New Needs, New Models:
How growth and innovation are changing the way Asia Pacific organisations acquire technology

Industry Insight Paper

CISCO Capital

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Executive Summary

Two key trends are converging to change the way Asia Pacific organisations approach information and communications technology (ICT) procurement. These are the recent increase in economic uncertainty, which has seen businesses look for efficiencies across their operations while continuing to find growth; and the proliferation of new technology devices and solutions, from smartphones to video and cloud computing.

To understand how these trends are impacting technology procurement, in 2012 Cisco Capital commissioned Forrester Consulting, an independent global research and advisory firm, to conduct a survey of 330 key decision makers at organisations in Australia, China and India. The published results of this survey, 'Financing in the Current Macro Economic Environment', are the source for all charts in this industry insight paper.

Key findings include:

- Uncertain economy. As global economic uncertainty continues, organisations are focused on reducing costs, growing revenue and increasing agility.
- Rapid technology change. Nearly two-thirds of respondents said that the rate of technology change was of critical or high concern, and this was leading their organisations to consider a variety of funding options as they strive to keep pace with developments in ICT.
- CFO buy-in is crucial. With technology now seen as a key contributor to business growth and success, organisations are evaluating funding options and involving CFOs early in the ICT acquisition process. Further, most respondents said that the technology purchase decision-making process is easier if financing is available.
- More need for external financing. The proliferation of end-user devices; unified communications; and video and web conferencing are driving the future need for financing. Around one-third of organisations surveyed in India and China expect to increase their levels of external financing.
- Funding shifts from banks to vendors. Around one-quarter of organisations surveyed said that it was harder to source funding from domestic and overseas banks than six months earlier. Seventy percent said that vendor financing ('captive lessor financing') was easier or no harder to source than six months earlier.

In addition to the research findings, this industry insight paper provides recommendations for taking a more strategic approach to ICT acquisition and for choosing the right financing provider.

Competing in Today's Economy

The global economy was turbulent in 2012 as concerns over sovereign debt in Europe and the weak financial sector weighed down business and consumer sentiment. Global GDP growth fell from 3.9 percent in 2011 to 3.2 percent, which was less than two-thirds of the 5.1 percent growth seen in 2010.[1]

Despite fragile global economic conditions, Asia Pacific remained resilient. At the time of this paper, the World Bank expected the East Asia and Pacific region to grow at 7.8 percent in 2013, and to represent around 40 percent of the world's GDP.[2]

Against this backdrop, 58 percent of all survey respondents expect a challenging year ahead. Australian respondents were most concerned about reducing costs and keeping pace with their customers' increasing expectations. This differed from China, where respondents were generally more optimistic, and the top two priorities were increasing profit margin and growing revenue. In India, organisations were most focused on reducing costs and growing revenue.

Around two-thirds of all respondents said that the rate of technology change was of high or critical concern, with Chinese respondents most concerned about the potential impact on their businesses. Heads of procurement and finance were particularly focused on this challenge.

Maximising working capital was also cited as a key focus, particularly for Chinese and Indian organisations. This reflects both the weakness of the global economy and the fact that many Asia Pacific organisations continue to grow strongly, and are looking to use capital as efficiently as possible as they access the equipment and other resources they need.

Figure 1: **Which business and financial challenges are of high or critical concern for your organisation in 2013?**

	All	Australia	China	India
Reducing costs	78%	71%	74%	86%
Growing revenue	72%	63%	70%	82%
Increasing profit margin	72%	54%	81%	78%
Meeting growing customer expectations	67%	67%	67%	67%
The rate of technology change	66%	59%	73%	64%

1 *APEC Economic Trends Analysis,* Asia-Pacific Economic Cooperation, April 2013.
2 *East Asia and Pacific Economic Update, April 2013 – A Fine Balance,* The World Bank, 2013.

