

Financing for mid-sized businesses: a management guide

Provided by IBM Global Financing



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Anyone running a medium-sized company has to make financial decisions every day - some small, some critical. One that probably comes up fairly regularly is how to pay for information technology (IT).

That's because selecting the right hardware and software, implementing the right applications and updating them to incorporate new technology is a constant challenge.

This is exacerbated by the life-span of equipment becoming shorter and shorter; markets getting tougher; and the need to respond to more sophisticated customers, who are buying through more channels than ever before.

Not surprisingly, there is considerable pressure to put your IT to work - fast - and see rapid returns on your investments. For all these reasons, you need far more flexibility today in how you put together and adapt your IT. You also need equally flexible ways to fund it.

You could pay with cash upfront - but that takes away precious capital that could be used in many other ways to boost your company's profitability. Or you could choose financing.

Financing has significant advantages over purchasing - both from a business and an IT perspective - and it gives you much more freedom to adapt and grow. This is especially important in the emerging culture of e-business on demand, where your customers will expect you to be able to react much more quickly to their requests and to personalise your products and services.

However, not everyone is at ease with the idea of financing. Typically, people are concerned they may have pages of small print to deal with, complicated payment terms, and could then be locked in with one provider.

If you shy away from financing because you think it's only for long-term, large acquisitions or it's too complex or too costly, then this management guide could change your views. In it, we'll reveal the reality of financing, deal with common concerns, and explain the tangible benefits it can bring to your company.

We'll also set out the key criteria to use when selecting a financier and give you some examples of the many companies who have financed their IT to secure a better future.

Financing is already the preferred choice for many successful organisations. In this step-by-step guide you'll be able to see why.



Step 1 - *Answering your concerns*

More and more companies are choosing to finance their IT. However, there are many others who still prefer to pay cash and they often quote the following objections. Some of these may reflect your own views, but you could be overlooking some important points.

We've got plenty of cash

Yes, but cash is a limited asset, so why use it on depreciating IT systems? It would be better to keep your cash for other important projects or to put it into investments with better returns. If you use your cash, you could also lose out on tax benefits.

Borrowing from the bank is better

As credit is usually funded for the short term, there's a real risk of interest rates going up. If you choose to lease with the right partner, the rates will be fixed over the entire leasing period. You'll also be able to get cash back when you sell your systems at the end of the lease.

We keep our systems for ages, so it's cheaper to buy them

Technology advances quickly. The life-span of PCs, for instance, is becoming shorter and shorter - from four years down to two. It's also important to take into account the maintenance costs of ageing hardware, which can be considerable if you rely on older systems. If you take a 36 month fair market value lease, you will have far greater flexibility than if you actually owned your PCs, at little or no extra cost.

Older systems get cascaded down the organisation

Many companies say they will do this, but in reality few of them do. Most put their old hardware in store for a while and then pay for it to be taken away and dumped. Disposal is expensive and will become more so when tougher environmental legislation comes fully into force. If you lease your system, there's no worry over disposal - the problem is taken away along with your old PCs.

I don't want to be bothered with lots of paperwork

Nobody does. You just need to choose a financing partner that provides easy-to-use tools and brings all costs - including maintenance, hardware, software and services - into one straightforward contract. This way, administration will be kept to the minimum.

But leasing is too complex

Modern contracts have been specifically designed to be straightforward and easy to understand, and can give you the option to accommodate upgrades or terminate early should you wish. The contract can be tailored to match the needs of your business, with payment options that are affordable and reflect business growth.

I want to buy systems from various companies, not just one supplier

No problem. If you choose the right financier, the contract should cover all hardware, software and services from any supplier, providing a one-stop shop for a total solution.

If I choose one financier, I'm putting 'all my eggs in one basket'

The vast majority of companies say they prefer to deal with just one provider for their total solution - including services and maintenance as well as software and hardware.

This makes the management of all their information technology significantly easier and wraps everything - including disposal - into one overall contract.

Step 2 - Understanding the real benefits of financing

There are several compelling reasons why financing is better than purchasing - both from the perspective of running a business and from the IT director's point of view.

