The drive to digital transformation is underway, and organizations recognize that investment in updated tools and infrastructure is critical to their success.

How Flexible Payment Solutions Can Accelerate Digital Transformation

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Flexible Payment Solutions Can Accelerate Digital Transformation and Keep Budgets on Track

In the digital transformation (DX) economy, businesses depend on the speed, scale, and resiliency of ubiquitous infrastructure — infrastructure deployed within their own facilities and the third-party infrastructure "rented" to deliver digital services. To underscore this trend, IDC predicts that by 2023, DX spending will grow to over 50% of all information and communication technology (ICT) investments from 36% today, with the largest growth in data intelligence and analytics as companies create information-based competitive advantages.

AT A GLANCE

KEY STATS

» 65% of organizations will modernize legacy systems with extensive new technology platform investments through 2023 to address escalating cyberthreats and gain new functionality.

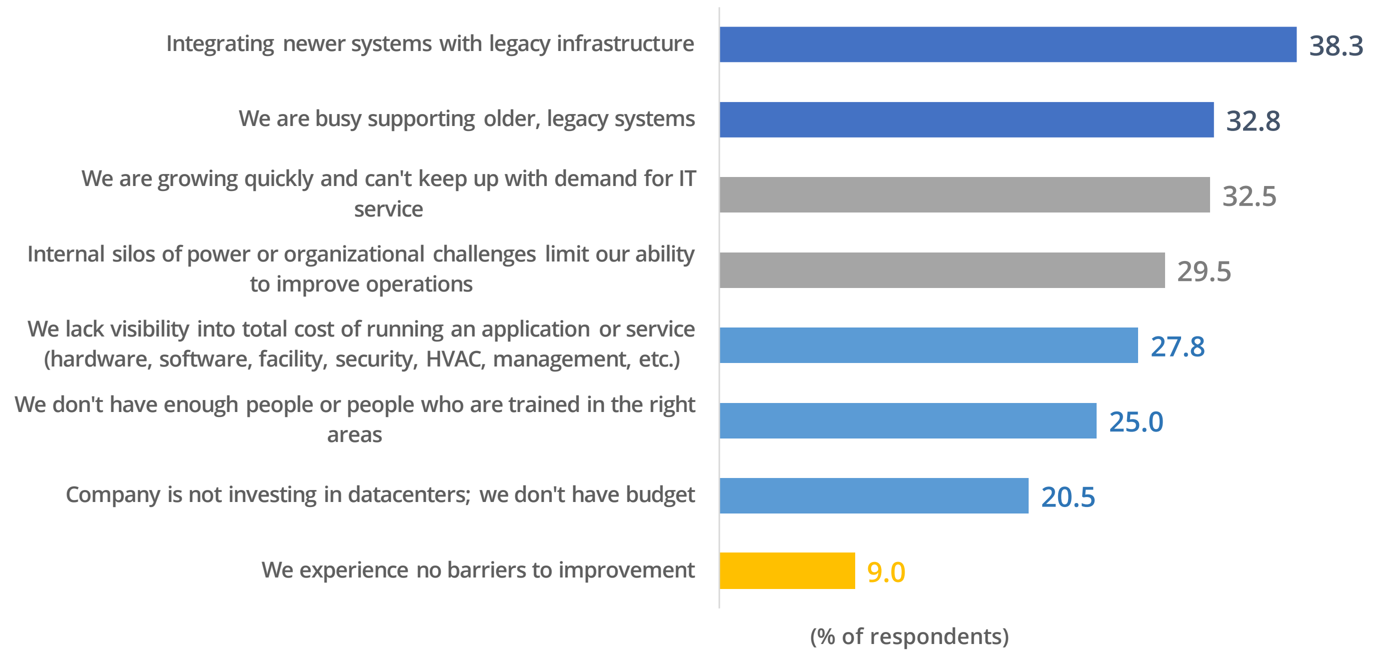
» 38% of organizations struggle with integrating newer systems with legacy infrastructure.

For end users, the promise of digital transformation is that it will enable businesses to use new technologies such as artificial intelligence, blockchain, and Internet of Things (IoT) to accelerate growth. However, the first step to digital transformation requires a significant investment in IT resources to modernize existing platforms that can meet these new requirements. In fact, IDC believes that 65% of organizations will modernize legacy systems with extensive new technology platform investments through 2023.

Therein lies the most significant challenge to DX adoption: Substantial investments in existing IT infrastructure are holding back many organizations from digital transformation and hindering business success. Often referred to as "technical debt," the term refers to the causes of outdated IT infrastructure as well as the associated costs (in both time and money) for support and maintenance. To understand the significance of this issue, IDC surveyed 400 IT and facilities experts to determine their biggest challenges in supporting DX initiatives (see Figure 1).

