



Financial and Strategic Benefits of IBM Flexible IT Financing Options

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Today, the majority of IT and related services spending is on projects 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, select 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.

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

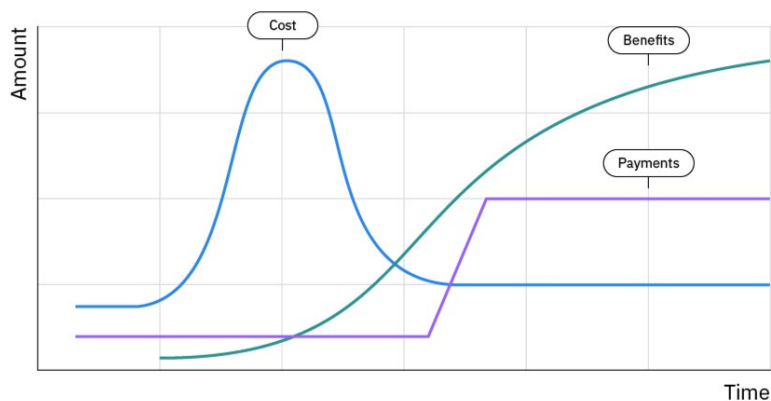
- Better align project benefits with project costs
- Enable technology transition
- Preserve cash
- Increase the project value

It is also important to note all the flexible IT financing options explored below help to preserve cash. This cash can be used to self-fund other value-added projects like further leveraging technology to grow revenue faster and better managing operating expenses and assets.

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.

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 improvement in the Net Present Value (NPV) of the project.¹

Time is money. IBM Project Financing™ can reduce budget obstacles since less upfront investment is required. Services,

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

software, SaaS, and hardware can be bundled into a single financial vehicle. Experience shows that IBM Project Financing™ can 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. Doing so increases liquidity, which is a focus of many companies as they deal with the impact of the current economic environment. There are many IT deferred payment options that can help with working capital optimization. These plans increase accounts payable that, in turn, reduce investment in working capital and help 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 increases accounts payable which essentially results in spending less. For example, it results in around a 3 percent lower spend on \$1 million in IT purchases spread evenly throughout a year.²

Prepaid Annual/Multi-Year XaaS or software subscription Payment Plans

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

- Pay upfront for a SaaS subscription. This has the potential to reduce costs 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 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 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.³

Hybrid Cloud

Hybrid cloud and AI projects provide a good example of leveraging the advantages of flexible IT financing options. Businesses want to use hybrid cloud and AI to deliver innovation, speed up their time to market and time to value, and increase customer satisfaction. But they want all of that delivered in a way that can tie their payments for hybrid cloud and AI directly to the project benefits and ROI, effectively self-funding their journey. For example, project financing and deferred payment plans can be utilized to provide funding for migration to a private cloud, leasing for hardware, and prepaid payment plans for payments to a public cloud provider. This helps capture the benefits of hybrid cloud, which a study has shown can provide up to 2.5x the value of a single cloud, single vendor provider – and the advantages of flexible IT financing options.⁴

Hybrid cloud and AI also help illustrate the need to integrate IT strategy and business strategy with solid financial planning.

² With net 30 days terms the value of \$1 million in annual spend is around \$ 960K in today's dollars accounting for a company's cost of capital. It is \$930K with 180 days terms for a saving of \$30K or 3 percent of the \$1 million IT spend.

³ Represents a hypothetical POWER9™ server 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.

⁴ Research Insights: The hybrid cloud platform advantage, IBM Institute for Business Value, June 2020.
<https://www.ibm.com/downloads/cas/QMRQEROB>

Financial planning includes planning for and delivering top and bottom-line results and providing a competitive return to investors. Hybrid cloud and AI should not be viewed in isolation as simply a technology, but as an enabler of delivering on financial plans, enabling organizations to make faster decisions and creating better execution on sales activities, as well as better managing operating expenses and assets.

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®, watsonx and AI. Whether its IBM Project Financing™, deferred payment plans, prepaid XaaS payment plans, software or hardware financing solutions, IBM 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. Flexible IT financing options help customers:

- Realize up to a 14% reduction in the total cost of ownership (TCO), resulting in increased cash flow and NPV when using a hardware lease
- Increase a project's Net Present Value (NPV) up to 5%, help maximize your return on investment, and match project benefits with project outflows
- Speed up project approval by up to three months when utilizing IBM Project Financing™
- Minimize upfront cash outlays and preserve cash and credit lines for other strategic initiatives

To learn how IBM Financing can help enhance your financial performance, please visit www.ibm.com/financing.

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