



Taking The High Cost Out Of Hardware Maintenance

Alternative hardware maintenance strategies for achieving high standards of reliability at the lowest possible cost.

Executive Summary

High standards of reliability + low costs = strategic opportunity

In a climate where IT managers are expected to demonstrate high levels of efficiency and return on investment, any reasonable opportunity to lower costs needs to be considered, as long as the opportunity measures up to the standards of reliability and productivity that your organization demands. At World Data Products, we believe that reliable third party maintainers (TPMs) provide one of the most compelling strategic opportunities for significant cost savings without any degradation in reliability and up time.

In this paper you'll learn how industry experts estimate that 60% of today's IT spending is dedicated to maintenance, and that IT managers can save more than 40% of their hardware maintenance costs by outsourcing to a reliable TPMs. Their data suggests that reliable TPMs can deliver major savings across a major portion of the overall IT budget, which is a potential bonanza that is well worth exploring.

Of course up time and reliability are important to IT organizations, and any alternative to the standard manufacturer's maintenance would have to meet very high standards of availability. This paper demonstrates the impressive size, expertise, and support infrastructure offered by the leading TPMs – typically thousands of technicians in most major cities serving thousands of data centers across the globe. It also provides a checklist to help you evaluate how well a TPM's capabilities will meet the needs of your organization.

World Data Products, a world-class leader for refurbished Cisco, Compaq, Dell, HP, IBM, and Sun solutions has strategic relationships with many of the leading TPMs and can help select the right maintenance program for your unique situation based on expertise, responsiveness, location, and parts availability.

The Hardware Maintenance Marketplace

Information Technology: It's still vital to daily operations and instrumental to an organization's ongoing success. If anything, it's more essential than ever. Companies collect, process, and distribute unprecedented amounts of data. They store it in larger data warehouses, transmit it over faster networks, and protect it with more sophisticated business continuity and disaster recovery systems. But in today's environment, the importance of data and data systems creates a dilemma. On one hand, a company cannot risk a blockage or even slowdown in data access – a powerful argument for paying the exorbitant prices for highly reliable hardware maintenance services. On the other hand, every budget dollar spent on maintenance is a dollar not available for hardware, software, or staff – an equally powerful argument for affordable maintenance. The question is, what's the right balance between reliability and affordability?

The Maintenance Monopoly

Thanks to Moore's law, stiff competition, and slower growth across the technology industry, the costs of processing power, storage capacity, data transmission and other data processing "goods" continue to fall, year after year. Technology gives us faster, smaller, smarter systems and components, and competition forces manufacturers to pass the savings on to users. It is a classic example of the free market in action, especially since open architecture has made so many components interchangeable. Hardware maintenance, however, has been something of an exception. "Hardware maintenance isn't exposed to the commoditizing forces that affect hardware prices," states Mike Cunnien, Director of Sales at World Data Products. "While hardware has become a commodity, hardware maintenance continues to be the cash cow for manufacturers, particularly in the area of server, storage and networking hardware maintenance services."

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Experience suggests that the premium on OEM maintenance can be large. According to research by Meta Group titled “Harvesting Hardware Maintenance Savings”, the article’s author Rob Schafer points out that, while systems have grown more reliable, the cost of vendor maintenance has not reflected the change. The reality is that components simply aren’t as vulnerable as they once were. Systems have been consolidated and standardized, requiring smaller parts inventories. The increasing modularization of hardware – blade servers and hot plug drives, for example – has made component replacement far simpler. And, in many cases, “hot spare and replace” has taken the place of in situ repair. Still OEM maintenance has not come down in price. “The price a vendor charges...” Schafer says, “...has little relation to the vendor’s costs.” In fact, he continues, manufacturers tend to “view hardware maintenance as a high margin annuity.”

Why can OEMs continue to command premium prices for their maintenance services? It may simply be habit on the part of buyers or the perceived safety of the “brand name.” It may be the fact that OEMs imply (or state outright) that third parties do not have the knowledge or tools that the OEM’s own service staff has, (when, in fact, a significant amount of OEM maintenance is actually performed by contracted Third Party Maintainers (TPMs)). It may be the ease with which maintenance is bundled into the hardware sale, or it may be that, in some cases, OEM maintenance seems like the only choice for an overburdened in-house IT staff.

