



Should You Use CapEx or OpEx for IT Investments?

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When making IT investments, most Los Angeles and Southern California business owners and entrepreneurs have traditionally used the capital expenditure (or CapEx) model for purchasing computers, software and other IT equipment. They bought the equipment and software outright, owned it and used it until it became ineffective or obsolete.

With the rise of cloud computing and Software as a Service (SaaS) in recent years, however, many CFOs and CIOs are recommending that their companies switch to the operating expenditure (or OpEx) model for purchasing and using IT equipment. With this model, IT equipment is essentially “leased,” rather than purchased, and accessed via the cloud.

Factors to Consider in CapEx vs. OpEx

There are many different factors to consider in deciding which of these models is best for your company, including both technology and financial and accounting factors. Here are a few of the potential benefits of switching to the OpEx model:

Large capital outlays are not needed up front to buy IT equipment. When IT equipment is accessed via the cloud, you don’t need to commit large amounts of capital to IT purchases upfront. Instead, you “pay as you go” for the use of IT assets that you need at the time, not those you might need in the future but don’t right now. This enables you to scale your IT needs for the future.

Improved cash flow. The OpEx model helps improve your current cash position and your ongoing cash flow management, giving you more flexibility in your cash position. Also, the capital that would have gone to a large upfront payment can be used for other more productive business purposes.

Remote access to IT resources. Your computers, software and systems can be accessed from anywhere in the world, which offers more operational flexibility to executives who travel frequently.

Automated software upgrades. Your software is updated and upgraded automatically online without a staff IT person having to do this manually. Also, business disruptions during software updates are minimized.

Easier changes in IT functionality to accommodate business growth. As your business grows, your IT needs will change. The OpEx model makes it easy to adapt your IT system’s functionality to meet your changing IT needs over time.

Easier to move your business location. When your IT resources are located in the cloud, rather than in your physical facilities, it is easier to move your facilities to a new location, either in or out of state.

Simpler budgeting. The OpEx model greatly simplifies IT budgeting, since you have fixed costs every month for accessing your IT resources.

Challenges to Using OpEx

On the flip side, there are also some potential challenges to using the OpEx model, including the following:

It requires more concise cross-departmental planning. The CEO, CFO, CIO and other department and group heads must get on the same page when planning your company's IT resources.

Selecting the proper IT vendor is absolutely critical. Ideally, this will be a long-term relationship, so your vendor must be able to accommodate your company's IT needs both now and in the future.

You will lose depreciation and amortization benefits. These valuable long-term tax benefits are not available when using the OpEx model.

You have to rely on your outside vendor to provide IT service and support. With the OpEx model, you are essentially outsourcing your IT functions, including service and technical support. You and your staff will no longer be able to just walk over to an internal IT department for help when problems or questions arise.

There are potential security risks associated with using SaaS. There have been plenty of headlines lately about assets stored in the cloud that have been hacked and leaked, so security of IT assets may be a concern with the OpEx model.

An outsourced CFO services provider can help you decide which IT model is right for your company. Such a provider can help you conduct a detailed analysis of both models, select the right IT vendor that is capable of meeting both your current and future IT needs, and perform testing to help eliminate or minimize SaaS security risks.

Concluding Thoughts

Traditionally, most businesses have used the CapEx model for purchasing computers, software and other IT equipment. But with the rise of cloud computing and SaaS in recent years, many are switching to the OpEx model for purchasing and using IT equipment. With this model, IT equipment is essentially "leased," rather than purchased, and accessed via the cloud. There are many different factors to consider in deciding which of these models is best for your company, including both technology and financial and accounting factors. An outsourced CFO services provider can help you make the right choice for your business.

About CFO Edge

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