FIGURE 1: ***Datacenters Challenged to Support DX Initiatives***

Q. *Do you experience any of the following barriers to improving your internal or company-owned datacenters?*



n = 400

Source: IDC's Datacenter Operational Survey, January 2019

The survey clearly shows that organizations are busy supporting older legacy systems and struggle to integrate older and newer systems. Additionally, IT managers are grappling with budget shortfalls in their digital transformation — a significant hurdle that is hindering adoption of new workloads and functionality, such as artificial intelligence and machine learning, that can reduce the problems. IDC research underscores that 1 out of 5 organizations struggles to find the budget to fund these new plans and often funds transformations through cost-cutting initiatives rather than move money from one budget to another.

Another key consideration for digital transformation is deciding which workloads to keep on-premises or move to the cloud with a software-as-a-service (SaaS) or platform-as-a-service (PaaS) model. The goal of this shift to the cloud is to reduce costs and move to an opex model such as leasing or pay as you grow. For many enterprises, this becomes the most significant challenge with digital transformation — they must invest in new IT architectures to be competitive, but they cannot discard their existing infrastructure investments and start over.

The investment of legacy equipment is too onerous and has become a significant issue for most organizations. Companies recognize that the integration of new and older platforms is the best path forward; however, from a timing perspective, the process can be long, which can hurt the business. Using flexible payment options to fund these new projects and leveraging equipment buybacks or funding plans for new equipment investments with opex budgets that reduce balance sheet impact can be the solution.

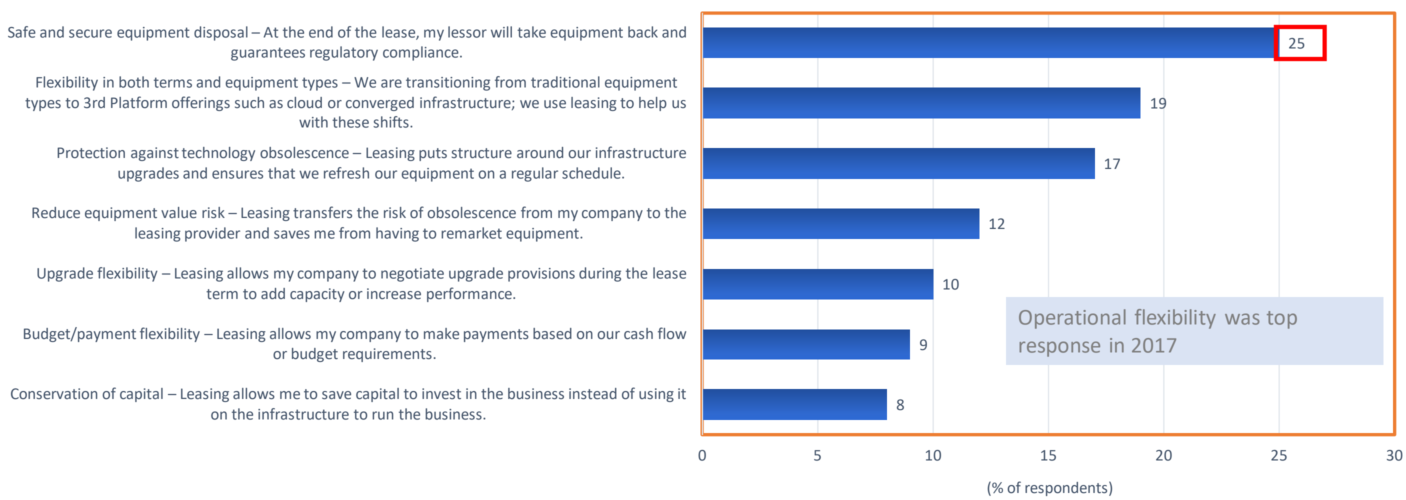
Flexible Payment Solutions Provide a Way Forward

Flexible payment solutions are a critical enabler for businesses that are grappling with the desire to transform to new IT models but are faced with multiple challenges, such as budget constraints, aligning use with costs, and existing infrastructure investments that cannot adapt to new DX demands. IDC research reveals that when end users adopt flexible payment models, they conserve cash, enhance fiscal transparency with predictable monthly payments, and improve operational flexibility with upgrades during the lease term. Additionally, customers are looking for trusted partners that understand their current IT environment and business challenges and can help them with their digital transformation.

A recent IDC survey asked customers why they lease rather than buy IT assets. Their responses are illustrated in Figure 2.

FIGURE 2: ***Safe and Secure Disposal of IT Assets Is Top Reason for Leasing***

Q. *What was the main reason your organization chose to lease rather than buy on-premises assets?*



n = 300

Source: IDC's IT Procurement Trends and Consumption Models Survey, October 2019

Using flexible payment solutions provides businesses with peace of mind about safe and secure disposal and offers protection from possible violations of regulatory compliance rules and significant financial penalties. Additionally, adopting these models helps businesses bridge their existing legacy equipment and new infrastructure options. Another often mentioned benefit of leasing is protection from technology obsolescence because of structured upgrade cycles within the lease. Overall, IDC research underscores that customers rely on flexible payment solutions to:

- Align budget with usage
- Provide comprehensive life-cycle management tools
- Provide equipment flexibility without a significant capital outlay
- Track IT assets
- Remove older assets with minimal disruption and in a safe and secure manner

The IT leasing and flexible payment solutions market remains healthy as businesses continue to rely on this important financial option to procure IT infrastructure, software, and services. Flexible payments are a great option for service providers that have rapid capacity requirements but limited capital resources. Using flexible payment solutions can accelerate IT deployments without a significant capital outlay — a perfect solution for SaaS and PaaS providers. IDC forecasts that demand for this market segment will continue to grow as more companies rely on leasing to help them fund acquisitions with an opex budget to move assets off the balance sheet. Even if infrastructure is rented via a pay-per-use model, flexible payment models can help service providers avoid the annual cash outlays that are often required for long-term SaaS or PaaS commitments.

