IBM Global Financing

Thought Leadership White Paper

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# Software and Services Financing

IBM

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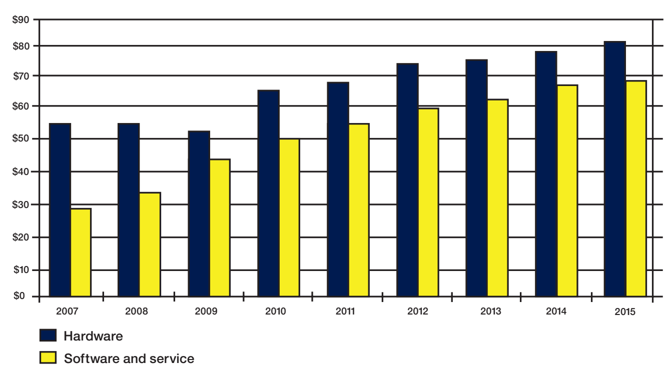
## Executive summary

The future of IT leasing and financing is clear. The IT leasing and financing market is forecast to reach over $150 billion by 2015, with a compound annual growth rate of 5.5 percent. This forecast growth demonstrates not only the health of this industry but the resilience. Approximately 54 percent of the market growth from 2011 through 2015 will be from the growth of software and services financing.

**Worldwide IT Leasing and Spending by Segment, 2007-2015**

($M)




Source: IDC, 2011 Worldwide IT Leasing and Financing 2011-2015 Forecast Update 4Q11 Trends for Top 25 Geographies, Doc #231679, Volume: 1, December 2011

Software and services financing is growing rapidly fueled by growth in the two underlying business segments. In addition, market dynamics—such as the desire for total solutions (Business Analytics and Optimization) and the drive to implement IT infrastructures (Cloud)—are increasing clients' propensity to finance software and services. Integrated solutions and IT transformation lend themselves to financing because they often require up-front spending. In addition, financing helps clients to match payments with the realization of anticipated business benefits from their software and services initiatives; conserve cash for use in other parts of the business; and simplify financial management of complex projects.

## Software and Services Financing

One of today's greatest information technology challenges isn't technological—it's financial. A major challenge confronting decision makers is making wise choices when it comes to paying for the technical assets essential to business operations.

Financing information technology hardware is an accepted way of doing business. Clients are discovering the benefits of financing software and services and, in the process, are making the financing of software and services one of the fastest-growing segments of the information technology financing industry.

## Market Growth

Software and services are viewed as the keys to gaining business advantage in today's marketplace, and show steady growth. As a result, they continue to drive the largest segments of the information technology related market.

A number of factors are driving the rapid growth of software and services. Increasing demand for Cloud enablement and assessment, Enterprise Mobility, Big Data and Analytics, Smarter Planet and Systems integration services will fuel the IT consulting market. There is continued focus on transforming business processes to enhance competitiveness, reduce costs and boost productivity. In addition, converging technology around collaboration, mobility, analytics and security solutions is evolving quickly and will drive the software market.

