Rethinking Mobile Device Sourcing and Finance

Utelize Mobile Best Practice Guide

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Introduction

Mobile networks, devices and budgets have always been challenging for businesses to control and support. Mobile devices are with their users all the time, they support both business and personal life through applications and the internet; and commonly they sit outside of secure, "ring-fenced" corporate IT networks. To compound matters further, they're more prone to loss and damage than all other forms of IT hardware and they are easy to resell. Managing mobile IT is a complex business.

Unlike most IT expenditure, mobile costs are also highly sensitive to end user behaviour. Controlling that behaviour whilst also ensuring employees remain productive is both difficult to achieve and resource intensive. The way we use our mobile phones also varies dramatically from user to user, and with the advent of smartphones it's extremely difficult to draw clear boundaries between personal and business use. The arrival of 5G services in 2019/20 will only serve to increase this challenge, forcing businesses to work hard to find the right balance between user productivity and usage controls. Smartphones also bring more technical complexity, and with this, new security and rapidly increasing support challenges – none of which are going to disappear anytime soon.

At Utelize, we are seeing a convergence of four significant mobile challenges that are already having a growing impact on mid-market and enterprise businesses. Challenges that are set to dramatically increase mobile administration and costs for businesses that fail to implement a proactive and strategic approach to mobile network, device and security management:

Challenge 1: Increasing mobile device costs - that can no longer be subsidised by network "tech funds"

Challenge 2: Increasing mobile data consumption - driving greater management challenges and increased airtime costs with more frequent "bill shock" both domestically and abroad

Challenge 3: BYOD programs failing to deliver expected savings – driven by higher IT support costs coupled with lower BYOD adoption rates and device purchase savings than expected

Challenge 4: Increasing mobile security, data leakage, GDPR and compliance risks - leading to increased pressure to issue corporate devices, as well as increased security and support costs, especially in regulated markets and professional services firms

At Utelize our Managed Mobile Services are built on our tried and tested mobile management methodology that spans mobile network, device administration and mobile security. We openly share our methodology in our best practice guides, where we offer a detailed look at the causes and impact of these converging challenges on mobile IT administration and budgets. In our plain-speaking guides, you'll also find clear insights and practical approaches that your business can implement today to regain control and release significant budget that you can reinvest in mobile working and security.

In this guide we look at the changing market for purchasing and supporting mobile devices, and how businesses are dropping "tech funds" in favour of a more flexible approach to device sourcing.

We hope that you find this guide of interest and value with your own mobile device strategy and management. Follow us on LinkedIn or Twitter or visit our website for more best practice guides and free resources on managing mobile services, security and devices.

Is your mobile device expenditure starting to exceed your mobile network costs?

As a greater number of businesses take a "mobile first" approach to IT, their investment in mobile devices and security are increasing rapidly. For many businesses, for the first time, that means their mobile device expenditure is approaching or even starting to exceed their mobile network expenditure. Until recently almost all businesses purchased their mobile devices through their mobile network as part of their mobile network agreement. Often simply using a network "tech fund" and often without any specific purchasing strategy for mobile devices.

Forward thinking businesses that want to keep control of their mobile budgets, whilst ensuring their users have the right mobile tools to be productive and secure have recognised that is not a sustainable model. It simply makes little sense to try and hide expanding mobile device costs in a mobile network agreement. This Mobile Best Practice Guide looks at some of the alternative approaches that businesses are taking to source and finance their mobile devices independently of their mobile network to drive down costs, improve security and user support.

In our Mobile Best Practice Guide **"Breaking the Tech Fund Habit"** we explore in depth the hidden costs and challenges created by using mobile network "tech funds". In this companion guide we'll start with a recap of why "tech funds" always lead to overspending and why your business should consider ditching the "tech fund"; before exploring alternative mobile device sourcing and finance models.

Purchasing Mobile Devices with a Tech Fund

Traditionally, many businesses have purchased mobile devices as part of their mobile network contract, typically using some form of 'tech fund', or device subsidy. Mobile tech funds are a clever way for mobile networks to encourage their customers to buy mobile devices directly from them, rather than explore the marketplace. However, these tech funds are seldom transparent as they rely on cross subsidising mobile devices with increasing in airtime costs, and they rarely benefit the customer. At Utelize, we normally recommend separating mobile network contracts from device purchasing to create more flexible mobile contracts and to ensure there is transparency over mobile device costs and purchases.