Viabile Alternatives

Hardware maintenance direct from the manufacturer isn’t the only game in town, and while it may have a reputation for being the most reliable, this reputation is being challenged by very capable Third Party Maintainers (TPM’s), whose obvious lower cost advantage is both measurable and substantial. TPMs provide a combination of phone, web based, on-site, and parts availability services that rival the manufacturer’s, with service tiers providing a range of response times and availability options to meet the needs of most companies (See TPM Profile, pg. 5).

“ *Our research indicates that robust, credible hardware maintenance competition will typically reduce the incumbent vendor’s original bid by more than 20% or save more than 40% by outsourcing to a reliable TPM.* ”
Rob Schafer, META Group

Equally important, the leading TPMs have the infrastructure and experience to provide the levels and quality of support required in today's business environment with thousands of technicians located in all the major cities nation-wide or world-wide, serving tens of thousands of IT customers.

Another important benefit offered by third party providers is flexibility in adapting to users' needs, environments, installations, and plans. This flexibility is largely attributable to the competitive environment in which TPMs function. Besides keeping prices low and offerings flexible, this competition encourages TPMs to keep service levels high. And because they are vendor-neutral, TPMs are adept at providing thorough, even-handed support in multi-vendor environments.

Finally, there is the matter of control. OEMs cannot be blamed for using the maintenance relationship for their own benefit. As mentioned earlier, it gives them the power to block introduction of refurbished and compatible equipment, and a means of limiting practical system life. It helps them control retired hardware and keep it off the refurbished market. And it gives them an inside track regarding customers' future acquisitions. TPMs, on the other hand, have no need to control their customers.

Third Party Maintainer Profile

Leading third party maintainers typically provide coverage and services that rival OEM maintenance programs.

Coverage

- 24x7 coverage available
- Thousands of technicians
- Hundreds of offices worldwide (coverage in most major cities)
- Serving tens of thousands of data centers
- Cross-platform coverage

Remote Technical Support

- Trouble ticket management
- Problem determination
- Remote diagnostics
- Problem analysis
- Automatic escalation
- Problem resolution
- Dispatch of field service
- Satisfaction Tracking

On Site Support

- Preventive maintenance
- Remedial maintenance
- On-site repair
- Warranty management
Install, move, add and change

Logistics & Repair

- Spare part ordering, warehousing and distribution
- Inventory planning and availability
- Returns management
- Parts repair and refurbishment
- Cross platform support

What's At Stake?

As mentioned before, the savings offered by the TPM alternative can be substantial. Rob Schafer from META Group states, "Our research indicates that robust, credible hardware maintenance competition will typically reduce the incumbent vendor's original bid by more than 20% or save more than 40% by outsourcing to a reliable TPM."

Placed in the context of overall IT spending, the significance of this potential 40% savings becomes even more important. Maintenance is typically one of the larger single components of an IT budget.

Quoted in an article at wallstreetandtech.com², Robert Hegarty, vice president of the securities and investments practice at TowerGroup, estimates that over 60 percent of today's IT spending is dedicated to maintenance and only 27 percent to new technology. Obviously costs, distributions, and savings will vary among users, but a 40 percent cost reduction affecting 60 percent of an IT budget yields an overall savings of 24 percent. Using

Hegarty's estimates, this is nearly equal to the entire average expenditure on new technology. A potential bonanza of that magnitude is certainly worth exploring.

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Aside from hard-dollar savings, there are other, less obvious factors to be considered in choosing a maintenance provider. A hidden cost of maintenance from the manufacturer can be found in pricing structures or contractual limitations that artificially increase the cost of growth or force systems into premature obsolescence. For example, the manufacturer's maintenance contracts typically require that customers expand their systems using new equipment rather than refurbished or third-party-equivalent hardware. In addition, there may be restrictions on adding refurbished (rather than new) systems onto an existing maintenance contract. This can significantly increase equipment cost or eliminate potential savings in older installations for which inexpensive used equipment is available.

