Who Pays for This?
Strategies for IT Financing

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Paying for IT

Traditional capital allocation hurdles are transitioning

• Software subscriptions are more prevalent
• Equipment manufacturers are unbundling software/hardware
• Manufacturers and 3rd parties managing more risk for usage based billing
• On premises hosting is more flexible
• Cloud consumption economics are driving most new workloads
Benefits of paying over time

Costs aligned with actual use

- Capital allocations are lumpy and forecasting/planning is critical to budget cycles
- Paying over time helps create recurring expense budgeting, mitigating fully depreciated asset trap (you’re stuck with something just because it’s paid for)
- Usage based models even with a premium can be cheaper with flexibility
- Usage models mitigate stranded costs or waste
- Paying over time allows for easier incremental spend
- Financing costs are low, and can lock that in over time
Traditional Tools

Operating or Capital Leases and Subscription programs

- Accounting rules around leases have been updated FASB 13 now ASC 842
  - Addresses many imbedded lease type arrangements
  - On premises assets focus on right to direct use and economic benefit

- Many 3rd parties can now “buy and hold” licenses and rent them to an End User
  - Allows leasing companies to offer custom licensing use models
  - Helps transition from perpetual model to operating SaaS model
Usage based models – best practices

Limit risk you’re asking the provider to manage
• Identify billing metric based on how you run your operation
• No commitment = more risk = price premium is high
• Commit where reasonable, and pay the premium for only the variable
• Technology risk (data reduction/dedupe) should be considered

OEM programs have to be rigid – consider 3rd parties
• Custom programs can hit all the value marks
• Digest existing equipment
• More flexibility and inclusive
Usage – best practices continued

Watch the exit strategy

• Several programs require “extensions” of entire contract for modest add-ons
• Typical “last 12 months” add-on may require renegotiate is industry norm
• Identify up front the cost to migrate/switch if needed

Accounting considerations

• On premises deals you may lose the ability to direct the usage of any asset
• Contracts should be for capacity not for servers or storage arrays
OEMs – why ELAs are paramount

Enterprise License Agreements - ELAs

• Revenue recognition accounting rules are very rigid – ELAs can be more creative
• ELAs trade commitment for reduced pricing, and accelerate revenue recognition
• Ask how OEM does revenue recognition – if annual, more flexibility options
• ELAs keep competitors out and help seed new products as free trials included
• Some have scale down and convertible options at the end if requested

How you should take advantage

• Included access to items/skus you may not normally get approved to buy
• Term ELA may be considered prepaid expense – many times nothing is owned at the end
OEMs – Subscription vs Perpetual

Valuation

• Many newer software vendors find the subscription “backlog” is highly valued
• Perpetual growth is a function of market penetration – hard for mature products

Transitioning from Perpetual to Subscription

• OEMs struggle with revenue recognition and sales compensation
• Customers need to identify their real breakeven price point
  • Is breakpoint longer than book depreciation, or longer than expected use?
  • Really look at “overbuying” cost vs actual use subscription premium
• TCO for perpetual needs to have all hidden costs captured to compare
Financing – IT enablement

Get more with less

• Simple way to start more comprehensive projects sooner
• Some ELAs can imbed success resources – with plan identified up front
• Operating expense lets you increment/grow in smaller bites – mitigating risk

New capabilities presented

• Similar to cloud on/off, subscriptions and usage based expense enable options
• Ability to start off at much smaller increments – enabling transitions now