

Financing the Deal

Finance is playing an increasingly integral part of any managed technology solution. Yet too often the finance available is structured to meet the needs of the finance provider rather than the end-user.

Standard finance plans are too often offered on a piecemeal basis whereby the ultimate end-user has multiple agreements covering different elements of the same solution - for example hardware, software, installation, training, maintenance etc. Not only is this approach complex from a management perspective, but it precludes the channel from selling, and the end-user from fully utilising, the benefits offered through a 100% leasing solution.

Much of this is due to the fact that, traditionally, finance companies have struggled to come to grips with approaches that deal comprehensively with the complexities of technology funding, particularly when software, with its associated licensing issues, and other soft costs form a material part of the transaction chain.

Reap the Benefits

Peter Austin, General Manager, Siemens Financial Services recently joined the company to head up the company's indirect sales channel; namely working with comms resellers and distributors.

"Being a new recruit in a long-established business affords me the luxury of taking a step back and I would say that the business adage 'know your customer' has never been so important for the comms channel. However, understanding the challenges facing your customer and prospect base and then responding accordingly, is no longer just about core products or services. Nowadays it is also vital to take a sensitive, informed view of your customers' financial situation as early as possible in the sales process and offer appropriate, tailored asset finance options as part of your service. From what I have already witnessed in my new role, this approach is reaping huge dividends for those who are actively engaged in such a process.

"It is a fact that many companies, and midsized ones especially, are under substantial financial pressure, compared to even just three years ago. Siemens recently commissioned an in-depth study of the financial accounts of midsized



Peter Austin of Siemens Financial Services

companies and found that this group were making interest payments last year equivalent to 56% of their pre-tax profit! But at the same time, as your experience will no doubt corroborate, these very companies are exhibiting a strong appetite to invest in ICT to gain competitive edge. So they are faced with a dilemma - financially, they can barely afford to invest, but commercially they simply can't afford *not* to."

Changing a mindset

Point-of-sale lease finance is a simple and transparent way of offering cash-strapped companies the means to acquire essential ICT equipment in a cash-flow friendly manner. Austin however sees a paradox.

"Before outlining some of the main advantages that leasing brings to both reseller and end-customer, I should point out that Siemens believe that leasing is only used in around 25-30% of all deals in the ICT channel. Having 20 years

sales and management experience across a diverse range of business sectors, I find this baffling. The print and imaging technology market, for instance, finances nearly 90% of its sales. Something I want to understand is why a significant tranche of the channel is failing to use leasing at point-of-sale and as a result recognise the valuable benefits of today's high-tech, yet easy to use leasing options?

"The simple fact is that lease payments are more affordable for your customers than a cash purchase. This means that they can consider a higher specification, better fit, solution - in turn helping you drive more profitable sales. Furthermore, because leasing does not require any cash deposit or capital outlay from the customer, fewer objections are likely to be raised to the sale and this will certainly speed up the end-user decision making process. But one of the most underrated secondary benefits of lease finance is that your invoices will be paid by the finance provider on the same day as receipt of correctly completed documentation. This can ease your own cash-flow and dramatically reduce debtor days. Leasing dramatically reduces margin erosion as the need to discount is lessened by the fact that the end-user does not have to allocate significant capital upfront."

Benefits from all angles

Using asset finance helps resellers and distributors meet the demands of a solution-led sale. This well-documented market challenge, driven in part by the inexorable take-up of VoIP, is part of a wider shift in the European technology market-place - research organisation IDC states that today's average ICT solution is comprised of at least 60% software and associated soft costs. Finance providers such as Siemens have worked in close partnership with vendors to develop solutions that support this demand. It is now possible to offer your customers a true '360°' financial package - embracing maintenance, servicing, hardware and software. This significantly contributes to

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Peter Austin again, "E-business has also made its mark on the world of asset finance. On-line leasing and finance proposal systems, with sophisticated calculation tools and almost instantaneous approval, are removing much of the complication out of the leasing process for resellers. As an example, we conduct around 55% of our channel business via our extranet solution, ease-lease, and one of our customers, Rocom, conducts 100% of its business with us on-line through ease-lease. Extra sales-aid functions that can be built into these solutions, such as on-line prospecting tools, are helping resellers better manage their lease portfolios (such as spotting opportunities to add on, upgrade or site new equipment before an existing agreement has ended) and are really opening the doors to new sales opportunities."