Tech funds had some merit when the cost of the mobile device represented a very small fraction of the cost of the airtime over the contract term. Today however, when smartphones can be significantly more expensive than the airtime over a 24-month period, it makes little sense to try and partially subsidise or fund the device by distorting airtime charges.

It's worth exploring how tech funds are created to fully understand the issue and why it creates hidden mobile costs. When a mobile network or service provider offers a customer a tech fund, they must first inflate or adjust the 'real' airtime costs. If, for example, your mobile contract contains £100,000 of inclusive tech fund, then the mobile network had to increase your airtime costs by a value that they conservatively think will at least covered this £100,000 of cost. (the 'loan'); however as with all loans the mobile network needs some security over the loan to ensure they will be repaid, and they want to make an additional income return on that loan.

To achieve this mobile services providers and networks get their security and return using two key mechanisms:

- **Contract Commitments** - The network will place minimum spend or connection commitments in the mobile contract to guarantee the overall revenue from the customer over the term; with associated penalties and recovery mechanisms where these commitments are not achieved. These are set at a level the returns at least the loan plus an internal rate of return on the loan.

- Device Pricing – The network will then typically price their mobile devices at RRP levels or often materially above the pricing that a business could independently achieve in the market place. This reduces the real cost of the 'tech fund' to the network and creates additional margin or return on the loan. As a result, some devices can be 10-20% more expensive to purchase through a tech fund, however in most cases Apple devices are more reasonably priced as there is less price variation across the market for iPhone devices.

Mobile networks are not blind to the challenge that device costs are starting to catch up with or exceed airtime costs and they are trying to address this by offering longer contract terms of 30 or 36 months. Whilst on paper this generates more initial "tech fund" for the customer, it only serves to create greater long-term problems. Corporate devices are unlikely to last three or more years, warranties only last 24 months, and the longer contract term simply locks in airtime pricing on tariffs that will drift further out from the market over time. To further compound the problem, businesses taking a three-year contract often end up re-signing 'mid-term' when their "tech fund" runs out, leaving them with little room to negotiate market competitive terms.

When it is boiled down to its very essence, the mobile tech fund is simply a hidden, unregulated and off-balance sheet loan with a mobile network. A loan that has no clear interest rates or flexibility that enable you to repay the loan early. Furthermore, the loan provides no mechanism to see how much you have repaid at any time, and it will only allow your business to purchase devices from one vendor against a fixed and often less than competitive pricelist. As long as you achieve your commitments the loan is deemed to be repaid, however if you don't, the repayment mechanism is to penalise the cost of your mobile network charges.

Put in these terms, there is not a CFO, auditor or accountant that would sign off on a mobile tech fund if they fully understood the implications and real costs. (To learn more about the cost of tech funds, visit us at: www.utelize.co.uk/resource-centre.)

Unlocked and Factory Open Devices

Whilst the cost of devices is clearly of growing importance, it is not the only consideration when purchasing devices in today's security-driven world. Android mobile software security patches are frequently updated by manufacturers to address the latest risks and security threats. Part of your mobile device security 'best practice' will no doubt already be to ensure that these patches are updated upon release to minimise risks.

When you buy a mobile device from a mobile network, the device will typically be "locked" to that network and additionally for Android based devices, the mobile network - not your IT team - determines whether and when security updates will be released. By contrast, most specialist resellers (including Utelize) will provide "Factory Open" and "Unlocked" devices as standard. These devices can be used on any network, and you'll be able to update software patches as soon as they are available.

Sourcing of "unlocked" devices has two additional advantages. First, it allows your users or business to change network in the future without having to unlock the device, which can be a two-week process and is often chargeable. This simplifies the process of changing network and removes an obvious barrier to change. Secondly, unlocked devices retain a greater second hand (or residual) value than network locked devices. E.g. If it costs £20 to unlock a device, then the residual value of a locked device will typically be £20 less at trade-in.

