



***Software Leasing - Sales Tool And Financing Option
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WEB SITE - <http://www.lpilease.com>

SOFTWARE LEASING - SALES TOOL AND FINANCING OPTION

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SOFTWARE LEASING - SALES TOOL AND FINANCING OPTION

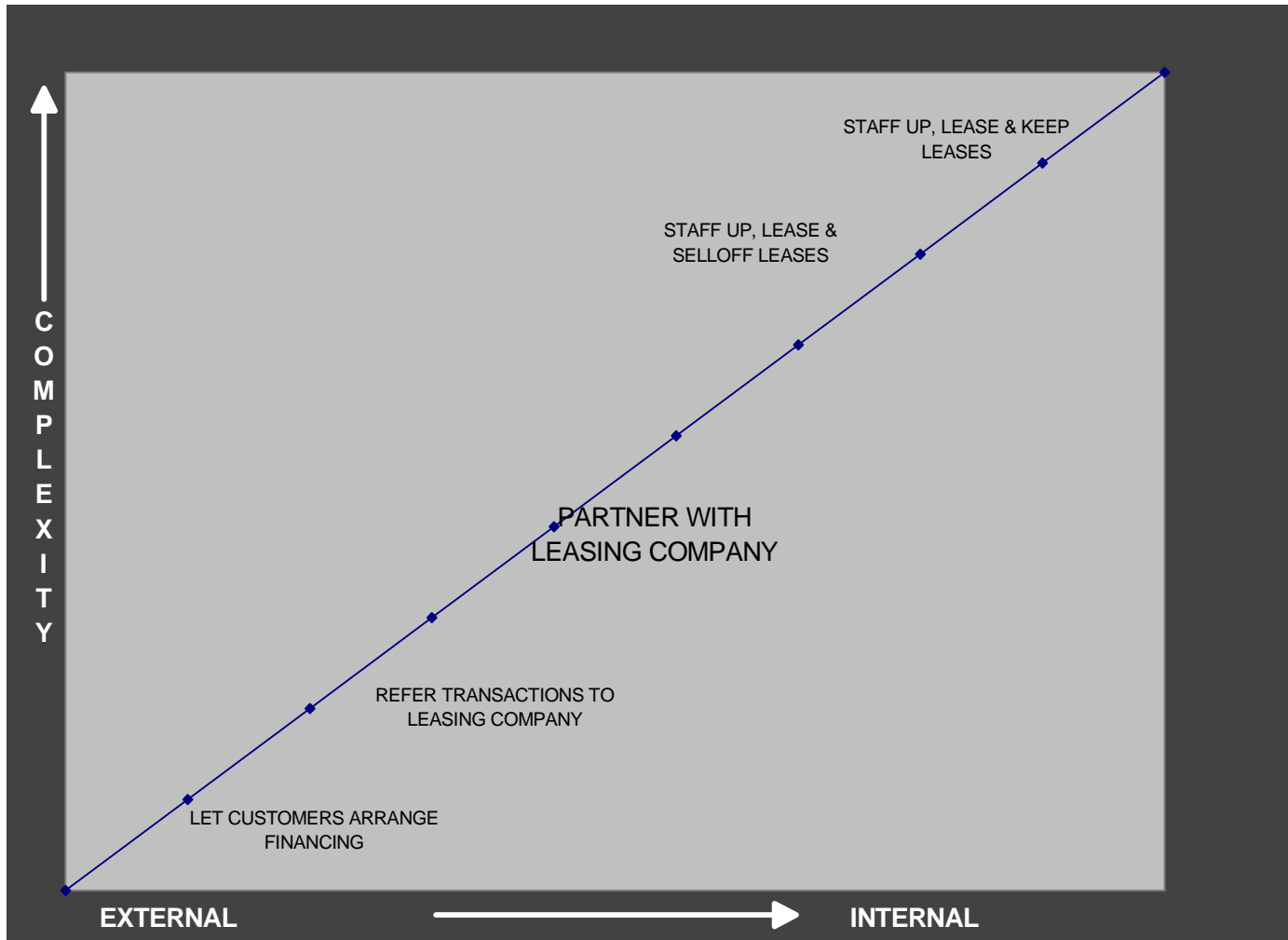
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SOME SOFTWARE COMPANIES USING LEASING

