

***The Dealmaker: How Software Leasing
Can Boost Your Sales
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THE DEALMAKER: HOW SOFTWARE LEASING CAN BOOST YOUR SALES

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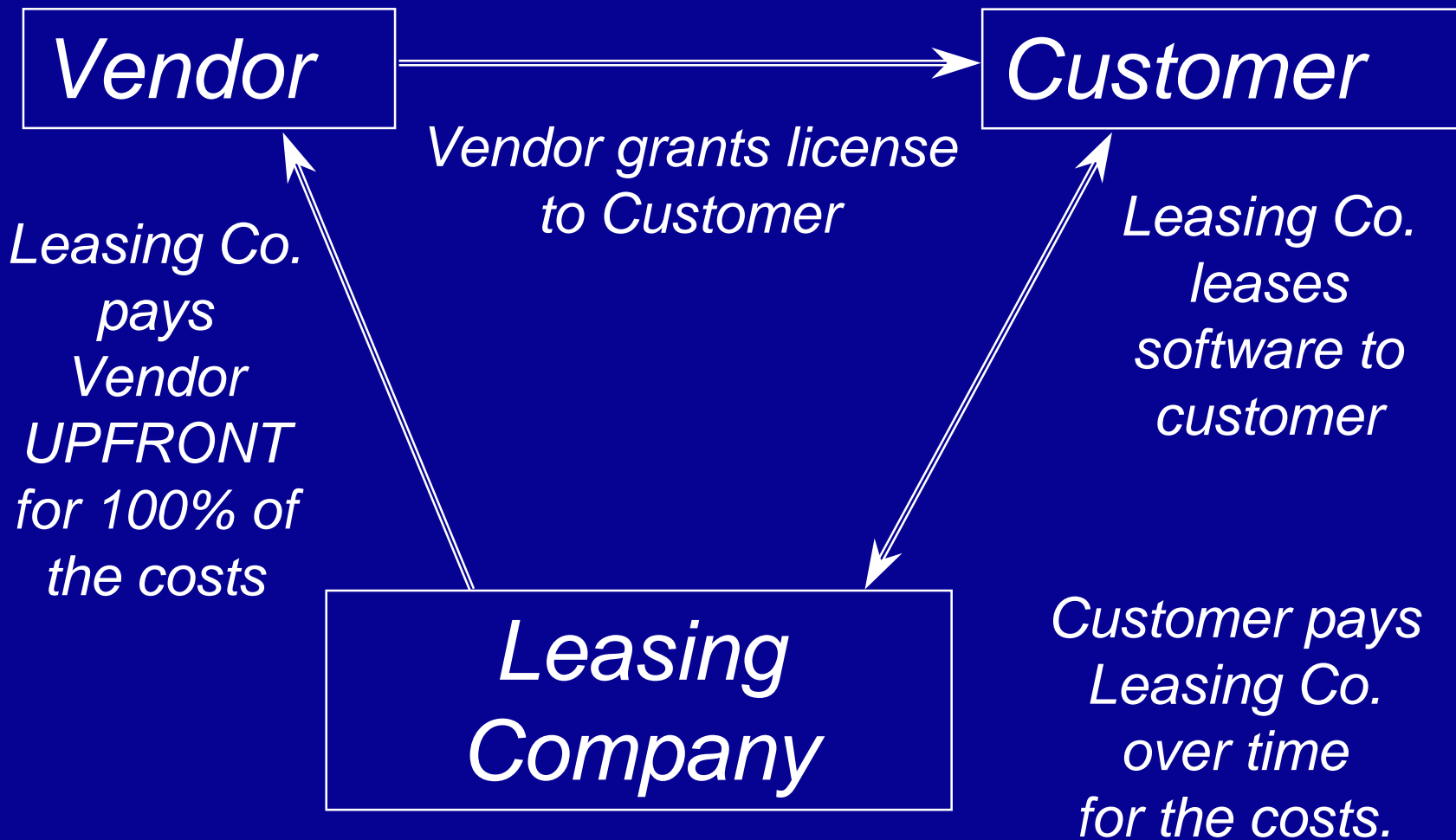
THE DEALMAKER: HOW SOFTWARE LEASING CAN BOOST YOUR SALES

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WHY I CAN'T CLOSE

- ❖ I don't have money in my budget.
- ❖ I have to get budget approval - it will take 3 months.
- ❖ How about another 15% discount.
- ❖ Can you fund the payment over 18 months?
- ❖ Let's try a small pilot project.
- ❖ License fee is O.K., but I can't afford customization.
- ❖ I don't need all that training.
- ❖ I have to lease it, but can't find a leasing company to do software.
- ❖ I don't have the cash.

HOW ABOUT SOFTWARE LEASING?

