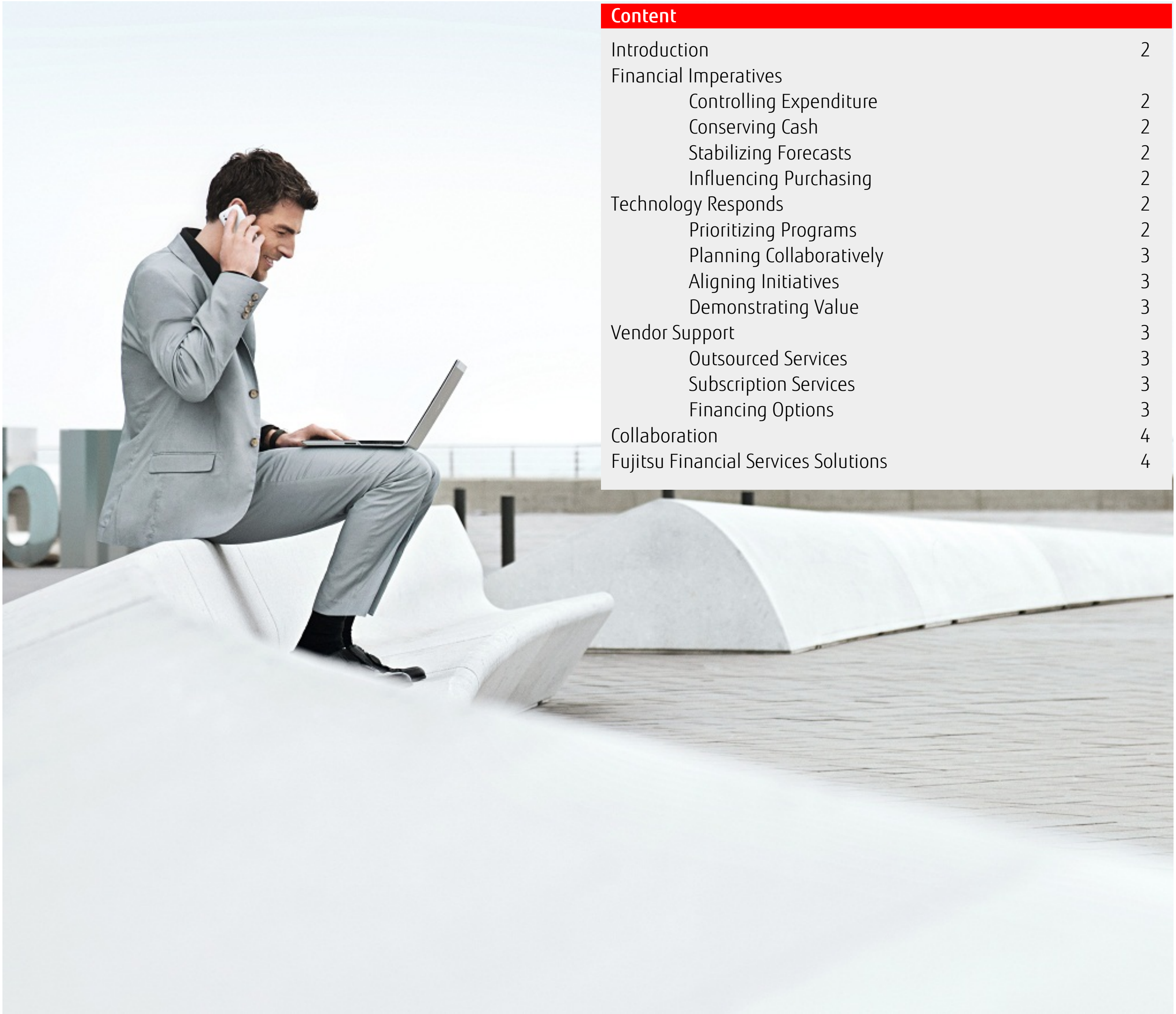
White Paper
FUJITSU Financial Services
Balancing Technology Strategies with Financial Goals

Companies need to use technology to stimulate growth, boost productivity and deliver efficiencies but current pressure is to do more and spend less. This paper investigates these challenges and how financing from technology vendors helps.



Content

Introduction

With few exceptions, most economies around the world are finding today's turbulent economic climate something of a challenge. From a corporate perspective, most of us are very familiar with the consequences - credit constraints, depressed demand, and pricing pressure from competitors fighting for market share.

For the CFO and the finance team, this means the necessary imposition of more controls over all forms of corporate expenditure. For CIOs and their teams, this typically means doing more with less. And for technology vendors, this means being more creative with their solutions while offering more flexibility in how those solutions can be financed.

Financial Imperatives

The economic environment is affecting different countries and different industries in very different ways. But for European CFOs, there are four activities which seem to be increasingly important, irrespective of geography or sector.

Controlling Expenditure

According to Gartner's forecasts, global spend on IT is expected to grow slightly in 2012, but with some modest improvement over the following three years. For Western Europe, Gartner is more cautious, forecasting a decline in growth to a negative fraction of one per cent in 2012. So as expected, budget constraints will continue to be used to restrain most forms of expenditure over the coming period.

