



Susan Middleton

Research Director, Technology Financing Strategies

Leveraging Effective Payment Solutions in the Move to Cloud-Based Services

April 2013

The IT market is transitioning to the 3rd Platform, and emerging IT delivery mechanisms such as cloud, virtualization, and mobility are becoming part of the new IT infrastructure. As a result, the 3rd Platform will create increased demand for financing and the key attributes that financing offers, such as increasing flexibility, establishing predictable budget cycles, and alleviating up-front costs associated with new initiatives. In the aggregate, these trends will impact how technology and services are financed as the landscape shifts to the pay-per-use model that cloud-based capacity on demand provides. As cloud computing becomes a leading trend going forward, companies will expect more financing options when adopting online and cloud services. With trusted partner relationships in place, online service providers' ability to offer flexible payment solutions becomes increasingly important.

The following questions were posed by Microsoft to Susan Middleton, research director for IDC's Technology Financing Strategies and Technology Valuation Services programs, on behalf of Microsoft's customers.

Q. What are the key trends in IT financing that have taken place in recent years?

A. The overall worldwide IT spending forecast is for growth of 5.5% for 2013, led by the BRIC region. In addition, the forecast for packaged software, on-premise and professional and/or consulting services shows an increase over 2012 levels with hardware on the decline. Packaged software grew by 6.4% and services by 3.9%, and these increases fueled software and services financing growth. We anticipate that future IT infrastructure buildout from public and private clouds will also be an important area of opportunity through 2016.

IDC forecasts that the IT financing market will reach \$140 billion this year and \$160 billion by 2016. Two of the fastest-growing segments are packaged software and services, which are forecast to reach \$51 billion and \$24.2 billion, respectively, in 2016. The mature regions still lead the demand for financing due to their sophisticated understanding of monetary policy and established legal frameworks. However, emerging markets continue to grow in sophistication, and forecasts underscore this trend. It is important to note that this increase is happening in spite of significant cash retention by Fortune 500 companies. Much of this growth can be attributed to customers embracing other important attributes of financing such as improving budget predictability and increasing flexibility.

Q. How do savvy CFOs use financing to manage the total acquisition cost of technology and IT investment returns?

- A. CFOs now influence entire organizations with respect to IT purchasing because technology investments often come down to ROI decisions. In general, CFO strategy is to leverage financing as a way to measure monthly, quarterly, or annual expenditures for IT assets; offer protection from unexpected risks; and manage business financial infrastructure. As long as current levels of market volatility continue, CFOs will favor flexible strategies that support business needs to increase productivity and profitability within a limited budget.

Financing is an important tool because enterprise IT wants the flexibility to make changes as the IT industry transitions to the 3rd Platform, which includes cloud computing. However, the discussion about the use of financing extends far beyond low interest rates. Savvy CFOs also rely on financing to bring a level of predictability to budgeting, provide capital resources for planned and unplanned events, and offer risk protection by reducing the need to use cash reserves to fund projects with future payoffs.

Q. What role does software financing play as companies adopt cloud and online services?

- A. As the market for on-premise software remains robust worldwide, cloud and online services have become a driving force in increasing business productivity and profitability. IDC research shows that public cloud services spending will reach almost \$100 billion in 2016, representing five times the growth of the IT industry overall. Given this momentum, we are seeing some trends for associated cloud technology financing.

There are many cloud financing models. For example, financing options allow companies to have monthly payments like a utility for online services that require an up-front payment. Another option is to convert pay-as-you-go models for cloud services to a predictable payment option or spread lump-sum deployment service costs over a period to mirror the investment ROI curve. Innovative funding programs for cloud services are in demand. In a 2011 study, we asked senior IT financing executives about their current programs. Their responses can be summarized best with a Baskin-Robbins analogy: Customers keep asking for different solutions (i.e., flavors), and financing firms are working to provide those options.

Q. As the economy recovers, which vertical markets are the most progressive in leveraging financing as a strategic management tool?

- A. Financing helps organizations manage through macroeconomic uncertainties with flexible structures that meet short-term and long-term needs. This principle applies across all vertical markets. However, key verticals with strong financing appetites are financial services, insurance, manufacturing, retail, and the public sector. These industries have a great understanding of the value of financing and a history of leveraging it to drive success. Many use financing as a means to preserve capital, manage budget cycles, and improve flexibility for new or unexpected investment requirements.

One of the strongest industries with significant technology financing penetration is the banking, financial services, and insurance sector. This is due to a more comprehensive understanding of its advantages coupled with a huge demand for data and security IT resources driven by the nature of its business, steep competition, and the quest for profitability. The manufacturing sector is another key adopter, primarily as a means to conserve capital for other expenses critical to operations. Other excellent candidates are oil and gas verticals and the public sector, especially in the United States where federal and state governments are adopting creative strategies to overcome budget shortfalls.

Q. As the economy continues to recover, how can financing help companies achieve their strategic objectives both now and in the future?

A. CFOs and IT managers are navigating the new territory driven by emerging IT models. They want to work with a trusted financing partner that can help them navigate these changes and share the risk. IDC data from the *2012 IT Leasing and Financing Survey* indicates several trends. Companies have a critical need for partners with the ability to deal with IT transformation and prove value by offering solutions with a high degree of transparency. They also want financing tools that are flexible and nonrestrictive and that enable them to make strategic investment decisions even with constrained budgets. Examples include the ability to change payment options midcontract, align payments with the budget cycle, or fund major new initiatives without a huge capital outlay. These viable financing solutions enable companies to make more technology investments that they wouldn't be able to otherwise, bringing greater business benefits and faster ROI and propelling migration to future technologies.

As companies begin evaluating workloads that will move from on-premise to cloud, they will require a new financing model that provides flexibility in both structure and payment terms. Financing services can be provided either by a third-party financing provider or by the IT provider itself. Our research indicates that the majority of the time, companies will select their existing financing provider because it understands their infrastructure and its unique requirements. But equally important is the ability of providers to deliver comprehensive funding solutions tailored for companies' budget needs and investment requirements. According to our survey findings, over 68% of respondents underscored the importance of having financing as a requirement in the selection of an IT provider. Operational efficiency, flexible upgrade options, and customized terms and conditions were among the most desirable criteria for financing. Innovation and flexibility are the key to technology financing today.

ABOUT THIS ANALYST

Susan Middleton is research director for IDC's Technology Financing Strategies and Technology Valuation Services programs. Ms. Middleton's areas of expertise are the trends in the IT leasing and financing markets, midrange and high-end server marketplace, and enterprise storage. For each of these technology segments, Ms. Middleton follows trends, technology changes, and market forces that impact life cycles and IT portfolios.

ABOUT THIS PUBLICATION

This publication was produced by IDC Go-to-Market Services. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC, unless specific vendor sponsorship is noted. IDC Go-to-Market Services makes IDC content available in a wide range of formats for distribution by various companies. A license to distribute IDC content does not imply endorsement of or opinion about the licensee.

COPYRIGHT AND RESTRICTIONS

Any IDC information or reference to IDC that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC. For permission requests, contact the GMS information line at 508-988-7610 or gms@idc.com. Translation and/or localization of this document requires an additional license from IDC.

For more information on IDC, visit www.idc.com. For more information on IDC GMS, visit www.idc.com/gms.

Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 www.idc.com