As a result, if you change your device purchasing model, not only might you be able to achieve discounts that are not available with a "tech fund" sourced device, but you'll also have a device that is more controllable and could be worth more when you come to upgrade it.

Do you really need brand new Apple devices?

For businesses looking to gain maximum value for money when purchasing iPhones, there are some relatively new opportunities that can potentially reduce device purchase costs. These options include investing in Apple Certified Pre-Owned (CPO) Devices, Refurbished Devices or Premium Used Apple Devices.

Apple CPO Devices are Apple's approved used devices that are boxed as new with a new IMEI in the original manufacturer packaging. Users would in our opinion be hard-pressed to recognise that their device was not brand new and off-the-shelf, and only the CPO label on the branding would indicate otherwise. Some CPO devices have in fact never even been used - they have simply been returned or opened and require re-packaging professionally. CPO devices should always come with a full Apple 12-month warranty. CPO devices could help your business to reduce device costs by a small amount, however supply is strictly controlled and so discounts are limited vs. new iPhone devices, however CPO devices are a good way of holding stock for repairs and losses.

Enterprise Premium Used Devices are by contrast the highest grade second hand devices, packaged specifically for distribution into the corporate mobile sector. The devices will have negligible or no visible markings and they are fully operational and have been through data cleansing, testing, grading and are warranted by an ISO accredited provider. Testing will include checking the charge cycle and condition of the battery. As these devices are the top quality used devices they require no refurbishment and so can be classed as a different product from refurbished devices.

As standard these devices are provided in unbranded delivery packaging with a 12 or 24-month exchange warranty and replacement lightning cable. This is the most cost-effective way to purchase the device; especially if the device is going to be unboxed, tagged or cased before issue to an end user. Importantly these Enterprise devices can be included in Apple's device Enrolment Program (DEP).

Options exist however to add corporate branded or higher-grade packaging and to include accessories, cables, branded documentation as well as 'in life' support services. These devices are sourced on a planned delivery basis (either one off or recurring orders) and the options are tailored to each customer – this ensures that a sustainable supply of devices can be provided, and that appropriate exchange devices and ring-fenced stock is held for your business.

One of the most compelling reasons to consider Enterprise Premium Used Devices, is that they retain the same residual value as new devices. So, when you come to upgrade, you'll achieve the same resale value as you would have achieved had you purchased a new device (assuming the same condition at trade-in). In effect, someone else has funded the initial depreciation that occurs when a new device is taken out the box, and you'll have access to a business grade support service. **Typically cost savings are 10-20% depending on the level of warranty, packaging, support and accessories required.**

Refurbished Used Devices are typically used devices that have been traded in via the mobile networks or online consumer websites and have then been through a refurbishment process. These devices should have no visible markings and should be fully operational with a warranty (normally 3 – 12 months). Take care to review any provider before purchasing; check the returns process, warranty and ensure the service will meet the expectations of your business. Importantly you'll need to understand whether the vendor can guarantee a sustainable supply of devices, where ongoing ordering is a requirement.

Specifically, business customers should review whether device refurbishment has been completed for cosmetic reasons or whether it was needed to also replace damaged components. Devices that require substantial work may look great, but the price may not reflect the underlying wear and tear to the device. With all used Apple devices, if the cost looks too good to be true then it probably is. Finally; businesses should consider whether the vendor can guarantee a sustainable supply of devices after the first order and how they ring fence warranty stock.

In summary, some of the key take away points for mobile device sourcing are:

- Buying mobile devices from a mobile network using a 'tech fund' is easy - but you will likely be overpaying for both the mobile airtime and the device itself over the term of the agreement
- Mobile devices when appropriately sourced from the wider market will be UK stock that is unlocked - this makes it easier to change network in the future
- Unlocked devices typically retain a greater residual value than network locked devices
- Factory open devices allow you to update security patches quicker than network locked devices (applies more to Android devices)
- **Certified Pre-Owned (CPO)** devices can help to reduce the cost of purchasing Apple approved mobile devices, with the appearance of being new boxed devices
- **Enterprise Premium Used Devices** offer a more cost effective and green approach to purchasing new devices and they offer significant residual value benefits and support can be tailored to your business needs
- **Refurbished Used Devices** offer the lowest cost route to sourcing Apple iPhones; however, care should be taken to ensure that the vendor warranty and support is of a high standard and the service delivery is sustainable

Mobile Device Financing

Most mobile device purchases are normally either purchased outright as a capex (capital expenditure) investment, or as a one-off operating expense. In many businesses the latter option is the default as the cost of individual devices falls below pre-set levels at which the device can be classed as a business asset. (also known as a de-minimis threshold – typically £500 – £1,000). Where the cost of the device can't be treated as an asset, then the full cost of the purchase is allocated to the monthly P&L, and so the timing of large purchases can have a significant impact on the business.

