When to Purchase, Lease or Use PC as a Service

Published 30 September 2021 - ID G00757022 - 12 min read
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Initiatives: Digital Workplace Infrastructure and Operations

Evolving procurement models, new workplace dynamics and changes in global accounting rules have led I&O leaders responsible for PC acquisition to reevaluate their existing procurement and deployment strategies. This research describes key use cases and pitfalls for the three most common options.

Overview

Key Findings

- Most organizations purchase their devices, but as budget constraints persist for many throughout the pandemic, allocating finances for large capital purchases has proven difficult to execute.

- As an alternative to purchasing, I&O leaders are increasingly seeking no-cost-upfront monthly financing options that allow for greater flexibility and predictability to ease financial management.

- Beyond finances, I&O leaders challenged with supporting the distributed workforce have accelerated the evaluation of new PC procurement models as an opportunity to acquire asset life cycle services to ease remote IT support tasks.

Recommendations

Infrastructure and operations (I&O) leaders responsible for digital workplace infrastructure and operations:

- Elect to purchase PCs when your refresh cycle is four or more years, you have budgetary flexibility and you want to maintain full control of your PC life cycle management.
Introduction

In the past, the question of buy, lease or PCaaS for PC procurement primarily came down to finances. However, from the pandemic emerged new work environments and challenges for supporting remote workforces, stretching IT teams and pushing procurement budgets beyond previous limits. In a recent Gartner survey, 67% of I&O leaders named device life cycle services as one of their top five remote workforce challenges. Selecting the wrong procurement model can exacerbate these key operational challenges and can result in significant overspending, duplicated management efforts and wasted resources.

Consequently, this procurement and deployment question has become more equally predicated on two factors: optimized financial management and operational efficiency. I&O leaders must align the benefits and risks of each procurement model with key organizational priorities to identify the right model(s) (see Figure 1). This research provides an overview of each model and the most relevant criteria for making this alignment.

- Choose PC lease financing when you have a shorter, three- to four-year refresh cycle and want ease of monthly financing and cost predictability, but do not rely on operating expenditure (opex) accounting.

- Use PC as a service (PCaaS) when you need to outsource support tasks and seek to transition to an opex model, but are willing to pay a premium for the provider’s service bundles.

- Adopt hybrid PC procurement models only when you are able and willing to closely manage and adjust budgets to accommodate different purchasing/financing schedules.
Figure 1. PC Acquisition Priority Chart

### PC Acquisition Priority Chart

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Buy</th>
<th>Lease</th>
<th>PC as a Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opex Accounting</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>No Cost Upfront and Monthly Financing</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Life Cycle Services</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Defined Refresh Cycles</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Device Ownership and Flexibility</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Maximized Asset Utilization or Residual Value Investment</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Scalability to Add Users as Needed</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risks</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vendor Lock-In</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Incurred End-of-Term Fees</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Ambiguous Pricing Bundles</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Device Failure and Lost Productivity</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Ad Hoc Support Costs</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

Source: Gartner

### Analysis

**Purchase PC Assets**

The majority of companies purchase PCs outright, too often as simply a continuation of corporate policy that has been in place for many years. For others, it is driven by the desire to own and have greater control over their PC portfolio. Purchasing the PCs provides freedom to set your own depreciation and life cycle terms, as well as to reuse or reduce devices as needed without financing charges.

For organizations choosing to purchase PCs, Gartner recommends a four-year laptop refresh cycle in which you replace the oldest 25% of your portfolio annually, spreading costs evenly over the four years. This also allows for greater flexibility to adjust to business and environmental demands as needed, replacing more or fewer devices annually depending on situational context.
Desktop PC deployments typically require somewhat different logic. As desktops are not mobile devices, they generally are more reliable for longer than laptops and are consequently on longer refresh cycles (e.g., four to five years). Moreover, as there are greater cost and support requirements associated with their physical installation than with laptops, less frequent desktop refreshes (e.g., 50% every two or three years) minimize deployment effort and cost.

PC purchasing can offer several benefits:

- A more predictable environment and simplified support tasks, as they are accomplished iteratively on a smaller scale instead of massive one-time rollouts.
- Improved reliability by establishing easily tracked refresh cycles that avoid mistakenly extending devices beyond their useful operation.
- Improved adaptability, as the entire fleet is better able to meet a variety of changing demands. As software evolves, so too must hardware. This approach enables you to add new models or configurations to your environment in a revolving manner, in effect testing the technology before rolling it out across your entire environment.
- Improved security through predictability and refresh discipline, as OEMs typically limit support of driver/firmware updates to five years.