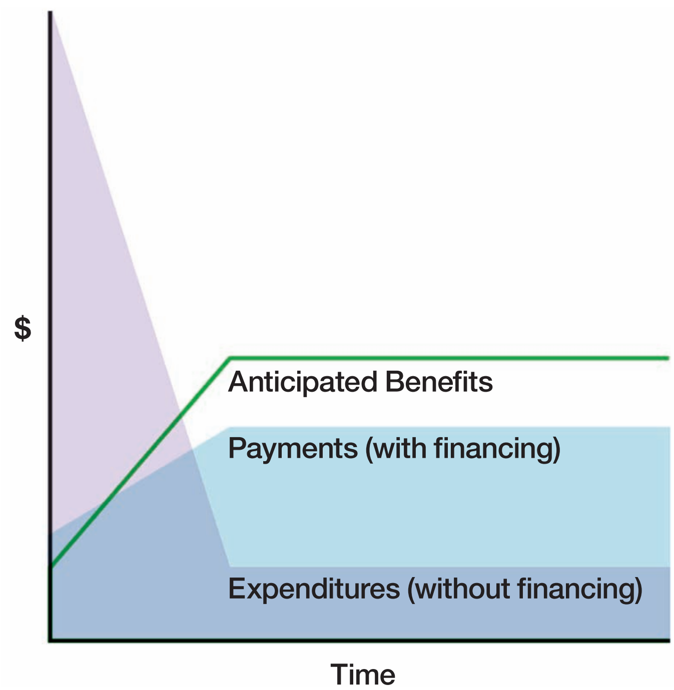
## Factors Driving Clients

Software and services are key to business growth. IT solutions are made up of software, services and hardware. To grow a business requires a focus on financing solutions related to two non-traditional areas that do not involve hard assets.

Financing of software and services focuses on up-front, one-time charges or phased-in charges for multistage projects. Ongoing outsourcing or maintenance charges do not lend themselves to financing (an exception being ongoing charges that are annualized into a single payment).

Software and services financing is generally treated as unsecured financing compared to lease or secured financing for hardware products. Rates for software and services financing reflect the unsecured risk. The typical term for software and services financing is three years and up-front payment and other cove-nants could be required depending on a client's credit rating.

Several types of companies offer software and services financing. They include: commercial banks (regional and large money-center banks); commercial financing companies; diversified, multi-line financial services companies; and the so-called "captive" financing providers that finance their parent's products.




As this chart illustrates, cost-benefit matching is a major reason for financing software and services implementations. Costs are heaviest at the front end, while benefits do not fully accrue until the project is implemented. When the project is financed and structured accordingly, costs and benefits track much more closely.

*Financing your IT acquisitions turns up-front costs into affordable payments, matching cost outlays with expected benefits*

An integrated information technology solution will include hardware and software as well as the cost of deploying, managing, servicing and retiring it. Another factor that companies consider is that financing has the ability to accelerate the implementation of large and important projects.

Another facet of this benefit is doing the software or services implementation “the right way”—in other words, not scrimping because of a burdensome one-time payment.

## Conclusion

Businesses seeking to finance software and/or services commitments should consider several factors as they evaluate alternative financing providers.

Knowledge of and commitment to the information technology market are important. The more the financing provider knows about the information technology market, the better able it will be to understand client needs and add value when it comes to terms and structure. The provider should come to the table with innovative ideas that will benefit the borrower. Commitment can be measured by longevity and staying power through all market and economic conditions.

An ability to finance the total solution is key. Without it, a client may have to deal with individual financing sources for hardware, software and services and end up with multiple payment schedules and far more complexity than is necessary.

The provider should offer flexible payment terms. Most often, payments are structured on a monthly basis. However, industry or seasonal factors may mean that alternative schedules—e.g., quarterly or semiannual—would benefit the borrower. The financing provider should be open to negotiating payment and other terms to provide the borrower with the greatest possible flexibility.

Software and services form the largest and fastest-growing part of the information technology market. It is critical that companies making investments in their technologies understand the acquisition options open to them and partner with a financing provider best suited to meet their specific needs.

Financing software and/or services can conserve cash for other strategic business needs and investments more closely align project costs to anticipated benefit and help clients accelerate their project's cash flow break even point.

## About IBM Global Financing

The mission of IBM Global Financing is to enable the growth of IBM by facilitating client acquisition of IBM solutions (hardware, software and services) with the objective of delivering consistent returns on equity. IBM Global Financing serves commercial clients ranging from small businesses to more than 75 percent of the Fortune Global 100 list of companies and is the world's number one IT captive financier operating in 50 countries.

## For more information

To learn more about the software and services financing, please contact your IBM Global Financing representative or IBM Business Partner, or visit the following website at: **ibm.com**/financing

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