Mobile tech funds so hide this issue, by converting the cost of devices into an operating cost as part of the mobile network agreement; however, as we discussed in the earlier part of this report, there is no transparency over that cost.

More recently, IT finance companies have woken up to the growing cost of mobile devices and mobile devices can now be seamlessly financed in the same way as other IT investments. Businesses can now choose to spread purchase costs over 12 - 30 months through finance agreements (typically 24-months) or even rent the device. This not only breaks the traditional tie to purchasing devices through networks, and the hidden costs of buying devices through tech funds, but it also creates opportunities to more cost-effectively upgrade technology. The main options for device finance include:

- Leasing Agreements – typically 12 – 30 months
- Hire Purchase Agreements – typically 12 – 36 months
- Managed Services – typically 24 months
- Residual Value Leasing – typically 12 – 30 months

(Please note that Utelize do not offer accounting advice or recommend and specific method of finance and so please validate all investment decisions with your finance department or accountant first).

With a "**Leasing Agreement**", your business selects a device vendor who will provide the device, however the vendor sells the devices to a finance company, who then charge your business a fixed monthly or quarterly leasing or rental charge. You will not own the device and so it is not an asset of your business however the costs can be treated as standard operating costs, are deductible for corporation tax and the asset and liabilities are not stated on the business balance sheet.

With a "**Hire Purchase Agreement**" your business is financing the cost of the asset itself and spreading those payments over the term of the agreement. So, at the end of the term you will own the device; however, the liabilities will be declared on your business balance sheet. For this reason and to avoid specific asset tracking and de-minimis thresholds many finance departments prefer leasing for IT purchases.

"**Managed Services**" can offer a slightly different approach to the challenge of financing and supporting mobile devices. In this model the managed services provider can potentially wrap all aspects of the device purchase and 'in life' support (warranties, exchange units, buffer stock, staging, repairs) into one monthly service charge. In this model it is also possible to spread the costs over 24 months and to gain title to the device once all the obligations of the managed service contract have been fulfilled.

"**Residual Value Leasing**" – with this variation of the leasing agreement model the finance company takes a forward view on the likely residual value of the device at the end of the leasing term, and offsets this value against the cost of the lease to reduce the monthly payments. The "finance cost" is therefore impacted by the "residual value" (RV) of the device at the end of the rental term. Investing in devices which have the highest levels of RV means that the cost of finance is reduced, because the finance company will get more cash back on the original device. As a guideline: Apple iPhone and iPad devices typically retain the greatest RV after 24 months, whereas other devices can be almost worthless. This can lead to a scenario where it is more cost effective to fund an expensive Apple device than it is to fund a lower cost device.

Warning – with RV financing your business will be required to make good any damage and pay for any devices that are not returned at "fair market value" – this can lead to a scenario where the business having already paid the equivalent of 80% or more of the device then has a "fair market value" to pay which may actually be as much as 50% (or more of the original device cost). For this reason, we do not currently see value in the RV leasing model for mobile phones.

Involve Finance in Mobile Device Purchases

As a result, including your Finance department in mobile device purchasing and funding discussions is now a critical component when investing in mobile devices. If your Finance team does not realise that there are material differences between the device residual value, and they have not had the opportunity to consider all the financial inputs (VAT, depreciation, capital allowances, leasing vs purchase, real cost of "tech funds"), then your business will probably end up overspending and creating significant budget issues down the line.

Rather than simply looking at the one-off cost of the device, look at the total cost of ownership, and be sure to review residual values, and end-of-life recycling costs, and you may find that leasing can be one option to reduce the overall cost of devices by 10% - or even more for the right devices.