Furthermore, this also offers the opportunity to leverage IT asset disposition (ITAD) providers to ensure safe data disposal and potentially recover any residual value left on end-of-life hardware.

However, beyond these benefits, there are also key challenges associated with owning your devices. For example, this adds the risk of ad hoc hardware maintenance or replacement costs, and introduces more variation in hardware models to support. Succumbing to the financial temptation of extending the useful life of PC assets (e.g., to five or more years) can incur rising maintenance costs and risks significant reliability issues that can severely impact employee productivity and the user experience.

Bottom Line: Purchasing your PC assets is best for organizations that have longer refresh cycles (e.g., four to five or more years), want to maximize their asset life cycles and want to maintain full control over their environments.
Lease Finance PC Assets

Leasing PCs allows for a no-cost-upfront financial model that spreads hardware costs across the life of a PC, making it attractive for organizations looking to match budget costs to business benefit. Additionally, when well-executed, shorter-term leases (e.g., three to four years) can optimize spend, enabling use of the asset over the lease term for 85% to 90% of the purchase price.

Despite these potential benefits and relative ease of financial management, interest in PC leasing has declined over the past few years. The primary reason for this is that devices are growing more reliable. For instance, laptops that used to match the standard three-year depreciation term are now commonly retained for four or even five years (see Recommended Life Spans to Guide PC, Mobile and Other Device Replacement Strategies). PC leases become less financially attractive when terms extend beyond three years, as the lessor’s residual value (RV) equity investment in the lease declines. At three years, a PC typically has about a 10% to 15% RV, and at four years that RV often declines to 5% or less. Beyond that, you will have a residual cost associated with each device (see Figure 2). As a result, many organizations have begun to question the value of leasing for terms longer than three to four years, as longer life cycles change the economics of the model.

Figure 2. The Economics of PC Leasing by Device Life Span

![The Economics of PC Leasing by Device Life Span Diagram](image-url)
While lease financing can make financial sense for organizations that maintain three-year refresh cycles, even they have begun questioning whether the associated risks are worth the convenience of financing. In scenarios such as in the postpandemic supply shortages currently felt in the PC market, organizations are holding onto their technologies well past their designated life span policies. Therefore, there is a reduced value and cost associated with leasing for those who need to leverage their technologies longer than planned. Furthermore, low interest rates have increasingly factored into the decline of leasing, as borrowing money to inexpensively purchase PCs outright offers greater flexibility for such situations.

There are also certain constricting requirements on the return of equipment that make leasing less attractive. For example, there is an expectation that you must hand all machines back at the end of the term in good condition, otherwise you will see high fees incurred for any lost hardware that is not returned within 30 days of the lease term. Similarly, you may see additional fees depending on the condition of the device, which have intrinsic obsolescence factors that grow increasingly less reliable past that fourth year and can add as much as 8% to 10% to the overall cost of a lease. This ultimately leaves many organizations in an uncomfortable financial position with their vendors, as the cost of flexibility proves steep.

In response, those who choose to lease their PC assets should anticipate some modifications to the lease (term extension, asset upgrade or buyout) and negotiate upfront protections, such as rate caps, purchase price limits and end-of-term fees for such modifications. These can include:

- **Data sanitization.** Although simplified asset disposition is often a core justification for leasing, organizations will want to ensure that all leased assets are data sanitized to their security standards before returning to the lessor. If this is not negotiated upfront, it can lead to a costly end-of-lease surprise.

- **Return logistics and insurance.** These are typically the responsibility of the lessee, but should be explicitly detailed in the initial contract. Few organizations manage to return all leased equipment on time. Many consider an on-time return rate greater than 95% to be high, but few budget for the resulting additional charges.

- **Refurbishing charges.** These are billed when the lessor contends that the assets were returned in a condition that is outside “normal wear and tear,” and are meant to reflect the cost of bringing them back to working order.
Furthermore, global accounting changes that went into effect in January 2019 eliminated the ability to treat leases longer than 12 months as an operating expenditure. This change accelerated a further reevaluation of the leasing model and its perceived benefits. That being said, PC leasing is traditionally best for organizations that strictly maintain a set, three-year refresh cycle and want ease of monthly financing and cost predictability, but do not rely on the lease being counted as an operating expense.