The Proliferation of New Technologies

Technologies that were uncommon or didn't exist a decade ago are now vital to nearly every aspect of business. The shift towards enterprise mobility, bring your own device (BYOD) and cloud computing, and the use of social media and big data are reshaping organisations' priorities and processes, and changing business models.

Mobile devices including tablets and smartphones are enabling employees to be more productive and connect with customers in new ways. Forrester predicts worldwide IT spending will increase by 5.4 percent in 2013 and by 6.7 percent in 2014, with growth driven by strong demand for new mobile, cloud and 'smart' technologies.[3]

According to Cisco's 2012 Visual Networking Index Forecast, overall global mobile data traffic is expected to grow to 10.8 exabytes per month by 2016, an 18-fold increase over 2011. By 2016, two-thirds of the world's mobile data traffic will be video.

To manage this huge growth in technology devices and data traffic, organisations are investing in high-performance networks to ensure the security, management and reliability of their connected services and endpoints.

An increasingly complex ICT environment is also putting pressure on the data center. Many users are finding that their traditional enterprise infrastructure is not able to scale effectively and economically.

Our survey results reflect these developments, with respondents in all three countries citing the proliferation of end-user devices; unified communications; and video and web conferencing as the top three technology trends that will drive their future need for financing.

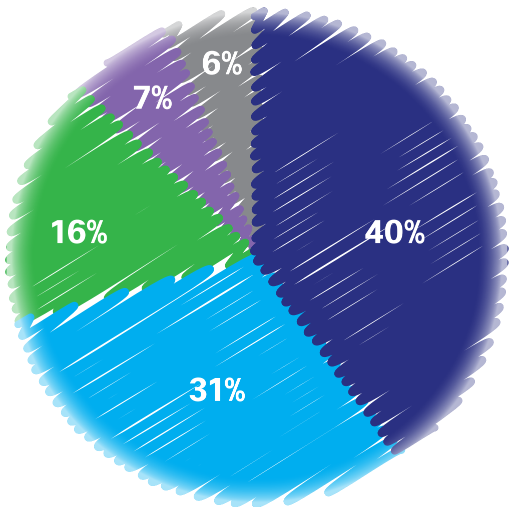


Figure 2:
Which technology trend will drive the greatest need for financing?

- Proliferation of end-user devices
- Unified communications, voice and video communications
- Online video, web conferencing and telepresence
- Big data and deep analytics
- Subscription-based IT services (such as software-as-a-service)

Base: 289 organisations (rank 1 of top 5 ranks).

[3] *Global Tech Market Outlook 2013 To 2014,* Forrester Research Inc., January 2013.

Changes in Decision-Making Patterns

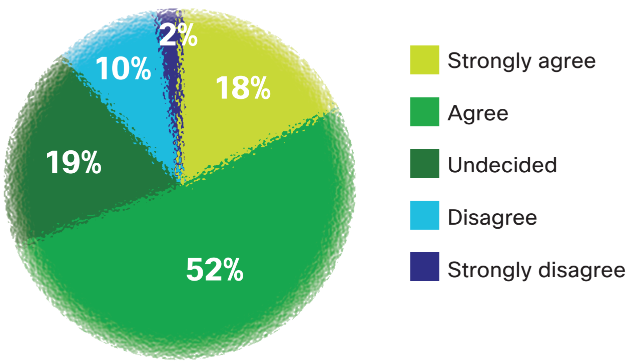
Today's economic and technology trends are also changing the way organisations evaluate and acquire ICT products and services. With technology now seen as a key contributor to business growth and success, ICT-procurement decisions are viewed as crucial. In turn, CFOs are playing a more important role than ever in ICT acquisition.

More than half of all respondents (58 percent) said that they evaluate funding options during the first three stages of the ICT procurement process (RFP/proposal stage, solution evaluation stage and pricing/quoting stage).

Of organisations using external financing, 67 percent said that having a financing framework in place helped them secure internal approval for future ICT purchases, and 66 percent said that the technology purchase decision-making process was easier if financing was available.