- * Apache Medical
- * Applied Business Tech.
- * Applied Info. Systems
- * Astea
- * BEA Systems
- BMC
- Boole & Babbage
- * Centerline
- Computer Associates
- * Daly & Walcott
- * DB Technology
- * Enertec
- * EnviroMetrics
- * Fourth Shift
- * Frame Technology
Group 1
- IBM
- * IIA-CODE 3
- Information Builders
- * Information Mgt.
- INFORMIX
- * Insignia Solutions
- * Intercon
- * ISYS Technologies
- * Int'l Business Sys.
- * Made2Manage
- * MapInfo
- * Mercury Interactive
- * Microsoft
- Oracle
- * Query
- * Remedy
- * Rogue Wave
- * SAP
- * Shared Medical
- * Sybase
- * RBS Group
- * Wang Labs
- * Wilson, Hewitt

**** LPI has leased this company's software or has formal or informal agreements with the company.***

HOW SOFTWARE COMPANIES USE LEASING



Computer Associates
IBM

Oracle
Informix
Sybase
BMC

Centerline
RBS
MapInfo
Mercury Interactive
SMS

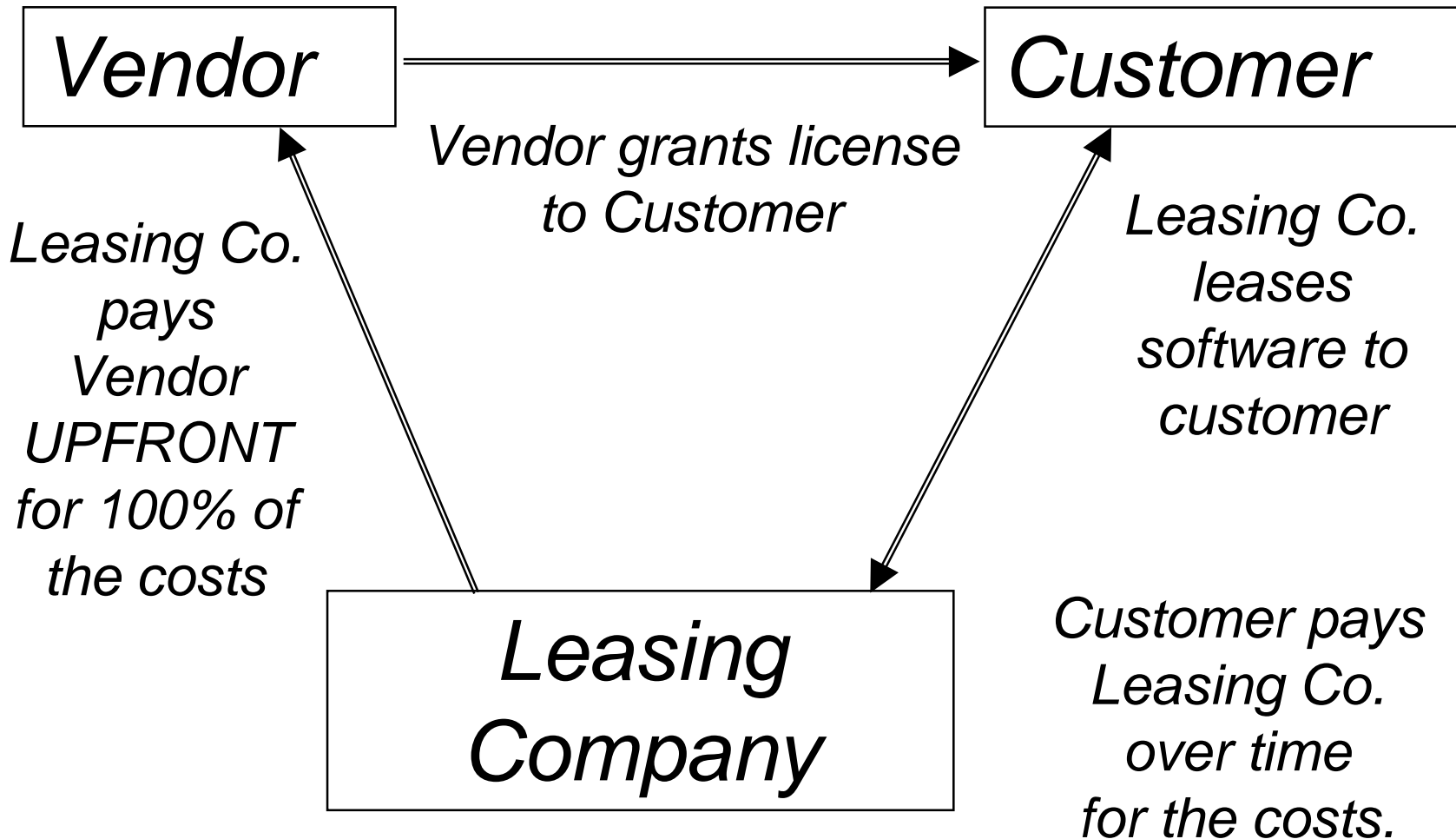
SAP

Most Software Cos.