The Future

Leasing drives sales, prevents margin erosion and can become an important incremental revenue stream. Austin is confident that innovation in leasing tools, as well as more education among the reseller and distributor sales population, will convince increasing numbers to recognise the wide-ranging benefits. Cash-flow friendly finance, including all-embracing packages for software-based solutions, will be especially important for the midsize sector, which faces acute financial pressure at the very time when they need to invest in ICT. Providing finance is no longer a simple transaction. Today's financiers have learnt to differentiate themselves by their customer service, market understanding and transparency - all of which contribute to making leasing an increasingly attractive option.

Perspectives

According to Stewart Good, European Programs Director, Key Equipment Finance, prospects look bright for European leasing. Leaseurope, the European Federation of Leasing Company Associations, estimates that new contracts worth just over €270 billion were concluded during 2005, making the European leasing market the largest in the world. This represents an increase of almost 14 per cent compared to 2004, demonstrating that the sector has, on average, outperformed the rest of the European economy.

"Given the manifest benefits of leasing, it is surprising that the market has historically lagged so far behind its US counterpart. While leasing is widely used in the US to acquire everything from cars to furniture, it has not traditionally been part of the European business psyche.

"To counter this, leasing companies have focused on educating the market on the benefits of this approach to asset finance. One of the biggest beneficiaries is the technology equipment sector, where the advantages are particularly compelling.



Stewart Good of Key Equipment Finance

"For example, leasing helps companies preserve working capital and conserve existing credit limits. Paying cash for equipment, or even making large down payments, depletes resources and may ultimately lead to businesses failing if sufficient reserves are not available to pay off creditors. In contrast, leasing enables customers to retain their cash by eliminating the need for down payments."

Flexibility is Key

Many leasing packages provide 100 per cent financing and even cover 'soft' costs like shipping, installation and training. In addition, there are no application fees. Instead, businesses are able to make affordable, flexible monthly payments while continuing to generate revenues.

Another key benefit is that leasing customers don't have to worry about obsolete equipment. Today technology is changing more rapidly than ever and systems that were once 'state-of-the art' quickly become outmoded.

Leasing gives IT managers the agility to adapt painlessly to these changes by matching lease terms to the expected life of the solutions. It also allows them to maximise productivity by always using the latest systems. In addition, many leasing packages enable users to replace or upgrade equipment easily.

There are also tax advantages. Some leases offer fully tax-deductible payments. Others provide the tax benefits of ownership (depreciation and interest expense deductions).

However, the most important benefit of leasing for the end-customer is the flexibility it provides. Leasing comes in many different varieties and can be tailored by providers to meet a customer's precise requirements.

Today, options exist that let users design a financing plan around the needs of their business, whether their priority is guaranteed ownership; the flexibility to return equipment; specified purchase options or varying monthly payments to match seasonal cash flow. Customers can even convert a recent purchase to a lease (if the equipment is less than 90 days old).

Bright Future

Good says that the technology equipment leasing market is beginning to take off in Europe. "This is a sign that equipment leasing companies and their vendor partners are making the benefits of leasing tangible to customers and successfully converting them to this way of doing business.

"If the trend is to continue, there are still obstacles to overcome. The US is much more homogenous than Europe in terms of both business culture and financial and regulatory frameworks. Leasing companies need to respect Europe's diversity by treating individual countries as distinct entities, tailoring products to specific market needs and establishing an expert local presence in all key territories.

"If they can do this and continue to advocate the benefits of technology equipment leasing strongly, there is no reason why the market in Europe should not emulate the success it has achieved in the US."

Customer Benefits of Leasing

Esher, Surrey-based Lease UK believes the following are some of the benefits customers can get from leasing.

Accelerate the return on investment: Each and every asset acquired for your business demands a pay-back. Deferring the acquisition costs by leasing new equipment, can provide you with an immediate return on that investment.

Preserve working capital – think revenue: Maintaining liquidity (i.e. available cash), is critical to the health of a business and is fully supported by the practise of leasing, which removes the need to tie up valuable cash resources in a rapidly depreciating asset; freeing up capital that may certainly be better invested, elsewhere in your business. Leasing allows you to treat the acquisition of new equipment as a revenue, rather than a capital expense.