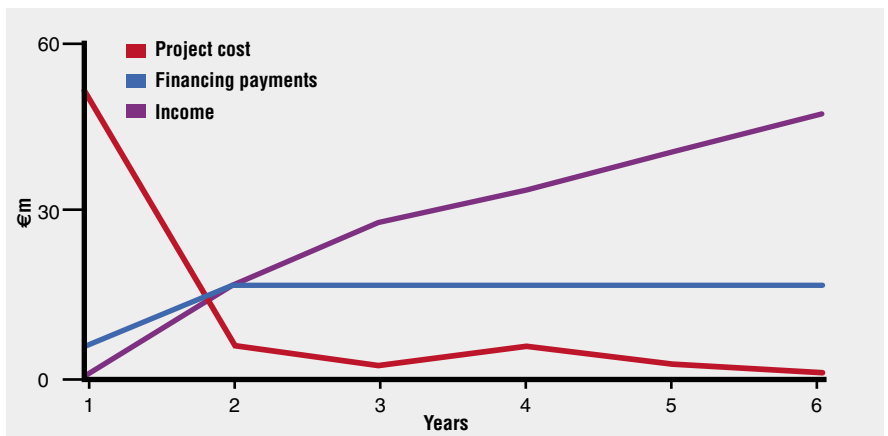
Here are the main benefits for the business:

IT projects take time and the results don't always come through immediately. With financing, your payments are spread over the lifetime of a project, so that you pay for your systems and software as you realise the benefits.

This financial flexibility means you can move ahead with projects straight away - improving your response to customers - offering online sales or mobilising your sales teams for instance - without having to wait for the capital to become available.

You can conserve precious capital for other projects while enjoying low cost borrowing at fixed, competitive rates. You may not be able to obtain finance for your other important projects, but you can finance your information technology, making it a logical option.

Spreading payments over the lifetime of a project



Financing makes budget management easier. Payments can be made to suit your budget process and timetable and you can enjoy special arrangements, such as payment holidays and stepped payments to suit the way you run your business.

And the IT advantages:

You don't have to wait for the cash before you start new projects. This means you can cut through your organisation's application backlog quickly without being held back by lack of budgets.

With financing, you can have options built into your contract that enable you to swap out older systems and bring in new ones when you need to. This is a much more cost-effective approach than having to buy new systems again and means you can refresh your IT when necessary, so you move forward with the best technology available.

The overall management of your IT assets will be improved and you'll no longer have to worry about what to do with old hardware when you no longer need it. With the right financing deal, your unwanted machines can be taken away and recycled, or disposed of in an environmentally-friendly way.

You'll have much greater flexibility to scale your systems up or down to meet fluctuating customer or employee needs. This is especially important in the emerging e-business on demand culture where customers expect you to be much more responsive to individual needs. With this increased flexibility comes the ability to treat computing more like a commodity, reducing the total costs of IT ownership.

Step 3 - *Looking at other companies' experiences*

Financing is now considered for about 60 per cent of IT acquisitions. More and more mid-sized organisations are finding that it is an excellent way of managing their IT assets more efficiently. Here are some examples of how IBM is helping its customers to reach their business goals quicker.

A mid-sized company based in Germany that makes bolts, plugs and screws wanted to deploy an SAP solution to underpin accelerating business. It needed to finance a several million Euro IT investment without compromising cash flow, but traditional lenders, such as banks, were reluctant to help.

A 'Pay as you earn' deal solved the problem, as the company will only begin payment when the benefits of the SAP implementation start to flow. The deal covers the SAP licences and related services and ensures that payments are matched to benefits. The company was therefore able to make a major investment in technology without impacting its existing credit line with the bank.

A London-based advertising agency wanted to power up its IT infrastructure to deal with rapid expansion plans. It needed a financing partner that could step in and help with the cost of printers, desktop PCs, installation services and training. The speed, flexibility and affordability of the financing contract arranged by IBM meant the agency was able to achieve its goals.

A medium-sized Italian engineering company needed to expand its global server capacity earlier than expected. Thanks to the flexibility of its existing contract, it could upgrade early with no financial penalties. The contract was adapted to meet the company's evolving business and technology needs.



Step 4 - *Making the right choices*

Having recognised the overall benefits of financing, you need to select the right company to do business with. You need to choose a reliable, trusted company with a solid and secure future that is going to be able to support your business in the longer term.

You'll need to keep in mind several key questions when making your choice.

☑ Do they really understand financing IT?

Many banks and specialist funding firms offer finance, but their knowledge of IT is weak.