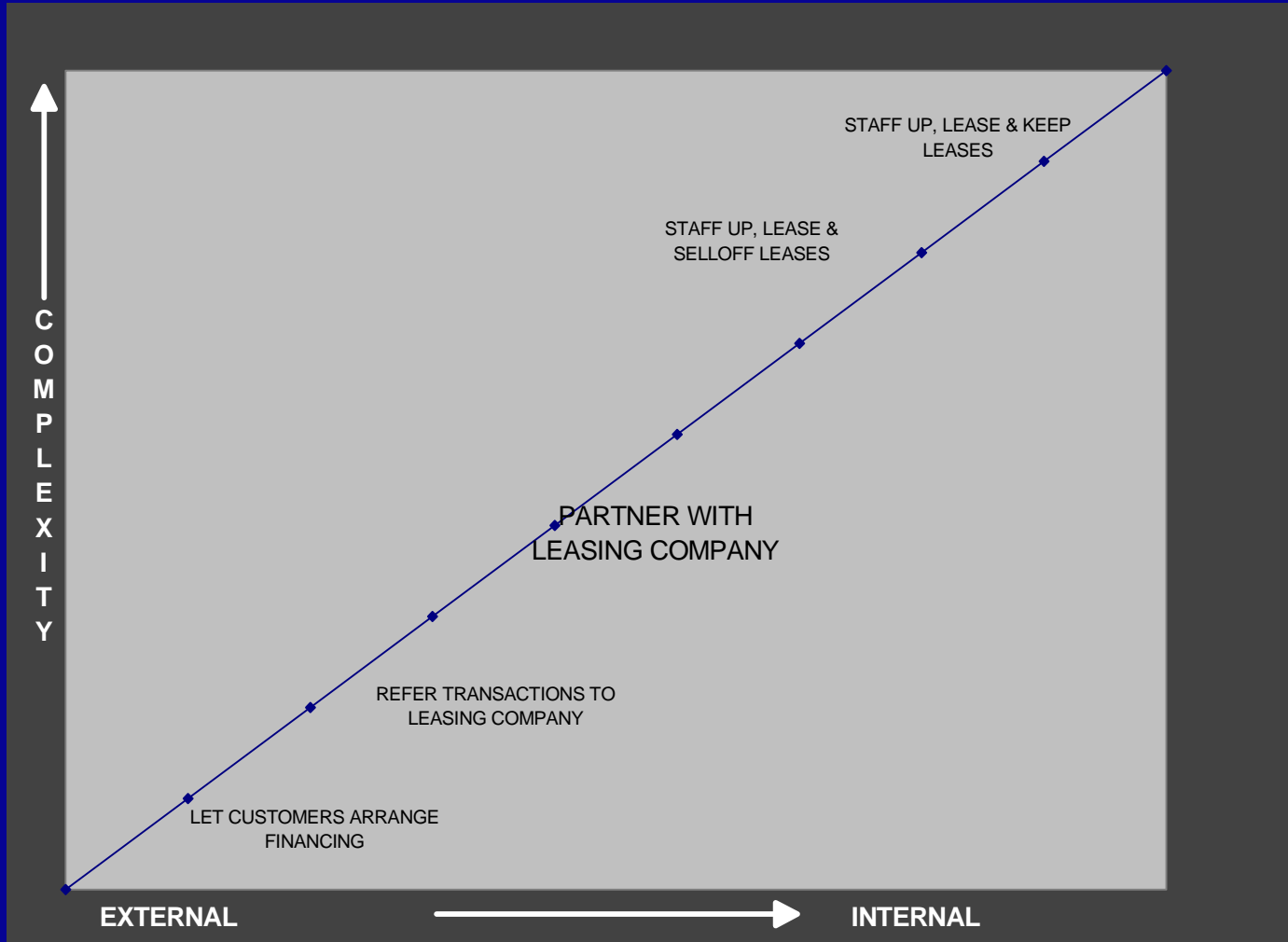


SOME SOFTWARE COMPANIES OFFERING SOFTWARE LEASING

- * Apache Medical
- * Applied Business Tech.
- * Applied Info. Systems
- * Astea
- * Aurum
- * BEA Systems
- BMC
- Boole & Babbage
- * Centerline
- Computer Associates
- * Daly & Walcott
- * DB Technology
- * Eastman Software
- * 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
- * ONYX
- * 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

Aurum
Centerline
RBS
MapInfo
Mercury Interactive
ONYX

Eastman
SAP

Most Software Cos.

LEASING IS A BIG PART OF BUSINESS

- ❖ 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.

WHY DO SOFTWARE VENDORS OFFER LEASING?

- ❖ Increase individual sale and total sales.
- ❖ Shorten the sales cycle.
- ❖ Expand customer base.
- ❖ Decrease discounts.
- ❖ Tailor financing to meet customer's specific needs.
- ❖ Improve competitive position - neutralize competitor or get advantage.
- ❖ Improve financial position.

Bottom Line: Increase Profits!

