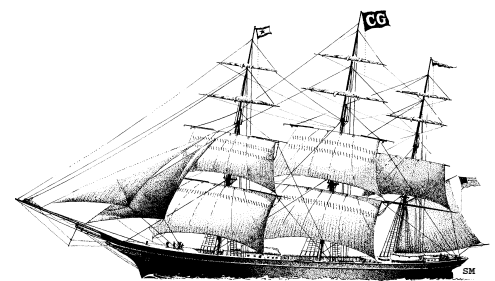


THE CLIPPER GROUP Navigator™



Navigating Information Technology Horizons™

Published Since 1993

June 25, 2002

The Last Link in the TCO Chain — IBM Global Financing Makes the Connection

Analyst: Joe De Natale

Management Summary

In the good old days, providing computer services was merely difficult. Time was the enemy, and IT personnel focused on getting the most work out of every processor. Then, as computers speeded up the pace of enterprises, businesses demanded more of their computer systems. As computers got easier to use, more uses for them were found. Networks increased the user base directly interested in computer operations, which ceased to be a segregated capability and became part of every department. And the networks got faster. New versions of products were introduced more frequently. Purchasing became an art.

Now, the difficulty is of a different magnitude. The dramatic gains in functionality and reductions in prices of new equipment have turned the old virtue of getting more use out of old equipment into a functional liability. The cherished capabilities of IT have lowered the cost of starting a business, so that there are now hundreds of products to evaluate where there used to be dozens, all promising to solve computing problems. At the same time, forecasting business needs is much harder. Mergers, acquisitions and significant partnering alliances turn straightforward business plans into murky, point-in-time probabilities.

Time is still the enemy. Its malignity is manifested these days in the lack of adequate time to make a decision and the need for rapid deployment after the purchase, which threatens to compromise adequate testing. **Budgetary constraints are driving asset consolidation, and the cost of any errors of haste, whether they be product choice or errors in implementation, will be pervasively felt.**

Buying isn't what it used to be. With all the diligence possible, today's best decision will be superceded tomorrow by a better option. Constraints in the enterprise business climate argue for minimal capital expenditures and a lean inventory of owned assets. Retiring these assets isn't what it used to be, either. Quite apart from business retrenching, as the functionality of equipment increases, less equipment is needed and more must be decommissioned. IT equipment contains environmental poisons and cannot simply be thrown away. Moreover, the corporate data resident on decommissioned machines must be obliterated. **These risks and obligations of ownership may more than counterbalance the benefits of owning an asset.** Leasing is increasingly popular. An enterprise must consider all the financing and leasing options available. Commercial financing organizations are out to make money "renting out money." Captive leasing companies first objective, by contrast, is to facilitate sales by creative payment structuring.

IBM Global Financing (IGF) has a wide range of solutions involving products from IBM and from other vendors. These solutions provide flexible ways to acquire, upgrade or dispose of IT hardware, software, services and network assets. For an explanation of the benefits, please read on.

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The Clipper Group, Inc. - Technology Acquisition Consultants ♦ Strategic Advisors

888 Worcester Street ♦ Suite 90 ♦ Wellesley, Massachusetts 02482 ♦ 781-235-0085 ♦ 781-235-5454 FAX

Visit Clipper at www.clipper.com ♦ Send comments to editor@clipper.com

Who is IBM Global Financing?

IBM Global Financing (IGF) is a wholly owned subsidiary of IBM, doing about \$40 billion dollars per year in financing originations. It provides financing to a wide range of IBM and non-IBM customers that are looking for an efficient and cost-effective way of acquiring and disposing of IT assets. For the enterprise customer, IGF goes beyond providing financing of traditional computer hardware assets, to offer terms for software and service contracts. This makes IGF a one-stop shopping center for acquisition of an enterprise's equipment and services needs.

IGF is a worldwide organization that operates in 42 countries in the Americas, European, and the Asian Pacific markets. **IGF maintains marketing, financing and asset recovery facilities throughout the globe. It supports customers who desire a flexible way to deal with part or all of its computer assets, whether IBM or other vendors manufacture them.¹ IGF's appeal is to those companies who prefer to spend their energies on using computing systems rather than owning them.**

IBM Global Financing Offerings

Customer Financing

IGF offers a three-tiered methodology, called **Total Solution Financing**, for enterprises who desire to acquire Information Technology products and services other than through internal financing means.

- **SuccessLease** is aimed at customers who employ fewer than 100 people. Loans or leases for up to \$100,000 can be arranged "in minutes", as IGF puts it. This program is administered by third party providers.
- **ValuePlan Lease** is a plan for mid-market enterprises, which are businesses with more than 100 employees, but less than 1,000. It provides financing opportunities at rates that are very competitive with financial institutions.
- **Large Enterprise IT Financing** is offered for those enterprises with more than 1,000 employees. Since these transactions are

usually complex (because of the nature of heterogeneous multi-vendor acquisitions), an IGF financing specialist is assigned to the customer.

Asset Recovery, Reuse and Disposal

IGF offers additional services, under the name of Global Asset Recovery Services, for companies faced with many challenges in acquiring equipment, disposing of surplus equipment or reducing the cost of replacement parts for computer equipment.