TESTIMONIALS

- ❖ **“I’d estimate we’re able to do 15% more business by offering this option.”** Robert Liebeskind, CEO, ISYS Technology Corp.
- ❖ **“People who might otherwise take a while to decide will act earlier (with a lease option).”** Robert O’Connor, President, The RBS Group
- ❖ **“When it’s clear that we need more licenses, we just add the licenses to the lease... That has really been magic for us; it makes the acquisition part of the task a no-brainer.”**
Joe Vide, Manager of Software Development, Broadway & Seymour

WHAT IS SOFTWARE LEASING?



WHAT IS SOFTWARE LEASING?

❖ To the software company:

- It is a sales and marketing tool.
- It provides users with an alternative to an upfront cash payment.
- It is a way to reduce DSO's.

❖ To the user:

- It is the same as equipment leasing, except it is for an intangible - the software and the software license.
- It is a method of paying for software over time instead of with a single up-front payment.
- It is the functional equivalent of a loan.

WHAT ARE THE FORMS OF SOFTWARE LEASING?

- ❖ Lease:
 - Equipment Lease
 - Software (and Equipment) Lease
- ❖ Extended Payment Plan Rider to Software License
- ❖ Extended Payment Plan Agreement
- ❖ Promissory Note

LEASING - THE BIG PICTURE

- ❖ 80% of all U.S. companies lease some equipment.
- ❖ 65% OF THE FORTUNE 1000 USE LEASING TO ACQUIRE EQUIPMENT.
- ❖ 29% of all computer equipment is leased.
- ❖ Less than 5% of software was leased in 1993, BUT GARTNER GROUP ESTIMATES THAT 25% WILL BE LEASED BY 2000.
- ❖ Leasing satisfies key company needs.
- ❖ Software leasing satisfies the same needs and will grow as its awareness grows!

WHY DO SOFTWARE VENDORS OFFER LEASING?

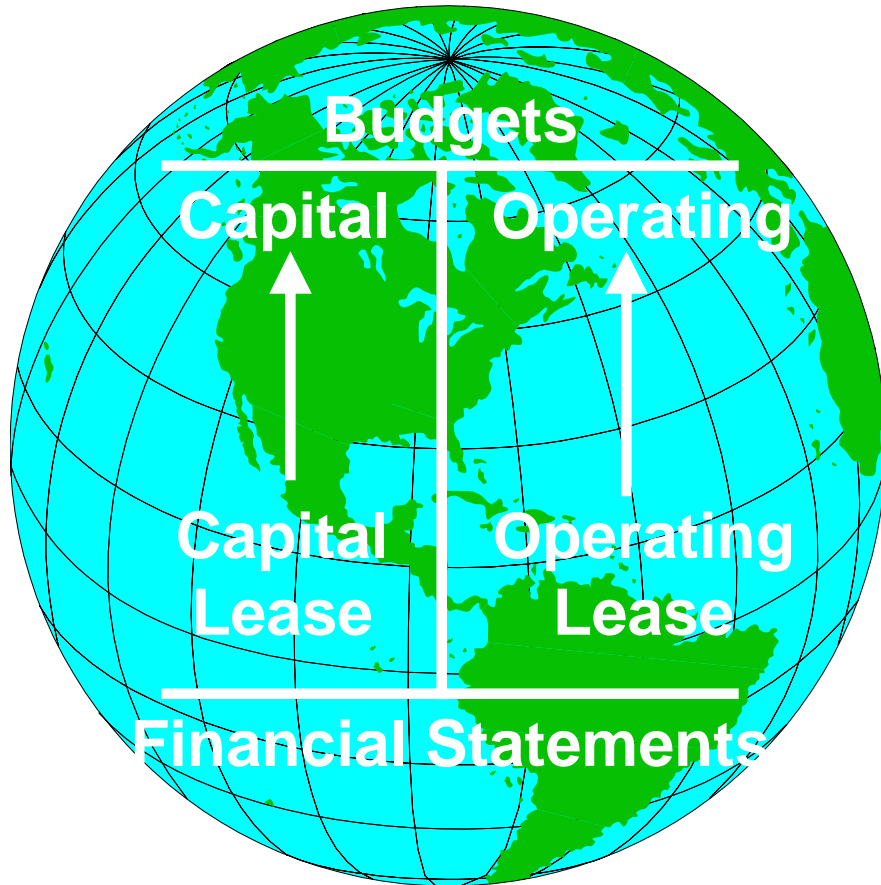
- ❖ Increase sales.
- ❖ Shorten the sales cycle.
- ❖ Better satisfy customer needs.
- ❖ Improve competitive & financial position.

