

Accelerate deployment
of software, services
and SaaS with flexible
financing options



The benefits of choosing a financing strategy tailored to AI and cloud-based solutions

Executive summary

Over the past few years, a major shift in IT has created exceptional opportunities and complex challenges as organizations embrace advanced artificial intelligence (AI) computing and collaborative cloud-based solutions.

Executives are now thinking beyond the need to manage infrastructures more efficiently. The focus has shifted from efficiency to funding bold, innovative initiatives that help create transformational change—driven to a great extent by software, services and Software as a Service (SaaS) solutions.

According to IDC, worldwide spending on public cloud services and infrastructure is forecast to reach USD 210 billion in 2019, an increase of 23.8 percent over 2018, and Software as a Service (SaaS) will be the largest category of cloud computing, capturing more than half of all public cloud spending in 2019.¹

Deciding how to best fund these solutions through strategic IT financing becomes more important when helping make transformational change successful and affordable in a new AI era. This white paper explains some of the key benefits that are specific to financing software, services and SaaS. These benefits help executives make the best possible funding choices in an IT environment that has grown more complex yet offers exciting opportunities to move businesses forward.

Making new technologies affordable: Factors to consider

Today, software, services and SaaS represent a greater percentage of IT spending as components of integrated solutions than in the past, creating the need for executives to decide how best to fund these investments. The current pricing model for SaaS providers is to charge an annual or multi-year upfront payment for the subscription. This can pose a challenge to organizations with budgetary constraints or competing strategic initiatives for funding.

Three benefits of customized financing solutions for software, services and pre-paid SaaS include:

- Reducing upfront cash outlays to help organizations conserve cash to meet other high priority needs
- Aligning the payments of a project to its anticipated benefits
- Improving cash flow

Reducing upfront cash outlays to meet other high priority needs

Flexible terms and creative financing options for software and services can help companies preserve cash and pay over time for their IT solutions. Financing offers payment plans to acquire IT solutions needed today by minimizing upfront cash outlays and preserving cash to invest in other strategic initiatives.

For example, to provide its clients with state-of-the-art analytics tools, a software company must continuously invest in innovation but how can the business free up capital to fund product development? The company can take advantage of a financing solution that allows them to purchase software licenses at the start of a client project and pay for them over the course of 12 months—spreading the cost and eliminating the need for large upfront investments. Flexible financing plans allow the company to manage software license purchases and payment cycles. As a result, the company is able to compensate for fluctuations in its cash flow, reducing the amount of capital it needs to keep in reserve and freeing up funds to invest in research and development.

Aligning payments to anticipated benefits

Although most financing options that spread payments over time are structured for consistent monthly or quarterly payments, other options exist. For instance, in some cases it may make sense to set up a financing payment plan that varies so that payments can be matched to anticipated benefits—smaller payments in the beginning when business benefits are likely smaller, and larger payments later on when the business benefits are being more fully realized. This approach to financing can help:

- Provide the opportunity for cash to be used to meet other high strategic needs
- Speed project approvals by avoiding delays that can at times come with upfront cash outlays
- Provide flexibility to make changes to financing as project needs change

As Figure 1 illustrates, in the case of a hypothetical IT project, expenditures are higher as a project begins, yet benefits are not realized until after the initial implementation. When the project is financed, payments and benefits can track more closely.

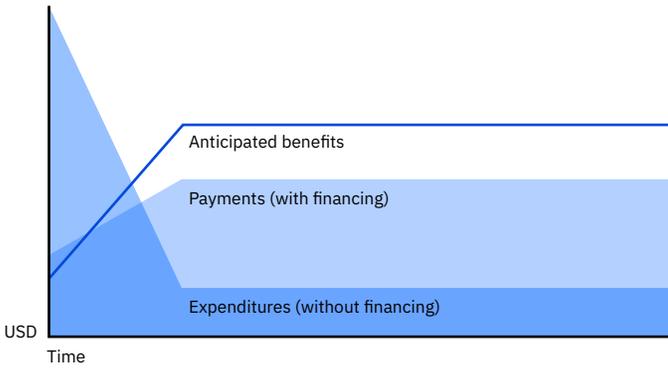


Figure 1: Expenditures are higher at implementation and benefits are realized later.

For example, if a company plans to increase use of cloud-based services, a project may require capital allocation for upfront costs of software, services and pre-paid SaaS. That requirement could delay project commencement, perhaps even jeopardize the entire project. By customizing financing to minimize payments over the first year, and with payments then increasing in the second year and beyond as benefits begin flowing, the payments can be better aligned with the anticipated project benefits.

Improving cash flow

Chief Financial Officers closely monitor cash flow as an important metric of a company's financial performance. Improving cash flow may allow an organization to invest more resources in projects that meet strategic and business goals.

A flexible financing structure can help reduce budget approval obstacles so that essential software and services can be acquired and deployed quickly.

For example, when a consumer electronics company planned to develop advanced search and analytics capabilities as part of a long-term strategic IT improvement plan, the solution included software and services. Upfront payments to implement the solution could have placed a burden on the company's cash flow. By combining upfront costs for software and services into one financing contract with a quarterly payment structure, the company could plan for the impact of those periodic payments on cash flow, which improves administrative processes and speeds internal project approval.

Choosing a financing strategy tailored to AI and cloud-based solutions

As more emphasis is placed on AI, multicloud management, blockchain and other emerging technologies, which include software, services, and SaaS, some companies find it difficult to secure cost-effective financing. In such cases, an organization like IBM that specializes in IT financing can help streamline acquisition, funding, and deployment from one provider. When evaluating IT financing, look for organizations that offer:

- Deep knowledge of technology and financing
- Comprehensive financing for all solution elements
- Flexible and competitive payment terms

Conclusion: Financing is a key component of funding innovation

In the AI era, strategies and solutions for financing IT initiatives are changing as rapidly as the technologies themselves. To remain competitive, IT funding discussions and options should have a seat at the solution table.

Funding innovation effectively requires approaches that are adaptable and flexible to meet changing needs. As an IT financing specialist, IBM® Global Financing offers experience, expertise and solutions that can help improve cash flow and speed up project deployments.

About IBM Global Financing

IBM Global Financing serves clients ranging from small businesses to the majority of the Fortune 100 companies, across more than 20 industries. Our IT financing experts work with clients to address their strategic business and IT needs by customizing financing structures for hardware, software, and services from IBM. Non-IBM content, which is part of an overall IBM end user client solution may also be eligible for financing through IBM Global Financing. When clients bring us their vision for transformational change, we can help them finance it—from concept to execution.

For more information

To learn more about software, services and SaaS financing, contact your IBM Global Financing representative or IBM Business Partner, or visit the following website at:

ibm.com/financing/solutions/it-financing-solutions

1 IDC's Worldwide Semiannual Public Cloud Services Spending Guide,
#IDC_P33214_0818, February 2019

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