Working with a flexible payment solutions partner can help clients bridge the need for pay-as-you-go models and competitive pricing. IDC forecasts that the IT leasing and financing market will grow at a compound annual growth rate (CAGR) of 5.8% to reach $335.3 billion by 2023, led by strong leasing growth for software, services, and hardware. This growth will outpace IT spending, which has a projected CAGR of 3.9% through 2023. Recent IDC surveys show that the following programs would incent more customers to lease:

- Maintenance service contracts included in the lease
- Financing for the entire solution (hardware, software, and services)
- 0% or low-interest rate offers
- Structured upgrade options
- Capex to opex procurement offers
- Sale and leaseback options
- Longer lease terms
- Deferred payment options

For many organizations, adopting a multiyear flexible payment approach with costs amortized over a number of years enables an end-to-end transformation right from the start and can empower organizations to become more agile by paying for technology as they consume IT and as their business grows instead of purchasing, which requires a significant up-front cash outlay and can lead to lengthened equipment life cycles due to budget shortfalls. For organizations struggling with budget shortfalls and under pressure to transform their IT infrastructure to support new business initiatives, leasing and flexible payments can be the solution.

Considering IBM Global Financing

IBM Global Financing encompasses two primary businesses: flexible payment solutions and asset recovery services, which help clients accelerate their digital transformation, improve return on investment (ROI), and align infrastructure investments with workloads to provide increased flexibility and agility. Through its flexible payment solutions, IBM Global Financing facilitates the seamless acquisition of IBM's IT systems, software, services, and solutions. As a captive financier, IBM Global Financing has the benefit of both deep knowledge of its client base and clear insight into the IBM products and services financed. IBM also maintains a long-term partnership with the company's clients through various stages of the IT asset life cycle — from initial purchase and technology upgrades to asset disposition decisions.

IBM Global Asset Recovery Services provides a worldwide, IBM-exclusive certified remanufacturing/demanufacturing operation including the safe and secure refurbishing and resale or internal reuse of used servers, storage, parts, and features returned from lease transactions. In 2019 alone, over 99% of all IT equipment returned to IBM was processed for reuse, resale, or material recycling. Of the remaining percentage, the majority was used for energy production.

Challenges

Although leasing and flexible payment options offer significant budgetary and operational advantages, some organizations raise objections to these models because their firms have significant cash reserves or the current environment of low interest rates reduces the attractiveness of leasing. These objections are common and can be outweighed by the advantages of conserving budget dollars when embarking on digital transformation and how leasing and flexible payments can improve budget flexibility by aligning usage and costs. Lightening the balance sheet by "paying for what you use" versus simply "buying and owning" provides clarity for all stakeholders within the organization — the IT group as well as finance — and reduces equipment overprovisioning and budget shortfalls.

Additionally, access to a program such as IBM's Global Asset Recovery Services is intended to provide peace of mind for customers concerned about safe and secure asset disposal and may enable them to use funds from equipment trade-ins to fund new IT investments. IDC research indicates that businesses want to work with partners that have a sustainability program and can demonstrate current and future investment plans to reduce ewaste. IBM has a strong reputation as one of the leaders in this area.

Conclusion

When faced with the challenges of digital transformation and budget constraints, businesses are relying on innovative payment models — such as payment plans, leasing, and flexible payment options — as an important way to support their organization's digital transformation and deliver the operational flexibility and budget transparency that inform IT decisions and provide customers with a choice to use opex models instead of capex to accelerate their transformations.

IDC research underscores that a well-formed IT life-cycle management policy that provides a repeatable and consistent framework for replacing and renewing IT assets will reduce IT operating costs. Leasing can be a powerful tool to develop a strong IT life-cycle management policy that aligns costs with budgets and removes the need for significant capital outlays. IDC believes that customers should take a second look at the operational and financial advantages that leasing offers and utilize the expertise of IBM Global Financing to help fund their digital transformation.

About the Analyst

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Susan Middleton leads IDC's worldwide research on IT equipment, software, and services financing markets. As research director for IDC's Flexible Consumption and Financing Strategies for IT Infrastructure research, her analysis provides insight from both a supply-side and a buyers' point of view. Ms. Middleton's core research coverage includes the evolution of procurement models from purchasing, leasing, and flexible payments to the new as-a-service models, also known as flexible consumption.

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