Bottom Line: Increase Profits!

HOW TO ANSWER BUDGET OBJECTIONS - EXAMPLES

- ❖ Large international bank -
3 leases totaling \$1.5 million.
- ❖ Large telecommunications company -
1 lease for \$16,000.
- ❖ Large oil company -
3 leases for \$65,000.
- ❖ Large automobile company subsidiary -
1 agreement for \$850,000.

THE WORLDS OF LEASE TREATMENT



The ***Ideal*** World



The ***Real*** World

HOW TO ANSWER BUDGET OBJECTIONS - CAPITAL vs. OPERATING

- ❖ The capital appropriation process.
- ❖ The operating expense budget.
- ❖ Lease accounting rules.

Capital lease - lessee owns at end for \$0 or \$1.

Operating lease - lessee can purchase for fair market value.

- ❖ Theory.

The capital lease should be in the capital budget.

The operating lease should be in the operating budget.

- ❖ Question - What do you do if no money is available in the capital budget?

HOW TO ANSWER BUDGET OBJECTIONS - REAL WORLD

- ❖ The real world according to 80% of large companies:
 - Any kind of lease is an operating expense.
 - Lease to get needed software now - don't wait.
 - Lease to get additional software which is not in the budget.
- ❖ Training, Installation, and Customization should be amortized:
 - Many companies expense these items up front.
 - With a lease the company can expense the item over time to match their cash flows with the long-term benefit of the item.
- ❖ See our training materials for more information.
- ❖ Call LPI if there is a problem with budgets.

HOW LEASING CAN SHORTEN THE SALES CYCLE

*Introduce leasing into your **earliest** sales discussions to ask probing questions - the answers to these questions will:*

- ❖ Determine the procurement process in advance.
- ❖ Eliminate or reduce capital budget approval delays.
- ❖ Differentiate yourself from your competitors.
- ❖ Eliminate or effectively deal with credit issues early.
- ❖ Uncover hidden objections.

SAMPLE PROBING QUESTIONS

- ❖ Is the purchase within the budget? Who approves the purchase?
- ❖ How will this software be paid for? Is this software to be capitalized or expensed?
- ❖ Were you aware that you can lease our software? Would it make the approval process easier?
- ❖ Did you know that leasing is faster, simpler and less restrictive than bank financing?

HOW LEASING CAN INCREASE A SALE

- ❖ Increase the number of seats.
- ❖ Offer a site license.
- ❖ Bundle the lease package - Include all of these items:
 - Consulting or Customization Cost.
 - Data Conversion.
 - Multi-year Maintenance.
 - Training.
 - Installation.
- ❖ Get a commitment up front for a time-phased installation.
- ❖ Build repeat business.
- ❖ Offer leasing to affiliates, resellers, VARs, system integrators.

INCREASE SALES - LEASING AS STRATEGIC MARKETING

- ❖ Quarter-end promotions.
- ❖ Introduce a new product.
- ❖ Bonus incentives.
- ❖ Avoid “sticker shock” - sell periodic payments.

BETTER SATISFY CUSTOMER NEEDS WITH LEASE OPTIONS

- ❖ Tailor payments to customer's unique needs.
- ❖ Provide customers with one-stop shopping.
- ❖ Assist customer in obtaining other needed software, services and hardware.

MILESTONE PAYMENT LEASE

| | |
|------------------------------|-----------------|
| Software Purchase Price | \$100,000 |
| Software Delivery Date | January 1, 1996 |
| Payment Schedule | |
| Delivery | 50% (1/1/96) |
| Installation | 25% (4/1/196) |
| Acceptance | 25% (5/1/96) |
| All Payments Made by | Leasing Company |
| Lease Term | 36 Months |
| First Payment Made by Lessee | June 1, 1996 |
| Monthly Lease Payment | \$3,398 |