Conserving Cash

In recent months, there have been several reports of a significant increase in the amount of cash and cash equivalents on corporate balance sheets. Some of this can be attributed to US-based multi-nationals avoiding the burden of paying tax overseas and also at home. But mostly it's down to anxiety about future market conditions.

In a recent study by the CFA Institute, almost two thirds of their EMEA-based members said that any 'surplus' cash should be retained for either appropriate investment opportunities, or to 'self-fund' the business in the light of the uncertain economic environment.

Stabilizing Forecasts

Probably the longest-running survey of CFO opinion is managed by US-based Duke University and Tilburg University in the Netherlands. Each quarter it asks its sample of interviewees a number of questions, one of which is about the top three internal concerns for their company. For the last five quarters their 'ability to forecast results' has been consistently in the overall top three concerns.

For quoted companies, this should be perfectly understandable. Investment analysts punish results which are out of sync with their forecasts, and analysts' forecasts rely heavily on inputs from the CFO. For other companies, forecasts are still critically important as they help inform decision-making. For many businesses with run-rate revenues, forecasting the top line is a lot easier than those with less predictable revenue streams. But for all companies, greater certainty of their costs is achievable when expenditure is smoothed via contractual structures.

Influencing Purchasing

One of the direct consequences of these trends has been an increased involvement by the finance team in many purchasing decisions. While they have always been closely involved in planning and controlling budgets, a recent study by CFO Magazine found that finance teams are now active in nearly all aspects of purchasing, and especially where purchases or investments:

- Are likely to materially affect the way in which the organization's business is conducted;
- Are over a specific financial threshold [and evidence elsewhere tells us that these 'sign off' thresholds are getting smaller];
- Are likely to have an impact across functional boundaries, and
- Are likely to be capitalized rather than expensed.

Generally, the finance team seems to be most involved in the purchasing process for three types of product or service

- Professional services,
- Business services, and
- Information technology.

And this involvement usually means collaborating with business management in:

- Developing and reviewing functional requirements,
- Speaking with and evaluating prospective suppliers, and
- Preparing and reviewing financial justification analysis.

Technology Responds

With a focus on these four financial levers:

- Controlling expenditure via constrained budgets,
- Conserving cash,
- Building more robust forecasts, and
- Increasing involvement in all aspects of the purchasing process,

the finance team's activities are having an impact on all aspects of the business, and especially on the CIO and the IT department.

The ways in which CIOs are responding to these initiatives are surprisingly upbeat. Having experienced a number of highs and lows over the past ten years or so, the IT function is now much better equipped to mange this need to do more with less.

Prioritizing Programs

Because of continuing economic uncertainty, and the increased pressure on CFOs to control expenditure, we might expect CIOs to be focusing exclusively on cost cutting programs right now. But we would be wrong. According to the latest Annual CIO Survey from Gartner, five of the top ten business strategies being tackled by CIOs relate to revenues and customers.

Increasing enterprise growth and attracting and retaining new customer are at the top of the list. Further down are strategies for creating new products and services, improving marketing and sales effectiveness, and expanding into new markets and geographies.

Of course, there are also important programs relating to productivity and efficiency in the Gartner Survey's top ten, but it's quite a refreshing surprise to see how clearly top line growth is so dominant.

Planning Collaboratively

The trick was always to make sure that planning for the business and planning for technology were seen as connected processes, and most organizations now do this rather well. But these days, it has to be a little bit smarter. As it's necessary to do more with less in budgetary terms, there are three tactical ploys which can secure additional resources.

- First, there are nearly always additional operational efficiencies available from existing systems. These efficiencies can often be coupled with the on-going price deflation of most commodity or routine products. With care, savings made in this way can be used to help cross-subsidize adjacent projects.

- If that's not possible, then working closely with tech-friendly staff in the business can reap rewards. Supporting initiatives which are of specific benefit to a business unit may help them secure the budget they need for a project which might otherwise have been funded by the IT department. Overt acknowledgement of the drive to meet clear business goals is nearly always more successful in securing funding than for the IT department trying to sell its own ideas to the business.

- The third tactic is to aim for standardization where at all possible. Every business unit believes that it has unique issues which can only be solved by unique solutions. In reality, most operational activities have many more similarities than differences. Dispensing with the added complexity of bespoke solutions reduces costs, helps the IT department work more efficiently, and frees up capacity for projects which could create greater value.

Aligning Initiatives

Sometimes, though, business units go 'rogue' and bypass the IT function to acquire their own hardware, software and services. Shadow IT can create all manner of problems - security risks, disconnected processes, data loss, and so on. But most of us now realize that with increasing IT literacy, it is inevitable that business units will initiate projects which in the past would have almost certainly remained inside the IT department.

Perhaps the best response is to get proactive, providing advice that enables the safe, efficient and effective deployment of shadow IT. Taking on a constructive role, ensuring that everyone is aligned with the overall technology plan, is the best solution.