You need an organisation that has considerable experience across the spectrum of IT financing and has an industry-wide understanding of the value of IT assets. Financing IT is not like buying a fleet of cars - it calls for people who really understand IT and can offer a range of finance packages to suit individual needs.

☑ Can they support the needs of a mid-size company?

Small and mid-sized companies have particular needs, so your finance partner must have extensive knowledge of working in this area. You'll be keen to invest in smaller projects, to gain rapid returns on your investments and will tend to spend more on software and services than large enterprises. Your financier should know all this, and tailor its services accordingly.

☑ Will they finance all your IT needs?

You will probably want to acquire hardware, software and services from a range of companies, so you need a financier that will support a multi-vendor approach to IT. This gives you a wider choice of offerings and helps you avoid being locked into one organisation's technology.

☑ **Can they give you a quick decision?**

You want to choose a company that can make a decision in minutes rather than months. Someone who can offer competitive rates and put a package together for you with the minimum of fuss. They must be easy to work with, so your projects are not put on hold.

☑ **Do they understand the implications for e-business?**

Only organisations working at the forefront of technology can truly understand the way business is moving and the implications e-business on demand has for all sectors. Can they show you examples of customers who have relied on their expertise to transform their business and are already seeing the benefits.

☑ **Do they provide value added services, such as asset disposal?**

Increasingly, asset disposal will become a real issue - particularly across Europe where more environmentally-aware legislation will force companies to dispose of unwanted electrical equipment within strict guidelines. There is also increasing pressure on companies to meet data privacy standards when disposing of hard drives. A possible option may be to use a reliable asset disposition company that can sanitise unwanted hard drives and take on the responsibility for data cleansing compliance.

☑ **Are they backed by a secure and trusted brand?**

When you make a major decision about finance, you need to know you can rely on your financing partner. The future of your company is at stake, so you need to know that the organisation you choose has a solid reputation and will be there for the long term.

The IBM Global Financing approach



IBM Global Financing (IGF) is one of the world's largest IT financiers, serving over 100,000 customers in 45 countries worldwide, and managing IT assets worth \$35 billion. It specialises in IT financing alone and operates as an autonomous unit within IBM. Over half of IGF's business is with mid-sized customers.

Building on 20 years experience within IBM, IGF possesses in-depth expertise in all aspects of IT financing and is able to take a highly informed view of the value of IT assets across the industry. It offers financing not only for all of IBM's hardware, software and service solutions, but also for products and services from other vendors.

Therefore all elements of a customer's IT infrastructure may be financed in one place. This can include application software and services from Value Added Resellers and Independent Software Vendors, as well as alternative hardware platform providers.

IGF has developed specific financing services for mid-sized customers.

They are designed to be simple to understand, using straightforward ratecards, so that quotations can be produced quickly. They also enable fast credit decisions, for example providing funding confirmation within minutes using e-business on demand technology. IBM's Rapid Financing offering covers finance for acquisitions valued between £50,000 and £350,000. Its SuccessLease product covers lower value requirements.

For mid-sized businesses whose needs are greater and more complex, the full range of IGF's Flexible Financing capabilities may be employed. For example Project Financing for long-term business transformation projects.

Additionally IGF offers a range of added-value services, such as Asset Disposition and Support Services to enable customers to solve the growing problem of disposal of old IT, especially large volumes of PCs, in line with emerging legislation.

An additional service that IGF customers have found very useful is Sale and Leaseback, whereby IGF will buy existing IT infrastructure and lease it back to the customer. This generates working capital for the customer to invest elsewhere and also brings IT assets into a leased environment, where they can be better tracked and refreshed as technology advances.

IGF is set up to work with mid-sized customers through all of their usual IT buying channels - distributors, resellers, systems integrators, software vendors, etc. All of these can partner with IGF to provide the added benefits of financing as an element of their overall solutions for mid-sized companies.

The way forward

We hope that this guide has shown you the many advantages you can gain by financing your IT and that financing isn't just for large corporates or major acquisitions. As our examples illustrated, financing is for any company wanting to implement, change or seeking greater flexibility with its information technology.

We also hope we have managed to clear away some of the mystique surrounding financing, answered your objections and helped you see why so many medium-sized companies agree that cash isn't always king when it comes to IT.

The list of questions we set out in step 4 will help you select the right financing organisation to work with. When you find a financier that has a positive response to all these questions, you can rest assured that you have made the right choice.





For more information about anything in this guide or ways IBM can work with you, please contact us.

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