REAL OPERATING LEASE

| | |
|---------------------------------|-----------|
| Software “List” Purchase Price: | \$100,000 |
| Vendor Discount to Lessor | 12.5% |
| Vendor Actual Purchase Price: | \$87,500 |
| 36 Month Lease | |

| | |
|------------------------|---------|
| Monthly Lease Payment: | \$2,906 |
|------------------------|---------|

| | |
|-----------------------------|-----|
| Customer “Normal” Debt Rate | 10% |
|-----------------------------|-----|

| | |
|----------------------------------------------------------------------------|----------|
| Maximum Present Value to Obtain Operating Lease Treatment under FASB 13 | \$90,000 |
|----------------------------------------------------------------------------|----------|

| | |
|---------------------------------------|----------|
| Present Value of Lease Payments @ 10% | \$87,500 |
|---------------------------------------|----------|

| | |
|----------------------------------------------------------------------|----------|
| Fair Market Value of Software at Month 36 for Vendor To Breakeven | \$17,885 |
|----------------------------------------------------------------------|----------|

LOW INTEREST RATE LEASE (3.9% RATE ASSUMED)

Software Purchase Price: \$100,000

| | <u>12 mos.</u> | <u>24 mos.</u> | <u>36 mos.</u> |
|------------------|----------------|----------------|----------------|
| Lease Payment: | \$8,510/mo. | \$4,338/mo. | \$2,948/mo. |
| Vendor Discount: | 5.25% | 8.75% | 11.25% |
| Vendor Revenue: | \$94,750 | \$91,250 | \$88,750 |

Use leasing promotions to break the customers' expectation of big discounts on future software acquisitions.

90 DAY SAME AS CASH LEASE

| | |
|---------------------------------|-----------|
| Software "List" Purchase Price: | \$100,000 |
| Vendor Discount to Lessor | 4% |
| Vendor Actual Purchase Price: | \$96,000 |

36 Month Lease

Customer Down Payment: \$5,000

Customer Option #1: 3 months @ \$0
1 payment @ \$95,000

Customer Option #2: 3 months @ \$0
33 payments @ \$3,245 each

*Give customers 90 days to get internal procurement details resolved. Gets you revenue **NOW!***

FLEXIBLE PAYMENT TERMS

Monthly/Quarterly/Semi-Annual/Annual

Software Purchase Price: \$100,000

Lease Period: 3 Years

Payment Comparison

| <u>Annual</u> | <u>Semi-Annual</u> | <u>Quarterly</u> | <u>Monthly</u> |
|---------------|--------------------|------------------|----------------|
| 3@\$37,174 | 6@\$19,185 | 12@\$9,754 | 36@\$3,322 |

Match cash flows to meet customer requirements.

HOW LEASING CAN IMPROVE YOUR COMPETITIVE AND FINANCIAL POSITION

- ❖ Obtain a strategic advantage over competitors.
- ❖ Neutralize competitors strategic advantage.
- ❖ Reduce days sales outstanding.
- ❖ Collect payment from leasing company faster than from many customers.

HOW EASY IS THE LEASING PROCESS?

- ❖ Inform the customer about leasing.
- ❖ Give the customer a lease quote.
- ❖ Get the customer credit approved.
- ❖ Document the lease.
- ❖ Collect payment from leasing company.

WHAT THE SALES REP NEEDS TO KNOW

- ❖ Leasing = paying for the license over time - gives you a response to price objections.
- ❖ Normally, structured with level payments for 1 to 5 years. Average lease is 36 months.
- ❖ Customer owns the license at the end.
- ❖ Benefits to the customer.
- ❖ Increased Sales = Increased Commissions.
- ❖ Call leasing company for assistance.

DO YOUR CUSTOMERS QUALIFY?

- ❖ Traditionally, software leases have been approved for:
 - Fortune 1000 companies.
 - Strong middle market companies.
 - Strong state & municipal governments.

DO YOUR CUSTOMERS QUALIFY?

- ❖ A few lessors (including LPI) provide software leasing for:
 - Weaker middle market companies.
 - Weaker state & municipal governments.
 - Early stage companies/start-ups.
 - Companies with cash flow or balance sheet problems.

- ❖ With additional collateral or credit support such as:
 - Deposit accounts.
 - Additional upfront payments.
 - Guarantee.
 - Letter of Credit.

SUMMARY

- ❖ Software leasing is a great sales tool:
 - Leasing increases sales.
 - Leasing shortens the sales cycle.
- ❖ Large companies use leasing to get software NOW.
- ❖ Leasing increases sales reps' commissions.
- ❖ Leasing increases company profits.
- ❖ (By the way, LPI is just a phone call away to help you.)

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