Additionally, just over two-thirds (68 percent) of all organisations agreed that easier access to external funds allowed them to think beyond their immediate needs and to acquire technology with a longer-term, strategic mindset.

Figure 3:
Once we put a financing framework in place for ICT purchases, the future purchase approval process is easier.



The CFO's role in technology acquisition

Unstable economic conditions and a general tightening of capital and operating budgets mean it's increasingly important for organisations to secure buy-in from the CFO or finance leader early in the ICT acquisition process.

This is reflected in our research, which shows that CFOs are equally as concerned about the rate of technology change as IT leaders – and more so in China, where over three-quarters of CFOs ranked technology advancement as a high or critical concern, compared to 50 percent of IT leaders.

It's also clear that the IT department no longer has complete control over an organisation's technology acquisition process. For instance, a recent Forrester survey on the 'renegade technology buyer' found that business leaders in North America and Europe want to spend more money on technology than IT already does, and they view technology decisions as too important to be left to the IT department alone.[4]

[4] *Tracking The Renegade Technology Buyer: Understanding The What And Why Of Business Executives' Spending On Technology,* Forrester Research, Inc., May 2013.

New Procurement Strategies

As organisations strive to keep pace with technology, they are increasingly considering external financing to acquire hardware, software and services.

According to a leading analyst, the majority of respondents in a 2012 U.S. study said that the main reasons they lease or finance equipment are protection against technology obsolescence and flexible upgrade options.

In addition to the need to keep up with technology change, our research suggests that companies are looking to financing to conserve cash given current mixed economic conditions.

Organisations set to increase external financing

Over the next 12 months, more respondents expect to increase than decrease their levels of external financing. Around one-third of organisations in India and China that are already using financing plan to increase external financing for servers, storage and network equipment.

Almost one-third of Chinese and Indian organisations also expect to increase their levels of external financing for communication equipment, and 34 percent of Indian organisations will increase financing for software.

Hardware driving the need for financing

The top ICT purchases that organisations used financing for in 2011 and 2012 were servers, storage and network equipment. This reflects organisations' focus on investing in their data centers to better support existing and new technologies.

***Figure 4:* Of the ICT products and services procured in 2011 and 2012, which were financed through an external financing or leasing provider?**

	All	Australia	China	India
Server hardware	56%	57%	60%	52%
Storage hardware	54%	58%	58%	48%
Network equipment	47%	38%	58%	42%
Communication equipment *(e.g. unified communications)*	41%	36%	54%	31%
Software	25%	22%	19%	33%
IT services *(e.g. design, consulting, deployment, support and maintenance)*	16%	11%	20%	16%

Where are organisations sourcing funds?

While most organisations across all three countries still primarily use internal funds for ICT acquisitions, vendor financing is an increasingly important source of capital.

In Australia, external financing from an IT vendor was the second most popular option for organisations already using financing, with mid-market organisations in particular preferring this option.

In India, large enterprises that are already using financing sourced more funding from vendor financiers than from domestic banks; however, small and medium organisations preferred domestic banks, possibly due to their ongoing relationships with those institutions.

After internal funds, Chinese organisations already using financing generally relied on domestic banks – although as many multinationals favoured vendor financing as domestic banks (13 percent each).

Availability of funding

Following the global financial crisis, many banks in a number of markets around the world tightened their lending criteria, particularly for small to medium-sized companies, and some Asia Pacific businesses are continuing to feel the squeeze.

Around one-quarter of organisations surveyed said that it was more difficult to source funding from domestic and overseas banks than it had been six months ago, whereas 70 percent of organisations said that captive lessor financing (vendor financing) was easier or no more difficult to source. The ease of access to financing from vendors increased more than any other source during this period.

Who are decision makers listening to?

The majority of surveyed organisations in India (74 percent) and China (71 percent) indicated that they are more likely to choose a technology vendor if the vendor also provides financing. This was less important for Australian organisations, reflecting their higher propensity to use internal funds.