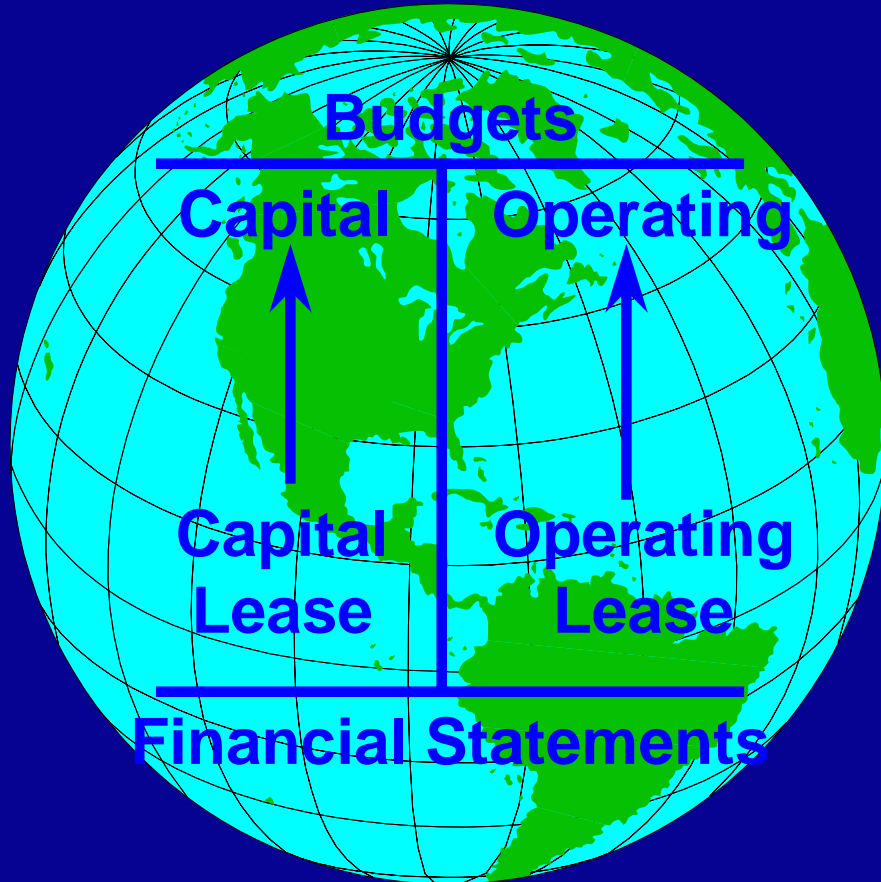
WHY DO CUSTOMERS NEED SOFTWARE LEASING?

- ❖ It depends!
 - It solves capital budget problems - to the large customer.
 - It's convenient - to the medium size customer.
 - It's a source of cash - to the smaller customer.
- ❖ It's faster than most alternatives.
- ❖ For the same reasons they need equipment leases.

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

THE WORLDS OF LEASE TREATMENT



The *Ideal* World



The *Real* World

HOW TO ANSWER BUDGET OBJECTIONS - THEORY

- ❖ The capital appropriation process.
- ❖ The operating expense budget.
- ❖ Lease accounting rules (very broadly).
 - 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.
 - Tailor lease payments to fit within the operating or capital budget.
 - 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.

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 you 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 normally 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 Services or Customization Cost.
 - Training.
 - Multi-year Maintenance.
 - Data Conversion.
- ❖ Get a commitment up front for a time-phased installation.
- ❖ Build repeat business - T's & C's already negotiated.
- ❖ Offer leasing to affiliates, resellers, VARs, system integrators.

BETTER SATISFY CUSTOMER NEEDS WITH LEASE OPTIONS

- ❖ Tailor payments to customer's unique needs -

 - Milestone Payment Lease

 - Collateralized Lease

 - Real Operating Lease

 - Low Interest Rate Lease

 - Flexible Payment Terms

 - Uneven Payment Lease

 - Balloon Payment Lease

- ❖ 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, 1997
Payment Schedule	
Delivery	50% (1/1/97)
Installation	25% (4/1/97)
Acceptance	25% (5/1/97)
All Payments Made by Company	Leasing
Lease Term	36 Months
First Payment Made by Lessee	June 1, 1997

REAL OPERATING LEASE

Software "List" Purchase Price	\$100,000
Vendor Discount to Lessor - 10.1%	<u>10,100</u>
Vendor Actual Purchase Price	\$ 89,900

24 Month Lease

Monthly Lease Payment \$4,152

Maximum Present Value to Obtain Operating Lease

Treatment under FASB 13 \$90,000

Customer "Normal" Debt Rate 11%

Present Value of Lease Payments @ 11% \$89,900

Fair Market Value of Software at Month 24 for Vendor
To Breakeven \$12,573

IS YOUR SOFTWARE WORTH 12.6% AT END OF 2 YEARS?

LOW INTEREST RATE (3.9%) LEASE - THE CAR ANALOGY

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.

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>
\$37,174	\$19,185	\$9,754	\$3,289
(3)	(6)	(12)	(36)

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 - on new sales.
- ❖ Reduce days sales outstanding - on long-term receivables.
- ❖ 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.
- ❖ Have the leasing company 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.

- ❖ Remember:
 - 65% of the Fortune 1000 Lease.
 - 80% of U.S. Companies Lease.
 - 25% of software is projected to be leased by 2000.

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 software company profits.
- ❖ (By the way, LPI is just a phone call away to help you.)

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