

Financial services as an enabler for digital transformation



Digital transformation is having a profound effect on the way South African companies use, deploy and acquire the technology they use to run their businesses. In this dynamic and fast-changing market, new financial solutions are needed.

The Itec group runs a well-established financing operation that aims to help customers to acquire the technology they need, on terms that make sense to them.

Eddy Shapiro, executive director at Itec Finance, explains that the division operates as the financial services company for the entire Itec group.

“We provide financial services to our own dealers as well as to Tarsus Distribution’s resellers and customers,” he says.

Importantly, Itec Finance doesn’t operate as a broker, but offers various funding relationships in its own right.

“And we are trying to get a lot closer to resellers, to help them drive spend.”

Digitalisation means that companies around the world are under pressure to change their business models, and this means that that technology they employ is changing at a rapid rate.

“What we see happening more and more is that the needs of the client are shifting away from simply acquiring hardware,” Shapiro says.

In fact, the pervasiveness of computing and access thanks to consumerisation and ubiquitous connectivity means that technology can no longer be a long-term solution – it’s a necessity for all businesses.

“Technology as a service is starting to come into the South African landscape, and we are well positioned to address this requirement, since this is really what managed print services (MPS) is – and

this is the market we have traditionally worked in.

“In a managed print environment, the dealer bundles hardware, software and services into one contract, and we finance it all together as a single solution.”

In the new world of digital transformation, consumerisation and cloud computing; end user companies are less interested in owning their hardware, but are looking for solutions that bundle it with a complete solution.

“Just look at your cell phone; today it is almost a disposable asset with a limited shelf life. In the business environment, people expect their hardware to be just as disposable, especially since the technology changes so quickly,” Shapiro adds.

Customers want a single point of contact, with all aspects of the solution available under one roof.

“Savvy customers are looking at hardware as a facilitator of the underlying service and software. And we are able to help them accomplish this by offering rental solutions aligned to the useful life of the hardware.”

Itec Finance is different from other financial services institutions, though, since it’s an integral part of the overall Itec Group.

“What differentiates us is that we have a deeper understanding of the technology, of the hardware, software and services that our customers are acquiring,” Shapiro says.

“We have spent a considerable amount of time developing the intellectual property around this understanding.

“Because we are actually part of a technology company, we are very close to the providers of the technology.

“In addition, we are able to understand what the technology is as well as the appropriateness of a solution to the customer, so we are able to assess risk differently.”

He explains that a bank would typically look at the client’s credit risk before granting financing. “But we understand the credit risk of the client as well as the value that the technology service offers them as an essential income producing asset.

“We see ourselves as the facilitators of the transaction, so we are more flexible than a traditional bank.”

Confidentiality is a big part of Itec Finance’s make-up, so any credit vetting is done in a way that guarantees the customer is protected at all times, while looking after the partner’s rights.

Because it is under the same roof as the rest of the organisation, Itec Finance is also very easy for customers and dealers to work with.

“It is like having the whole value chain under a single umbrella,” Shapiro says. “The client only needs to work with the dealer we facilitate the finance at the back end.

“Overall, it is a very seamless process – and it saves the client from having to shop around.”

He stresses that Itec Finance is not a broker, but provides the financial services itself.

“What customers want from a financial services perspective is convenience; a solution that is seamless and easy. They want

a single point of contact, with all aspects of the solution available under one roof.”

With Itec Finance, the customer deals with the same debtors department within the Itec Group, and has a single point of contact for all their requirements.

“In addition, we see our dealers as our partners. The fact that we are able to resolve issues with them is a big advantage. We are able to work together effectively because we all have a common goal.”

Although Itec Finance offers a bouquet of financing options, by far the most popular is the rental agreement, which offers the customer a range of benefits.

“From the client’s perspective, it means their technology acquisition is operating expenditure (opex) as opposed to capital expenditure (capex),” says Shapiro. “In a traditional sale, the hardware purchase would have been capex, and the client would have a physical cash outlay.

“This has a balance sheet impact, whereas an opex deal has an income statement impact. Off-balance sheet lending has more favourable tax implications, which adds to its affordability.

“It also makes the buying decision a lot less complicated, as the opex deal probably wouldn’t require board approval.”

In addition, by renting the equipment rather than acquiring it outright, companies don’t have to leverage internal capital. “This means that they can reserve their capital, and not use internal resources.

“Because payment is facilitated by rental, they don’t have to depreciate a big outlay over time.

“In fact, we are seeing that more and more customers – even large clients with listed bonds – are not using their facilities for outright purchases,” Shapiro points out. “They prefer to rent the equipment and have a monthly expense item instead.

“This also allow them to be more flexible in upgrading and extending their technology as their needs change.”

This flexibility extends to the fact that Itec can change the parameters of the deal as the customers’ needs change, so that it stays relevant for them.

An obvious benefit of using opex rather than capex is that companies are able to reserve their capital as working capital, so it is available for other business requirements they might have.

“It also means that if the client doesn’t have the capex budget, they still have the opportunity to acquire the right solution. So they can still get what they need even if they can’t outlay up to R1-million or R2-million that might have been required.”



The rental model also helps organisations to plan around natural procurement cycles. For instance, Shapiro explains, IT equipment is generally signed on a three-year rental, while office automation and PABX equipment would be over a five-year period.

These rental periods are designed to match the useful life of the equipment, and the shorter IT cycles reflect the rapidity with which technology cycles roll around.

“This gives organisations the option of upgrading to the latest technology as it becomes available, while staying within their operating budget.”

By far the biggest benefit, Shapiro says, is that rental financing helps to facilitate the IT as a service environment as a whole.

In addition, as companies adopt cloud computing, they need fewer hardware resources, even as they require more software and services. The new trend is towards online storage and the renting of hardware resources.

“Depending on the specification, hardware is becoming less important. And whatever the mix is that customers opt for, Itec can finance it.”

Itec Finance is a 25-man operation, and it finances about 70% of all the sales made by the Itec Group. It is also starting to work with the Tarsus resellers, and hopes to open up a new market that way.

Shapiro is also well versed in the financial services space, having worked in the market for the last 15 years. ■