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

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

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Executive summary

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

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

According to IDC, Software as a Service (SaaS) will remain the dominant cloud computing type, capturing nearly two thirds of all public cloud spending in 2017.[1]

Deciding how to best fund these solutions through strategic IT financing becomes more important in making transformational change successful and affordable in a new cognitive computing era.

This white paper explains some of the key benefits specific to financing software, services, and SaaS to 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 past years, 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 service. This can pose a challenge to organizations with budgetary constraints or competing strategic initiatives for funding.

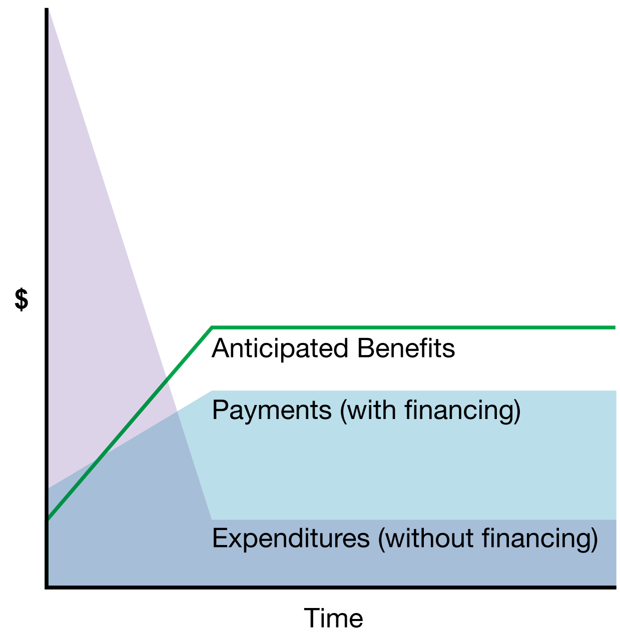
Two benefits of customized financing solutions for software, services, and pre-paid SaaS include: 1) aligning the payments of a project to its anticipated benefits and 2) optimizing cash flow. Both can help organizations conserve cash to meet other high priority needs.

Aligning payments to anticipated benefits

Although most financing options that spread payments over time are structured for consistent monthly or quarterly payments, there are other options. 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:

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

As this chart illustrates, for 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.



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.

Optimizing cash flow

CFOs 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 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 improved administrative processes and sped internal project approval.

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

As more emphasis is placed on cognitive and cloud-based solutions which include software, services, and SaaS, some companies find it difficult to secure cost-effective financing, especially if various components come from multiple vendors. In such cases, partnering with an organization like IBM that specializes in IT financing, regardless if IBM or non-IBM content, can help streamline acquisition, funding, and deployment through one source. When evaluating IT financing, look for organizations that offer:

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

Conclusion: Innovation requires both technology and financing

In the cognitive computing 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 optimize 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 both IBM and non-IBM vendors. 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

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[1] IDC Press Release: Worldwide Public Cloud Services Spending Forecast to Reach $122.5 Billion in 2017, According to IDC, 20 Feb 2017

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