Demonstrating Value

So, let's assume that the IT department is working on its own business priorities, and that these are closely aligned with the organization's goals. Let's also assume that plans are being built which fully utilize the capacity available to the IT department, while leveraging the funding capabilities of individual business units. We must then make sure that our investment requests demonstrate the value we can create for the organization.

This means it's important to fully understand the organization's approach to evaluating competing funding requests. Usually, this entails separating costs and benefits into those which are hard, firm and soft. In particular, failing to isolate hard benefits which can genuinely generate monetary gain will leave us open to the suspicion that our business case is faulty. The finance team knows better than most just how easy it is to manipulate numbers, and their willingness to support us will diminish if we don't get the numbers right.

Vendor Support

Most suppliers of information technology recognize the austere nature of the current business environment, and they understand the size of the effort needed to do more with less. Fortunately, the support available from some vendors doesn't just mean how a technology solution is configured; it also means how the whole package is financed.

There is a wide range of financial structures designed to complement the different characteristics of different technologies. In particular, there is a broad array of outsourcing arrangements, a variety of different services which can be sourced via a subscription model, and then there is the infinite flexibility offered by lease finance.

Outsourced Services

In a joint study with FEI [Financial Executives International], Gartner explained that during tough economic times, many organizations turn to outsourcing technologies and business processes to reduce costs, improve efficiencies, and possibly reduce headcount.

However, many organizations fail to appreciate the scale of outsourced services already woven into their various technology platforms. That's because this type of expenditure is often highly fragmented, populating multiple costs centres, and cutting across functional silos. Some estimate that around thirty per cent of total IT spend goes on external services. This can go from recruitment to contracting to consulting, and on to systems integration, application development and help desk support.

Most vendors understand the importance of outsourced services. They appreciate that their expertise and resources can often be leveraged in a much more cost efficient way for their customers.

Subscription Services

There are the several variations of managed 'subscription services'. This is where you pay for what you use. As such, costs are generally more predictable; they're usually connected to some type of structured variable like usage or seats; and they're nearly always expensed rather than capitalized.

For example, the need for additional server or storage capacity can be driven by all manner of business need, and at times demand can be irregular, resulting in difficult-to-predict peaks and troughs. Where it meets a need, some vendors can offer services which are structured to accommodate a base level requirement, and then flexed with incremental buffer capacity which is only charged for when needed.

Financing Options

There is also a full suite of lease finance options. The two major accounting standards setting bodies are still deliberating over the next version of the rules which govern leasing. In the meantime, most technology leases are still recorded as off balance sheet operating leases. This means that they are expensed rather than capitalized.

There are many ways of structuring leases. At times the payment profile will be flat throughout the term of the lease, but on occasion they can move in increasing or decreasing steps if that fits a need.

The overall length of the contract can also vary, although typically they are set-up to last between three and five years. Sometimes, leases can include all manner of installation costs, a combination of existing and upgraded hardware, and maybe software licenses and certain services.

Collaboration

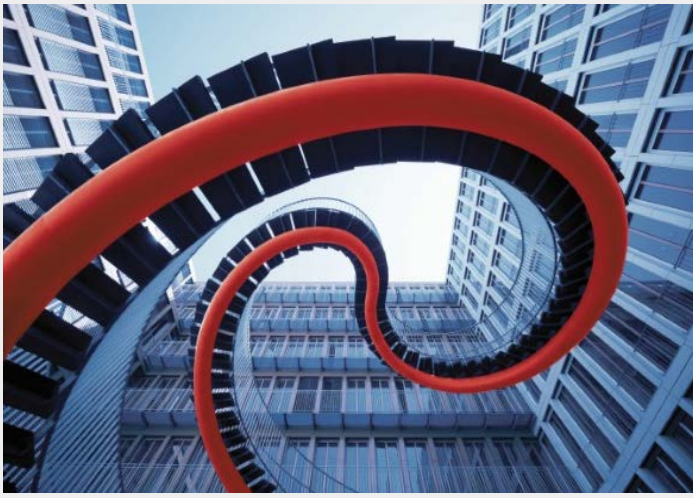
Adapting to the pressures of uncertainty means that everyone involved in the development and delivery of technology solutions has to flex their offer in some way. That may be the technology itself, but increasingly, it's also about the ways in which technology can be sourced and financed.

Working in close collaboration with a carefully selected vendor is the best way of building the creativity and flexibility required to meet the challenges of today's economic turbulence. It's also necessary to recognize that technology and financing decisions are now inextricably entwined. So this need for collaboration has to extend deeply inside the organization, with the finance team and their colleagues in IT working in close harmony right from the start.

Fujitsu Financial Services Solutions

Financing is the key component of your IT investment decision!

Fujitsu Financial Services offers a complete portfolio of financial solutions enabling the planning, transitioning, acquiring, managing, and retiring of your dynamic IT infrastructure. Our strong global presence allows us to provide financial solutions in all key international markets through our presence in over 50 countries. We cooperate with select leading global IT financing partners to offer custom solutions based on customer, local, and regional requirements.



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