Manufacturers also tend to boost maintenance costs on older equipment, which in some instances forces a premature migration to their newest hardware offerings and the early retirement of still-viable systems.

The traditional hardware replacement cycle promoted by OEMs and still common among larger companies is two to three years. But according to META Group, a more realistic life cycle for most organizations is three to five years. This longer lifecycle can save companies up to 20 percent on their hardware expenditures alone, but there are other, less obvious costs of “early retirement.” These include training, downtime, and potential cascading incompatibilities throughout organizational systems. Unlike manufacturers, which encourage early obsolescence, TPMs typically keep maintenance costs at reasonable levels even as a system ages.

Making The Move

It is never easy to replace an existing relationship, and vendor relationships can be a particularly sensitive issue. Many potential users are torn between the obvious cost-effectiveness of third party maintenance and the conventional wisdom that “you get what you pay for.” Nor can they be blamed for wondering, “If it’s so good, why isn’t everyone doing it?”

Part of the problem is a perfectly understandable effort on the part of manufacturers to hold onto their very profitable maintenance business. Many of them actively suggest that third party maintainers lack the tools, resources, patches, updates, bulletins, software releases, bug fixes, version upgrades, firmware, training, and parts necessary to provide adequate support. In fact, many of these suggestions simply do not stand up to scrutiny.

While the qualifications of TPMs do vary, some of the larger national and international operations are actually larger than some of the manufacturer’s service organizations with which they compete. While there may be brief time lags between the internal release of certain vendor-specific information by manufacturers and its release to third parties, the better TPMs tend to be well trained and generally up to date regarding the systems they support. When it comes to multi-vendor environments, they are often significantly better qualified than specific manufacturers’ service providers as well as more experienced in cooperative troubleshooting and problem solving.

The viability of TPMs has been validated time and time again by industry experts and consultants and by the experience of individual users. The final validation, of course, is the judgment of the market, which continues to expand its acceptance of TPMs as a legitimate source of maintenance services.

Choosing a TPM

The first step in considering a change is to evaluate TPMs and find the best match for your needs. This evaluation process may include conversation with both service providers and with their customers.

Give yourself plenty of time to evaluate potential service providers before making a decision. This is especially true if you have a deadline – installation of a new system or the expiration of an existing maintenance agreement, for example. You will be relying heavily on this service provider, so leave time to explore new questions that may arise during the process and to check references.

Even if you are completely comfortable with your choice of a TPM, you can make the transition in simple steps, beginning with as few as a handful of components or a single location. This is a test, not just of the TPM, but also of your organization and its interaction with the service provider. There may be new procedures to be established and different processes than you are used to. Even if there are no problems, this provides an excellent opportunity to build confidence in the new relationship.

Third party maintenance is not an either/or proposition. It can easily coexist with manufacturer's maintenance, either on a temporary basis while TPM is tested or while service is gradually transferred from one service provider to another, or on a permanent basis if certain systems are to continue under vendor maintenance after TPM service begins.

The ideal time to make the transition is at expiration of existing maintenance agreements. If these expiration dates are staggered, maintenance responsibilities can be handed over to the new service provider in increments. Take the time to review each new site and agreement, as each may have its own specific requirements, service levels, etc.

Be prepared to negotiate with one or more TPMs in the process of closing a service deal. If you are used to manufacturer's maintenance, you will find the realm of TPM service to be a far more competitive one. Individual service providers will be freer to shape deals, offer additional services, and adjust prices. They will almost certainly be willing to respond to offers made by competing TPMs.

Additional Services and Capabilities

As your TPM relationship develops, you may be able to turn to your maintenance provider for additional services. These could include asset management, infrastructure planning and support, product procurement, relocation and migration, security services, staffing assistance, in-house staff training, and even strategic planning. Access to services like these can increase your "bench strength," freeing your staff to pursue longer-term goals. It can also be useful when unexpected needs arise or when you need specialized skills that you don't have in-house.

