

Ron Arrington, President, CIT Vendor Finance

## The Benefits of Leasing Technology in a Market Downturn

### Q: What is vendor financing?

A: **Vendor financing**, in the simplest of terms, describes financing programs developed for manufacturers, resellers, and distributors, which enable their customers the ability to acquire equipment and software today and pay for these items over a period of time.

### Q: Can you provide us an update on the state of your business?

A: We continue to focus on our core markets and providing our customers the very best service. We are committed to working with our vendor partners and the small- to medium-sized businesses to which they sell as they work through this economic downturn. We continue to enhance our servicing capabilities and provide our vendor partners tools they can use to help them stay ahead in the marketplace, positioning them to capitalize on their competitive advantages and benefit from the opportunities arising out the recovery.

### Q: Can you explain why vendor financing has become increasingly popular in the current economic downturn?

A: As with most industries, the downturn has created a more competitive and stressful economic environment for equipment manufacturers who are seeking to maximize sales at a time when their customers are watching every dollar. CIT Vendor Finance enables manufacturers, as well as their dealers or resellers, to provide favorable leasing terms to customers that can make the difference between a sale and a missed opportunity.

For example, CIT partners with a major technology manufacturer to finance sales of its IT equipment to customers—ranging from small businesses to middle market companies to large, global enterprises—providing them financing to purchase the equipment. We work directly with Dell's sales force, as well as independent dealers who sell Dell equipment, and our sales team is aligned with the manufacturer's to present our financing solutions to the customer.

“CIT Vendor Finance enables manufacturers, as well as their dealers or resellers, to provide favorable leasing terms to customers that can **make the difference** between a sale and a missed opportunity.”

“Working with a financing partner like CIT can **enhance cash flow** for manufacturers and resellers by making sure they receive all of the proceeds from a sale immediately.”

**Q: Which industries can benefit the most from leasing?**

A: While leasing can be beneficial to virtually any private or public organization in most any industry, the most fertile area for growth is in information technology, where the fast pace of innovation makes for a very short product lifecycle. According to an IDC survey of IT equipment buyers, IT organizations are particularly sensitive to cost efficiencies and are being challenged to prove the value of equipment and returns on investment.<sup>1</sup> The impact is a shift toward leasing to free-up capital and shift costs between capital and expense budgets.

All businesses—from sole proprietorships to Fortune 500 companies—can find leasing an attractive option. Today many service-based and software companies are offering financing as well. CIT focuses largely on financing technology, office products, software, and telecommunications equipment—items like PCs, telephones, and copiers—which are critical in all industries across all markets.

**Q: Can vendor financing help manufacturers and resellers boost sales?**

A: The ability to offer customers flexible financing solutions can help a manufacturer or reseller increase sales and revenues in several ways. Providing customers with a financing solution early in the sales cycle is a proven way to close deals more quickly and even increase the size of sales—IDC research has consistently shown that transaction sizes are higher when leasing and financing are utilized.<sup>1</sup> Working with a financing partner like CIT can enhance cash flow for manufacturers and resellers by making sure they receive all of the proceeds from a sale immediately. CIT also helps vendors increase sales by developing financing solutions that enhance a product’s standing among channel partners such as resellers or distributors.

**Q: How does financing help vendors add value to their small and middle market customer relationships?**

A: A financing partner like CIT, which has deep expertise across a variety of industries, can offer insights on customer markets that enhance the sales process. Additionally, CIT Vendor Finance is often called upon to develop financing packages tailored to customers within a specific industry, and that are designed to facilitate upgrades and add-ons. This type of customized approach helps vendors achieve deeper engagement, resulting in longer customer relationships and added revenue.

Overall, leasing allows companies to allocate capital to where it makes the most sense for the company’s long-term success, rather than tying it up in assets that depreciate or become obsolete over time. Leasing lets customers tailor payments to their budget or revenue streams, may offer certain tax advantages over

purchasing, and can also allow customers to bundle their hardware, software, and services financing into one transaction.

**Q: Can customers use leasing as a strategic business tool?**

A: One of the biggest selling points for leasing is the ability of leasing customers to continually access the latest technology to stay ahead of the competition, without making ongoing large capital investments. To maximize the value of this benefit, we help vendors advise customers of products and services that can positively impact their organization and explain how leasing can facilitate those upgrades.

For example, many companies are seeking to take advantage of what's called "cloud computing," where a company accesses technology through a third-party provider's platform rather than housing it on-site. Companies that lease equipment and have partners knowledgeable about the latest advancements will be able move to this process more quickly than others, leaving the competition behind.

**Q: If customers are continually upgrading, how do they efficiently manage the technology lifecycle and disposal?**

A: We regularly work with our vendor partners to address this issue. While the equipment is active, we deliver added value in the form of online tools and applications that allow customers to easily access the location and lease specifics for each piece of equipment. As equipment nears the end of its lifecycle, we provide customers with peace of mind by ensuring that equipment data is properly cleansed to appropriate standards, and disposed of in a manner that minimizes risk of data exposure and e-waste.