When it comes to researching financing options, almost one-third of respondents rely on vendor salespeople as their top source of information, while 21 percent rely most on peer recommendations and 17 percent rely on their IT reseller or solution provider.

These results show that organisations prefer technology vendors that can also provide competitive financing, and they trust vendors more than peers when it comes to researching and deciding on a financing solution.

Of the organisations that use external financing, more than half prefer to deal with both channel partners and a technology vendor, while 35 percent prefer to deal directly with a technology vendor.

A More Strategic and Flexible Approach to ICT Procurement

Perceptions about financing

According to survey respondents, financing ICT-related equipment and services can offer a number of advantages over outright purchase, including lower upfront costs, better end-of-term options and flexibility in the face of technology obsolescence. It is also a useful tool for maximising working capital – a key business objective for many of the organisations we spoke to.

We also asked respondents how they thought vendor financing compared to bank financing. They cited a number of advantages – vendor financing, including:

- less documentation and faster document processing
- simplified credit review procedures
- flexible interest rates and terms and conditions
- greater return on investment
- better understanding of technology and business needs on the part of the vendor financier

New technologies are changing perspectives and priorities

While many organisations routinely use financing to procure office equipment, company vehicles and office space, they have historically used financing less for ICT equipment. However, our research suggests that constantly evolving ICT strategies and the need for flexibility in budgeting is changing the way organisations view the ICT financing decision.

The traditional CapEx budgeting process is changing as the availability of cloud and managed services models forces organisations to re-examine which ICT equipment to procure and how to procure it. Financing allows organisations to invest in the technology they need for competitive advantage, while freeing up cash for more strategic investments in other areas of their businesses. The increasing use of external financing for ICT equipment may also reflect organisations' efforts to increase return on assets (ROA) and optimise other financial ratios.

Choosing the Right Financing Solution

The way organisations fund their technology investment can have a significant impact on the value the technology delivers over its lifetime.

Vendor financing can provide a number of advantages over financing from banks and other providers. For example, the ability to finance a total solution means costs such as equipment, maintenance, software and services can be combined under one consolidated payment schedule.

Vendor financiers generally have a deeper understanding of an organisation's business and technology requirements, and can be more flexible with residual investment, interest rates, repayment schedules and end-of-lease options.

In addition, vendor financiers can take on the lifecycle management of equipment, helping an organisation manage related costs, address business demands and avoid technology obsolescence through flexible upgrade options and simplified equipment return and disposal.

Choosing the right vendor financing provider

Factors for organisations to consider when assessing vendor financing options include:

- Can I finance multi-vendor equipment?
- Can I finance the total solution including hardware, software and services?
- Can the financing solution be tailored to my needs?
- Does the financier have a good understanding of the equipment I am financing?
- Does the financier offer lifecycle management?
- Are there flexible repayment options?
- Does the financier offer off-balance sheet financing and take residual positions in the equipment being financed?

Conclusions

In a fast-changing and often challenging business environment, organisations cannot always predict their future IT needs. However, they do need to be able to seize new business opportunities as they arise.

To become more flexible and agile, Asia Pacific organisations are making purchasing decisions differently and looking at alternative ways to acquire ICT equipment. Many organisations are expected to increase their levels of external financing over the next 12 months. This appetite for financing is being driven by the proliferation of end-user devices, and the rapidly growing adoption of unified communications, and video- and web- conferencing technologies.

Getting the CFO on board early in the decision-making process is more crucial than ever, and having a financing framework in place can help IT departments and other internal functional stakeholders secure approval for future ICT purchases.

While organisations will continue to use cash for some ICT acquisitions, external financing and vendor financing in particular is becoming an important alternative for organisations seeking to keep pace with technology, stay ahead of competitors, and support the evolving needs of employees and customers.

Find Out More

To find out more, please visit

www.ciscocapital.com/apjc or

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