Financial and Strategic Benefits of IBM Flexible IT Financing Options

Dr. Stephen Timme, FinListics Solutions

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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 Anything as a Service (XaaS) – 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 financing is being made an integral part of IT projects. IDC forecasted a compound average growth rate of 3.9% in IT spend from 2018 - 2023 while over the same period IT financing was projected to grow at a much faster rate of 5.8%.1

This paper discusses the benefits of IBM flexible IT financing options which help:

• Better align project benefits with project costs
• Enable technology transition
• 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 XaaS but nonetheless, initial net cash flows are typically negative.

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 improvement in the Net Present Value (NPV) of the project.2

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...

2 Findings are based on IBM use cases using IBM Global Financing Benefits Calculator
speed up project approval by up to three months, because of the lower investment required upfront and the aforementioned one to five percent increase in project value. Accelerating approval up to three months results in a significant increase in a project’s cash flow.

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 IT deferred payment options that can help with working capital optimization. These plans increase accounts payable that, in turn, reduces investment in working capital and helps preserve cash. 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 purchases.³

Prepaid Annual/Multi-Year XaaS Payment Plans

Many organizations know about the value of SaaS, but did you know there is another way to pay for your SaaS subscription? Traditionally, there have been two ways to acquire SaaS:

- Pay upfront for a SaaS subscription. This has the potential to reduce cost if a discount is offered for one-time payments.
- Pay a monthly subscription fee. This has the potential to enhance your project’s Return on Investment (ROI) by aligning payments with anticipated benefits.

But there’s an alternative that can potentially combine some of the key advantages of these two payment options. IBM Global Financing can finance your upfront SaaS subscription and allow you to pay monthly.

This can allow you to:

- Pay over time, but benefit from upfront price discounts that may be offered
- Preserve cash for other strategic initiatives
- Align payments to anticipated benefits and potentially enhance ROI

Hardware Leasing

Technology obsolescence and addressing expanding capacity needs are key considerations for IT hardware investments for many organizations. IBM Global Financing leasing options provide a potential solution. For example, a Fair Market Value Lease provides a predictable, low-risk approach to building IT infrastructure with minimal impact on capital budgets, while helping to prevent 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 fourteen percent reduction in the total cost of ownership, resulting in increased cash flow.⁴

Conclusion

In today’s hypercompetitive and disruptive market, every basis point of return on capital matters, as does speed-to-decision on your IBM IT solution which can include Cloud, Red Hat, Watson, and AI. Whether its IBM Project Financing ™, deferred payment plans, 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 are included in a successful business and IT strategy. To learn how IBM Global Financing can help enhance your financial performance, please visit www.ibm.com/financing.

³ ($1 million in IT purchases / 365 days) x 150 days incremental benefit in days purchases outstanding = $410 million increase in accounts payable and increase in cash.

⁴ Represents an IBM Z lease over a 36-month period with rates based on a client’s credit rating of investment grade and payments in advance, compared to an outright purchase of the system. Actual client savings will vary depending on country, term, credit qualifications and other local conditions.