Leasing is highly tax efficient: Under a leasing agreement the total amount of all rentals payable in each Tax year, can be fully off-set against Corporation Tax, over the life of the agreement. *Only* leasing enables you to write-off the full purchase price, against Tax, *linked* to the expected useful working life of the equipment - which may be as short as three years, for high-tech products.

If you compare this for tax purposes, to outright

purchase (which provides only 25% Writing Down Allowances each year, on a Reducing Balance basis) it takes seven years to write off 90% of the full purchase price, against Tax! (This is true, even if your business qualifies for a 40% First Year Allowance under the Government's current S.M.E Scheme).

It is perhaps not surprising then, that over 30% of all capital equipment purchased in the UK, is now leased.

Easy to upgrade: The valuable working life of many business assets can be hard to predict. Given the pace of technological advancements, any finance arrangement must be flexible enough to accommodate these developments. Our leasing companies therefore expect and anticipate the need to provide you with replacement or additional equipment and we will gladly quote the rental for a new agreement, which will automatically extinguish the liabilities under your existing arrangement.

Fixed costs: Unlike many other forms of finance, where interest rates fluctuate, leasing rentals are fixed for the duration of the agreement. This allows you to budget in complete confidence that costs will not escalate.

Another line of credit: Leasing facilities are dedicated to the equipment concerned and no other form of security is normally required. Leasing facilities will not affect current borrowing capabilities, leaving your existing sources of finance, conveniently undisturbed.

Technology Refresh Cycles

Recent research conducted by Siemens Financial Services on ICT replacement cycles found that these are shortest in the UK and Germany, and are predicted to shorten even further through to 2007. Not only is this technology turnover a problem for investors in ICT, but other research has also shown that financial pressure on medium-sized companies (50-250 employees) is increasing. This creates a problem for the Comms reseller who needs to encourage clients to invest in upgrades, but is fighting the customer's genuine difficulty in responsibly raising the capital to make such investments.

How long are current technology replacement cycles?

US	3.7 Years
France	3.7 Years
UK	3.4 Years
Germany	3.5 Years

Will IT replacement cycles shorten still further over the next five years?

US	38% Yes	62% No
France	25% Yes	75% No
UK	50% Yes	50% No
Germany	52% Yes	48% No

Reseller Benefits of Leasing Include:

Improve your profit deal by deal

With leasing you are not selling a cash price you are selling a rental, and if you can sell leasing effectively you learn how to use your lease rates to maximise your profits. Also, a customer is less likely to ask for a discount on £35 per week than they are for an £8,000 cash deal. A recent survey showed that the average discount was 45% for cash deals and only 14% for lease deals.

Increase sales

With leasing you are making your equipment **easier to buy** because you are providing the funds for your customers to purchase your equipment, so you will sell more. Add-ons become much easier, a £1000 additional piece of equipment would only be £1 per day extra on rental.

Overcome price and budget restrictions

How many deals are lost because you are too expensive? Selling £35 per week or £140 per month would be far more attractive to a customer than £8,000 up front, especially when your customer doesn't even need to see the £8,000 cash price.

If a customer only has a budget of £10,000 but wants a system for £20,000 what would you sell? Leasing is a revenue expenditure and therefore allows a customer to obtain the system they need and not what they have a budget for.

Increase repeat business from your existing customer base

Upgrading systems that have been leased is easy! Often you are able to give your customer a completely new system, but keeping the original rental the same. How attractive would this be for a customer to completely upgrade his system? A competitor who tries this will find it much more difficult to do, as it is far more difficult for them to get the necessary information on one of your customer's lease agreements due to your customer base protection that you have with Lease UK (not all leasing companies and brokers offer this).



Reseller Comment

The benefits of leasing are becoming more obvious as the pace of technology change accelerates. At SBL, we are finding that the adoption of leasing is moving down the organisation scale ladder and replacing outright purchase, as this enables companies to future-proof their systems and conserve working capital.

The key consideration when selling leasing is to introduce the lessor organisation as early as possible to build up a trusted relationship with the customer. Too often, leasing organisations are introduced at the end of the sales cycle which results in a confused and suspicious client.

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