- **IBM's Certified Used Equipment Plan** addresses the issue of companies that would like to acquire good, used IBM total systems, upgrades to their installed system equipment, or merely parts. All systems, components and parts are brought up to IBM standards through refurbishing, and, if necessary, reconditioned with IBM certified parts. These systems are delivered to the customer with a 90-day guarantee. The customer can be assured that equipment acquired in this manner - whether servers, printers, PCs, displays, parts or communications devices - will meet the stringent quality assurance standards that are found in IBM's new equipment. These are offered to the customer for purchase or lease. Because of its worldwide presence and its large portfolio of computing equipment, IBM Global Financing periodically offers surplus equipment at "bargain basement" prices.
- A significant problem facing businesses today is what to do with their old unwanted equipment. **IBM's Asset Disposition and Support Services** provide a safe, legal way to dispose of equipment. If the equipment has re-use value, IBM will refurbish it and resell it in the secondary market with the customer receiving 70% of the selling price. IBM will also give the customer a flat rate buyout, if the customer prefers that. If the equipment, components or parts cannot be reused, there are stringent government standards in all countries on how to dispose of computing equipment. Enterprises can dispose of them only in accordance with EPA, state, and local laws, and must have a Certificate of Destruction to comply with

¹ Today 20% of the assets IGF finances are OEM.

the law.² IBM has worldwide disposal facilities, which follow the very stringent disposal requirements.

Software and Services

In addition to the above offerings, IGF finances software and services. Hardware, software and services can be wrapped up into one financial package, with full billing done on a predetermined, periodic basis. The customer has one invoice to be paid under an agreement that permits flexibility to extend or modify the terms and coverage as business situations dictate.

Consulting, systems integration, and/or Web hosting are some of the many professional services needed on many IT projects. With financing options, IGF allows its clients to bring quality skills into the enterprise for limited periods of time. These services perform complementary functions along with the enterprise's technical staff.

Business Benefits

Most of today's larger information technology acquisitions are accomplished via third-party financing, such as IBM Global Financing, rather than direct purchase. Enterprises have found it to be an effective and flexible means of acquiring software, equipment and services. The benefits accrue to the enterprise, the IT organization, and its users. On the business side, there is first the issue of the residual or market value of the equipment as time progresses. Whether the enterprise purchases the equipment outright or through traditional financing methods, the company has an asset that usually decreases in market value out of proportion to its book value. Upgrading the equipment during its useful business and technical life will likely narrow the gap but not eliminate it. The company will only realize the full benefits of the purchase if the equipment is held for a long period, which is usually in excess of 48 months.

On the other hand, if the company experiences sharp upturns or downturns in its

Alternative Financing Provides

- Timely access to new technology
- One-stop financing
- Operating leases, not capital expenditures
- Improved asset management

business, it may be constricted in its ability to replace purchased or leased equipment, or to dispose of it, without realizing sizable financial penalties. Ultimately, these problems not only affect the bottom line directly, but also can reduce employee productivity or create dissatisfied customers. This creates a need to reduce the financial exposure and yet still meet the current business requirements for information technology.

IBM Global Financing offers a variety of creative payment plans suited to the individual needs of the enterprise, giving it maximum flexibility at very competitive prices. Companies can free up the capital that would have to be used than if the company were to purchase its hardware assets. When software is wrapped up into an agreement, often this can be treated as an operating lease.

Conclusion

IBM brings to enterprises the facility to finance their computing needs through IBM Global Financing. The equipment need not be just from IBM; other vendors' equipment is available. IGF provides a financially competitive means for companies to bring on new or additional computing capacity in a timely fashion. But IGF does more than that - software and highly qualified professional services can also be acquired through this "one stop shopping" center. Their offerings provide clear alternatives to relying on capitalization to pay for the IT needs of an enterprise.



² Be aware that each component and part has a part number associated with it, so that tracking them from owner to owner is an easy task. If you are the last owner, the onus is on you to have proof of proper disposal.

About The Clipper Group, Inc.

The Clipper Group, Inc., is an independent consulting firm specializing in acquisition decisions and strategic advice regarding complex, enterprise-class information technologies. Our team of industry professionals averages more than 25 years of real-world experience. A team of staff consultants augments our capabilities, with significant experience across a broad spectrum of applications and environments.

- **The Clipper Group can be reached at 781-235-0085 and found on the web at www.clipper.com.**

About the Author

Joseph S. De Natale is Director of Enterprise Systems Planning with The Clipper Group.

He brings more than forty years of experience in the data processing field with particular emphasis on systems management and application development on large-scale mainframes. Prior to joining The Clipper Group shortly after its founding, Mr. De Natale was an independent consultant, first with Ropes and Gray, Attorneys at Law, where he provided expert opinion on data center management for civil cases. He later joined International Data Corporation (IDC), as a senior consultant and analyst, where he covered banking systems, data center management software, and large systems computers and storage. Formerly, Mr. De Natale spent eleven years at Citicorp Information Resources (CIR) as CIO of the Boston Data Center, where he managed the support of over 200 outsourcing contracts for thrift institutions. Earlier, he was MIS Director for the Lahey Clinic, and prior to that was a Project Manager for Computer Sciences Corporation, where he was involved with NASA and FAA outsourcing and applications contracts. Previously he was Director of AVCO Computer Services for fourteen years. At AVCO, in addition to being responsible for all internal data processing, he initiated the marketing and sales of computer services to commercial clients. Mr. De Natale began his career with Pratt and Whitney Aircraft as a programmer of nuclear physics and business applications. During his career, Mr. De Natale was involved in the evaluation, installation and operation of large-scale mainframe systems and for the development of commercial, scientific and engineering application systems. He has also had successful experience in the marketing and operation of outsourcing contracts. Mr. De Natale earned a Bachelor's and Master's degree in Mathematics from Boston College. During his period at AVCO, he was selected by AVCO to attend the Northeastern University Management Development program, a co-op program covering an MBA curriculum.

- **Reach Joe De Natale via e-mail at denatale@clipper.com or at 781-235-0085 Ext. 24.**

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