate servers typically use less than a third of their processing capacity.² Desktop computers are worse, using on average just 5% of their capacity.³

Inefficiency #4: IT expertise focused on repairs over strategy

The challenges of owning technology are not limited to cost and budget instability. As equipment ages and important technology purchases are delayed, maintaining old equipment and obsolete technology can divert your IT department's strategic focus. The IT department then spends too many resources on operations — merely keeping the lights on — when it would be far more strategic for the IT department to concentrate on how emerging technologies can better serve the organization.

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Only 34% of CIOs say their organizations have achieved anything close to their innovation potential.⁴

Inefficiency #5: Difficulty remaining competitive

The real problem, of course, is that technology changes virtually overnight. This situation is exacerbated by the fact that today's employees expect access to the latest technology.

A regular technology refresh policy is an important component to remaining competitive in today's marketplace. Clearly, owning IT assets exposes your

organization to unpredictable buying patterns and the risk of holding onto equipment past its useful life. By not committing to continuously updated technology, your company loses a huge [opportunity to stand out from the crowd] competitive advantage?

Next in the Series...

Is there a cost-effective way to maintain current technology? What is a better alternative to owning IT assets?

We answer these questions (and more) in "*How to Implement Technology as a Utility*" — the second installment of our three-part series, "*Technology as Utility*." ➡

Works Cited

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3. V. Berstis, "Fundamentals of grid computing," *IBM Redbooks Paper*, November 12, 2002. Available at: <http://www.redbooks.ibm.com/redpapers/pdfs/redp3613.pdf>. [Accessed February 10, 2012].
4. Tom McEwan, PA Consulting Group, "Innovate or save money: the CIO balancing act," *CIO Insight*, December 7, 2011.

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