**Q: What is the role of leasing in helping companies "go green"?**


A: Because leasing lets customers upgrade during the term of the lease, they can take fast advantage of advancements in green technology. For instance, new dual-core and multi-core chips provide more processing power capability with less power while running cooler than their predecessors—but they can be quite costly to purchase even before including the cost of discarding whatever they are replacing. Leasing enables companies to shorten the times between upgrades and avoid the sunk costs of a purchase. IDC noted that "Almost two-thirds of IT organizations said that leasing IT equipment was part of their company's green IT strategy."<sup>1</sup>

**Q: What competitive trends are you seeing in the market?**

In the technology financing market, we see competition heating up in the managed services and bundled solutions areas.

"Leasing allows companies to **allocate capital** to where it makes the most sense for the company's long-term success, rather than tying it up in assets that depreciate or become obsolete over time."

"Companies that lease equipment and have partners knowledgeable about the latest advancements will be able move to this process more quickly than others, **leaving the competition behind.**"



“Leasing enables companies to **shorten the times between upgrades** and avoid the sunk costs of a purchase.”

“Customers are spending more time determining not only what they will acquire, but also **the best way to finance it.**”

Managed services is when a company outsources its IT support outside the business. The businesses that provide the services therefore need leasing and financing solutions in order to provide the end-to-end equipment and services. In this case, the financing provider works with the service provider to design leasing and financing programs that fund the total solution.

Bundled solutions include financing for both equipment and the software/services. IDC indicates that hardware represents about 40% of IT expenditures and forecasts a continuing shift in sales to be composed of software and services. This trend to financing bundled solutions that contain hardware and supporting software and services is requiring finance companies to make fundamental changes in the profit and risk models.<sup>1</sup>

With CIT’s ability to offer true bundled solution financing across all major brands, we can offer customers a complete solution not tied to a specific manufacturer. CIT’s independent position is well received by vendors and customers, as most solutions contain components from multiple manufacturer and software developers.

The office products market is in the earlier stages of the hardware-software/services shift and likely will be addressed using our approach for the technology market.

**Q: What customer trends are you experiencing?**

A: The economic situation is driving new customer behaviors. The increased focus on capital expenditures of all sizes has meant added scrutiny. This extra attention is a benefit for finance companies, as it often means customers are spending more time determining not only what they will acquire, but also the best way to finance it. This is one driver for the increased growth rate of financing that IDC has reported in the technology market.<sup>2</sup> Other trends we are seeing align with industry trends, such as requests to finance solutions in cloud computing, video and virtualization technologies, managed services, security, mobile solutions, converged infrastructure, and software as a service. Each of these trends requires unique financial structures and plays to the historic strengths of CIT to tailor financial solutions that vendors can sell.

**Q: What do you see as the biggest challenges facing the vendor financing market?**

A: What we are seeing in the marketplace, along with most other finance providers, are tighter credit practices in higher risk industries and increased emphasis on risk management. That is true across the board among finance companies since the start of the recession. Industry reports reveal the worst appears to be behind us in terms of customer payment delinquency. But the recovery looks to be slow, with no expectation for a V-shaped upswing in the economy, and we expect portfolio performance will follow the economy.

“The biggest trend we’re seeing is **an increased demand for leasing** as a way to access leading edge technologies such as virtualization.”

**Q: What’s your outlook for trends in the market for 2010?**

A: The biggest trend we’re seeing is an increased demand for leasing as a way to access leading edge technologies such as virtualization—a way of allowing companies to achieve new capacity and capabilities using their current computer servers, storage systems, and network devices—and cloud computing—a rapidly accelerating technology model which allows customers to access software applications on providers’ platforms. As these technologies mature and become mainstream over the next few years, they promise to fuel another surge in IT innovation and investment.

We also expect the current shift from cell-phones to smart handheld devices such as iPhones or BlackBerries to continue and accelerate.

This means that some 1.2 billion smart handheld devices will be deployed by the end of 2010. Just as e-commerce quickly became a staple of the Internet, rapidly expanding mobile commerce opportunities will fuel significant merchant investments in IT systems to satisfy customers’ mobile commerce appetites.

Overall, the research we’re looking at reflects an enormous opportunity for IT vendors. The 2010 forecast for global spending on technology is more than \$1.6 trillion, with US spending accounting for \$586 billion. IDC expects spending for technology outsourcing to reach \$131 billion worldwide by 2013, and predicts that managed services providers successful in capturing market share will be those able to provide a full portfolio of service options, with a focus on “hybrid” or customized solutions.<sup>3</sup> CIT is prepared to help manufacturers satisfy customer demands for next-generation technology purchases with offerings that provide flexibility and affordability, and help them keep up to date on the latest technology.

<sup>1</sup> IDC, *IDC’s 2009 IT Leasing and Financing Survey Results*, Doc #218599, Jun, 2009

<sup>2</sup> IDC, *Coping with the “New Normal”—How the Changed Economy Is Shaping IT Practices*, Doc #220285, Oct, 2009

<sup>3</sup> IDC, *Worldwide IT Software and Services Financing 2009–2013 Forecast*, Doc #219953, Sep, 2009



**Ron Arrington** is the President of **CIT Vendor Finance**. His group partners with original equipment manufacturers and dealers, distributors, and resellers to provide financing solutions to their small and middle market end-users who lease office equipment, computers, technology, and other products. CIT Vendor Finance, which has more than \$11.3 billion in owned assets, has been financing equipment for more than 50 years and focuses primarily on the Information Technology, Telecommunications, and Office Products segments. It maintains operations in more than 30 countries throughout the United States, Canada, Europe, Asia Pacific, and Latin America.