Maintenance Service Checklist

- ❑ **Location** – Whether yours is a single location or a global network, the location of your service provider is critical. Issues that require hands-on solution will depend on the physical proximity of the service reps who will address them.
- ❑ **Responsiveness** – Responsiveness has several aspects. Depending on your needs and agreed-upon service level agreements (SLAs), you will expect your TPM to return calls, show up on-site, and/or return with parts within specified times. Service level requirements may vary from site-to-site or system-to-system, depending upon your needs. Responsiveness consists of both the service levels to which your TPM can agree and the service provider’s demonstrated ability to actually perform to expectations.
- ❑ **Parts availability** – Parts availability consists of both inventory and timeliness. Some parts may be satisfactorily inventoried at distant locations and shipped in as necessary. Other, more critical parts may have to be inventoried locally or even at the customer site. TPMs should be willing to commit to inventory levels and locations.
- ❑ **Expertise** – Obviously, in order to provide adequate service, the service provider will have to have access to all necessary information on the systems and components they will support. Because information travels so freely, it may be acceptable to have the expertise available within your TPM’s organization rather than locally. It may even be sufficient to know that your TPM has access to outside information sources. But whatever the source or sources, you must be satisfied that the information will be available as needed.
- ❑ **Revision levels, software, and firmware** – Expect your TPM to be able to show you reliable sources of updates for the systems they will be supporting.
- ❑ **Support processes** – The process by which both scheduled and emergency service will be handled should be clearly defined and transparent to the customer. These should include escalation plans to ensure the resolution of difficult issues that are not satisfactorily addressed by front line support. In some cases, TPMs may offer remote system monitoring, allowing them to proactively identify and address problems before they affect operations.
- ❑ **Training** – In a changing environment, TPM staff must be kept up-to-date on processes and products in order to provide timely service. Review the organization’s training processes to be certain that they are in place and adequate.
- ❑ **Costs** – Because it is so easily measurable, cost can be overweighted in choosing a maintainer. There is, however, no right price for the wrong service, so be sure to review cost in the context of services you will contract for and the TPM’s delivery processes and capabilities. Don’t hesitate to let TPMs compete on price for your business.

Summary

Third party maintenance organizations can provide most or all of the services provided by OEM maintenance organizations, but at significantly lower cost. In multi-vendor installations they may actually be able to simplify support across a broader range of products. And because they do not depend on product sales for revenue, they are motivated to help customers maximize practical product life.

Services and capabilities vary among TPMs and must be carefully matched to customer requirements. Potential customers should treat the choice of a TPM as they would any major purchase or long-term relationship, carefully reviewing offerings, capabilities, and demonstrated performance. Once a provider is selected, services can begin at any scale and be rolled out through the organization over time. While third party maintenance may not suit every organization or every application, competition in the field has broadened service offerings, driven down costs, and increased provider focus on quality and service. Arguably, IT operations managers owe it to themselves to at least consider the TPM option, if only to keep OEM service providers on their toes.

Resources

1 META Delta 2827, Harvesting Hardware Maintenance Savings, Rob Schafer

2 <http://www.wallstreetandtech.com/showArticle.jhtml?articleID=22101225>

About World Data Products

World Data Products is the world-class leader for refurbished Cisco, Compaq, Dell, HP, IBM, and Sun solutions, including hardware maintenance. We have strategic relationships with many of the leading third party maintainers and can help you evaluate hardware maintenance alternatives that rival the quality and dependability of manufacturer's maintenance at a significantly lower cost. We help you select the right TPM for your unique situation based on expertise, responsiveness, location and parts availability.

World Data Products deliver the highest ROI and cost savings for every stage of a product's lifecycle - from the hardware's purchase or lease, maintenance, repair, upgrade, useful life extension, and eventual sale or trade-in. It's through this Total Lifecycle Control (TLC™) approach that we provide world-class business technology solutions. To learn more about World Data Products, visit our website at www.wdpi.com.