**Use PC as a Service**

In a PC as a service (PCaaS) or device-as-a-service model, vendors lease the hardware and bundle into the lease a portfolio of managed life cycle services — such as configuring, imaging, asset tracking and decommissioning services — at a single monthly cost. Given the percentage of the service cost, this is often considered an operating expense.

The benefits of PCaaS include:

- Budget transparency and predictability.
- Set refresh cycles in which you do not have to manage the life cycle tracking.
- Scalability, including the ability to add or subtract users as needed. Scaling down to a certain level will come at no cost, but a fee will be incurred at a certain threshold.
- Operational quality and improved end-user experience.

Although use of PCaaS is steadily growing, it is still a relatively immature market with a low adoption rate compared with purchasing and leasing. Manufacturers, resellers and outsourcers — such as managed workplace service providers and some mobility service providers — have continued to refine their offerings and expand their service portfolios. Currently, PCaaS, or device as a service, is a blanket term used for a variety of different PC and service bundles, and offerings can vary greatly from one provider to another. Additionally, pricing and conditions remain fluid as providers experiment to make these programs viable and attractive. I&O leaders must have a clear understanding of roles, responsibilities and service-level expectations before entering into these arrangements, particularly in regard to geographic service limitations (see [How to Successfully Move to PC as a Service](#)).
In the majority of cases, 80% to 85% of the monthly cost of a PCaaS offering is the lease cost of the PC, with only 15% to 20% of costs being for the value-added services — most of that being the warranty uplift cost. Because they are based on lease terms, most deals are executed on a three-year refresh model. This results in higher costs over time compared with a purchasing model, as you will refresh your devices more often and pay an uplift for the services.

Therefore, PCaaS is best for organizations that have a clear scope and goals for what services they need, and that are not evaluating this model as a potential cost-saving opportunity.

**Adopt Hybrid Models**

In specific nuanced scenarios, hybrid models may be available for organizations seeking a more tailored solution for their business needs. For instance, some may choose to purchase or lease their devices and finance their services in an as-a-service model, or others may decide to purchase their devices at the end of their lease term, which hybridizes the dynamics of these procurement approaches. Hybrid models are uncommon and generally negotiated into deals on a case-by-case basis.

Furthermore, for PCaaS deals in particular, this procurement question is not always an either/or decision. While financing is most often bundled into a PCaaS contract (whether purchased or leased) for simplicity with a single invoice and point of contact, it does not have to be. As a result, many I&O and finance leaders are beginning to evaluate and occasionally execute financing transactions separate to the acquisition of PCaaS.

While mixing these models may help capitalize on the benefits of each approach, it also introduces their associated risks. Organizations that choose to pursue a hybrid approach must be able and willing to closely manage and adjust budgets to accommodate different purchasing/financing schedules. Otherwise, poor mitigation of these dynamic procurement models can incidentally result in overspending and exacerbate operational inefficiencies. Therefore, a hybrid procurement model is best for organizations that have unique requirements and want to personalize their acquisition approach, but are willing to closely govern the intricacies and potential risks of a composite model.

**Evidence**

The observations and assertions around market trends and consumer sentiments are a product of more than 1,600 inquiry discussions with end users, resellers, outsourcers and OEMs in the PC market since January 2020.
Gartner’s The Employee Impacts of Anywhere Operations Survey was conducted online from 4 May through 16 May 2021 to understand the current use and future plans of leaders in workplace I&O. In total, 109 IT and business leaders participated coming from a range of regions: North America (47%), EMEA (35%), Asia/Pacific (9%) and Latin America (8%). The survey was administered to members of Gartner’s Research Circle and was developed collaboratively by a team of Gartner analysts and Gartner’s Research Data and Analytics team. **Note:** The results of this study are representative of the respondent base and not necessarily the market as a whole.

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**Recommended by the Authors**

Some documents may not be available as part of your current Gartner subscription.

- Recommended Life Spans to Guide PC, Mobile and Other Device Replacement Strategies
- How to Successfully Move to PC as a Service
- Toolkit: RFP for PC Hardware Acquisition
- Quick Answer: How to Purchase Enterprise PCs During a Global Chip Shortage

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