Finally, whether you purchase or lease devices, by decoupling mobile devices from airtime contracts your organisation will be able to negotiate much more flexible and lower cost airtime contracts on a SIM-only basis - and you'll find it much easier to use multiple networks to secure the best coverage options for your users.

In summary, some of the key take away points for mobile device finance are:

- Leasing or Renting allows organisations to treat mobile devices as an operating (OPEX) cost and offers an option to break away from "Tech Funds" without incurring large levels of capex expenditure.
- Leasing costs are impacted by creditworthiness, the contract term and the finance company selected – specialist firms tend to offer better finance rates for mobile devices than general finance companies.
- With Residual Value Leasing the likely future resale value of the device will significantly impact the monthly leasing charge.
- Not all mobile devices have the same "residual value" – currently Apple devices achieve the greatest RV after 24 months, so can be much more cost-effective to lease than other devices of lower value
- Residual Value Leasing does not transfer ownership of the device at the end of the term and any unreturned or damaged devices will need to be paid for – this charge is normally at "fair market value" which may be as much as 50% of more for some devices.
- Leasing works best on an 18-24-month term – if your organisation is looking to "sweat" the assets for 3-4 years, then capitalising the purchase or selecting an option that transfers ownership of the device at the end of the term may offer better value.
- Managed services can be combined device purchasing with wider device lifecycle services – for instance: end-of-term device wipe; break/fix support; extended warranty; and insurance. If you are looking for a fully supported service, a Managed Service can be an effective way to secure this as a single monthly payment per device and still retain end of term ownership.
- For businesses that are unable to reclaim VAT in part or whole, there may be cost saving advantages from renting devices, as the VAT will only be chargeable on the rental not the full cost of the device. As a result, considering the use of Enterprise Premium Used Devices that retain a higher proportion of the value may result in a lower overall TCO than purchasing mid or low range devices.
- Many larger organisations have a defined "cost of capital" that is applied to capital purchases to reflect the return that could be expected from investing that cash/capital into the business – your finance team will be able to advise on the impact of "cost of capital".

Conclusion

Mobile budget management, like all financial and IT management, rewards those businesses that invest the time and resource to fully review and understand their expenditure and options. Mobile networks have obscured the real costs of providing mobile airtime and devices for many years, and this is to the significant detriment of nearly all businesses that still purchase using traditional mobile contracts and tech funds. At Utelize we believe that the recommendations and insights provided in this guide, will set your business on a path to releasing upwards of 20% from your long term mobile costs and they put you in greater control of your mobile device and data security strategy.

Mobile savings are just waiting to be uncovered in your business.

Whilst most businesses look externally to their mobile suppliers to achieve cost reduction in the form of reduced tariffs, the reality is that most businesses already have significant hidden overspending on mobile usage and device purchasing. It's not uncommon to find between 5 and 15% of business mobile connections that are inactive, and for businesses to be able to reduce costs by up to 20% by implementing an effective mobile usage management program and device purchasing strategy.

For more information and guidance on the many ways that your business can reduce mobile costs and free up budget and IT resource for more strategic work, then download our range of Mobile Best Practice Guides, or get in touch to arrange a discovery meeting, and challenge Utelize to demonstrate how we can help.

Other Mobile Best Practice Guides from Utelize

- Negotiating the right fit" mobile contract for your business
- Breaking the mobile "tech fund" habit
- Rethinking mobile device purchasing and financing
- Implementing a "lifecycle" approach to managing mobile devices
- Planning BYOD programs beyond device security
- An introduction to Mobile Device Management (MDM) & security

Utelize – Managed Mobile for Business

At Utelize we specialise in providing managed mobile services that enable our customers to gain total control of their mobile airtime, devices and security; helping them to:

- Streamline the administration of mobile airtime and devices
- Reduce mobile network and device charges
- Free up IT resources for more strategic projects
- Cost effectively finance mobile devices
- Secure mobile devices and data
- Manage in-life device repairs and end of life trade-in and device recycling
- Control mobile data usage and roaming charges
- Implement effective mobile usage policy management
- Evaluate which mobile telecoms technologies and services can best support their business needs

To arrange a no obligation meeting and mobile health check, get in touch …

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