Over Provisioning vs. Leasing vs. Pay Per Use
By Joseph Marion

In recent years, many hardware vendors have come up with new programs which charge users based upon the usage of their hardware. They come in various "flavors" and are known as pay-per-use, capacity on demand or subscription based pricing. Whatever you call it, these programs all look very much like traditional equipment lease offerings. But do these programs offer advantages over traditional leasing? And which scenario is best for you?

To Buy or Not to Buy?

First of all, you need to understand that whether you go with leasing or pay per use, either one will be less expensive to your company than "over provisioning." Outright purchases force you to pay for hardware upfront which you don't need right. Leases and pay per use programs let you upgrade when you need it.

Call it what you will

To date, most vendors' pay-per-use programs have not been very successful. Whether it is IBM's Capacity Upgrade on/off on Demand, HP's Instant Capacity or Sun's Subscription based services, they all have two things in common. Their programs address the need for meeting computing demands in unpredictable business cycles while at the same time avoiding over provisioning.

And what of Leasing?

For years, leasing options have met these objectives. End users who are familiar with leasing already are accustomed to upgrading and receiving more computing power when demand increases and they don't worry about hardware removal and disposal as these options are commonly built into the lease agreement. The new vendor pay per use programs will force leasing companies to offer more choices to end users. To the end users this will translate into more flexibility and programs based upon their needs. To the leasing companies it will lead to more business and more opportunities.

The Various flavors of pay per use

Utility Computing

One form of pay per use is utility computing. As the name suggests, it is a pricing model that works very much like an electric utility company. As electricity is consumed it is measured and paid for. Utility computing in the IT hardware world is a combination of financial and technology offerings that work together with the ultimate goal of matching IT expenditure with business demand cycles. Utility computing came about after the dot-com bust, when many companies were over provisioned with hardware they had not yet

paid for. Vendors needed a way to encourage end users to continue to invest in hardware without fear of over spending, so they rolled out this concept.

Managed Services

Another option called managed services, moves IT tasks to an outsourced third party. Managed services can be dedicated or shared. With a dedicated service, a supplier operates the customer's IT functions at a separate location and charges the customer based upon usage. For example, storage charges are calculated on a dollar per gigabyte basis. These fees are reported as operating expenses the same way an operating lease is reported.

In the shared managed services model, the supplier provides IT services to multiple customers from a single location. In this scenario, customers must trust that the supplier keeps their data secure, available, and separate from other customers' data. The level of security required and questions of ownership and control over data make this option a "hard sell."

Capacity on Demand

Capacity upgrade on demand programs allow users to purchase a server with extra processors already in it but they do not pay for the additional processors until they need them. On/off capacity upgrade on demand works in the same way, but the additional processors can also be "deactivated" if demand slows.

Pay-Per-Use

Pay-per-use programs assess fees usually on a daily basis according to how much IT power the user is consuming. This option is billed based on the percentage of computing power used, unlike the capacity on demand option which bills based upon the processors used.

Which is best for you?

An end user that wants to book their IT spending as a monthly expense is best off choosing an operating lease or utility-type pricing. Under an operating lease, the company can use the monthly costs as an expense. At the end of this type of lease, the customer simply returns the equipment to the leasing company.

A customer who does not plan to upgrade their IT equipment for 4 to 5 years and does not anticipate any spike in business demand, is probably better off with a capital lease. On a capital lease, the company does not expense the monthly charges, but rather puts the asset on their balance sheet and depreciates it over its life. At the end of its useful life, the company sells the equipment.

A customer with an unpredictable demand cycle may be best served by some sort of pay per use program.

The last thing an end user wants is to own IT equipment that they do not need. End users need to carefully analyze their needs and look for companies who offer flexibility and personalized programs. And remember, the best time to get your flexibility is during the sales and contract negotiations.

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