



Financial & Strategic Benefits of IBM Global Financing Flexible IT Financing Options

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Flexible IT Financing Options

Today, the majority of IT and related services are spent on projects that deliver business outcomes that help grow revenues, enhance profitability, and increase utilization of operating assets, all of which increase cash flow. These projects are implemented in a variety of ways, with As-a-Service – which can include software, services, hardware, and platform – increasingly being the preferred method. Regardless of the method used for implementation, a common challenge is the mismatch between project costs and benefits. Due to this discrepancy, IT payment plans are being made an integral part of IT projects.

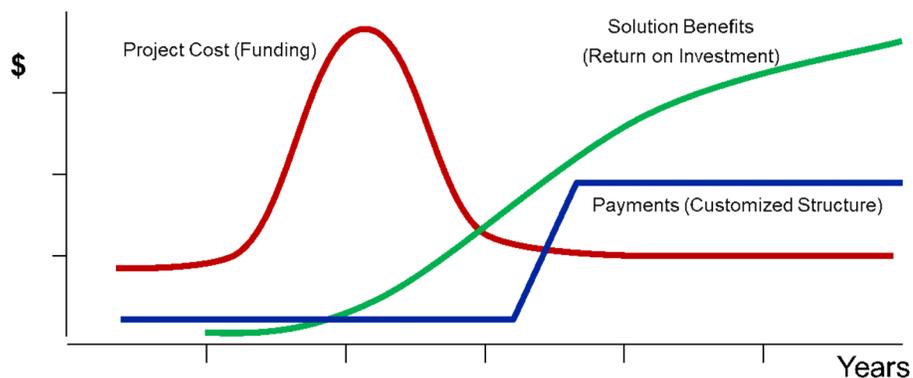
This paper discusses the financial benefits of flexible IT financing offered by IBM Global Financing, which helps:

- Better align project benefits with project costs
- Preserve cash
- Increase the project value

IBM Project Financing™

The chart below shows a typical IT project. Project costs are higher in the beginning and then decline or level off during the project horizon. Anticipated benefits are realized after the project is implemented and ramped up, leveling off after implementation. Net cash flow is initially negative and accumulative cash flow remains in the red until the project breaks even. The upfront imbalance between costs and benefits is mitigated with Anything as a Service (XaaS) but nonetheless, initial net cash flows are typically negative.

Project Financing Cash Flow Illustration



Also shown in the chart are the project payments with IBM Project Financing™, which improves upfront cash flow. It also increases the project's value (Net Present Value, or NPV) since payments, even with reasonable financing charges, are pushed further out. Projects tend to realize a minimum of a one percent increase in value and upwards of a five percent improvement¹.

Time is money. IBM Project Financing™ can reduce budget obstacles since less upfront investment is required. Services, software, SaaS, and hardware can be bundled into a single financial vehicle. Experience shows that IBM Project Financing™ can speed up project approval by one to three months, because of the lower investment required upfront and the aforementioned one to five percent increase in project value. Accelerating approval one to three months results in a significant increase in a project's cash flow.

¹ Findings are based on IBM use cases using IBM Global Financing Benefits Calculator

IBM Global Financing Deferred Payment Plans

A major focus of companies is to optimize working capital management, defined as the net of the investment in inventories, accounts receivable, and accounts payable. There are many deferred payment options that can help with working capital optimization. As an example, suppose that standard payment terms are 30 days and a deferred payment plan lengthens weighted average days payable outstanding to 180 days. This adds over \$400,000 to accounts payable and cash flow, for \$1 million in IT purchases².

IBM Global Financing Prepaid Annual/Multi-Year XaaS Payment Plans

Increasingly, companies are engaging in multi-year XaaS contracts to lock in lower costs. The longer the contract, the greater the discount; and the more money paid upfront results in even greater discounts. One of the challenges is that the amounts paid upfront or annually can cause a cash flow burden since they are not matched with solution benefits. IBM Global Financing provides payment plans that help companies better match benefits with XaaS costs, capture greater discounts which lower IT costs, and increase cash flow.

IBM Global Financing Hardware Leasing

IBM Global Financing has been providing hardware leasing options for more than thirty years. For example, a Fair Market Value Lease provides a predictable, low-risk approach to building IT infrastructure with minimal impact on capital budgets, while preventing technological obsolescence. Additional capacity or features can be added during the middle of the lease, often with little or no change in monthly payments. At the end of the lease term, businesses can renew or extend the lease, purchase the equipment, or return it. The financial benefits can be up to a [twelve percent reduction](#) in the total cost of ownership, resulting in increased cash flow.

Conclusion

In today's hypercompetitive and disruptive market, every basis point of return on capital matters, as does speed-to-decision. Whether it's IBM Project Financing™, Deferred Payment, Prepaid XaaS Payment Plans, or Hardware Financing solutions, IBM Global Financing flexible IT payment plans can help increase cash flow and returns while enabling faster decision-making and reduced project risk. It's critical that these options be made a part of businesses' overall IT strategy. To learn how IBM Global Financing can enhance your financial performance, please visit www.ibm.com/financing.

² (\$1 million in IT purchases / 365 days) x 150 days incremental benefit in days purchases outstanding = \$411 thousand

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