Why More Companies Should Consider OpEx over CapEx

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Increasingly, businesses need to improve their focus by doing a few things exceptionally well as opposed to owning each and every long term investment. The level of in-house expertise required to support major investments simply does not exist within most companies. Couple this with the fact that we now live in a world driven by intellectual assets and not hard assets.

In the traditional model, companies make long term investments to grow – things like facilities, systems, distribution, and product. These long term investments fall under the CapEx model; Capital Expenditures (CapEx) are made in a highly predictive environment. The company owns and depreciates the investment over time. However, things are becoming less predictable and the best companies (such as Google) own very little hard assets. This raises an important question: Why aren't more companies giving the OpEx (Operating Expenditures) model more serious consideration?

Let's consider one obvious example: Technology. Every company is a technology company. Software and hardware infrastructure are the backbone behind every business. This is how businesses manage customers, products, financials, employees, supply chain, etc. And technology is changing. Under the OpEx model, you leave your options open by not owning the asset. The risk for managing complexity and change shifts to someone else.

Take for example Software as a Service (SaaS). SaaS is a shared service approach which enables faster implementation and puts the burden of optimization on an outside party. Under the CapEx approach, you have to hire and retain IT staff, manage the data center, manage the application layers, and manage the entire IT environment. Contrast this to OpEx where optimization must be achieved by the service provider. This translates into several benefits: Single version for all users, ability to scale using self-service, and staying current with changes and upgrades.

Under OpEx, you pay for investments as you go, reducing risk and securing higher degrees of flexibility. For example, rapidly growing companies or companies subject to mergers or divestitures will need a lot of flexibility. Slow growing and stable companies may not require flexibility, opting for the traditional CapEx approach. However, in today's changing world how many companies can truly say they operate in a stable environment?

When deciding between CapEx vs. OpEx, you will need to consider your cash flows, current capital structure, and plans for how you will fund future investments. Additionally, the OpEx approach does require some special considerations:

1. Do you want to give up control of the investment to the Vendor?
2. How reliable and dependable is the vendor in the future?
3. How secure and safe is the vendor's environment?
4. What integration challenges do we face under the shared model?
5. How well can users adjust to this new shared environment?
6. Do we lose important company knowledge and expertise with the move?

For highly complex investments that are subject to change, the OpEx Model deserves much more consideration by businesses. It is ironic that less than one-third of small businesses in the United States have plans under the OpEx approach. The bottom line is simple: OpEx investments (such as subscription services) can get you to value much quicker with less risk. You are not locked into a large complex model and invariably you can adapt to change much better. With things like cloud computing, the OpEx Model warrants much more serious consideration from all companies.

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