

Hardware Support Remodeling – Tangible IT Cost-Cutting Measures

By Brent Anderson, Chief Marketing & Strategy Officer, XSi



Purpose

For those following mandates to contain current IT costs to have funding available to address a growing list of initiatives, we believe that hardware support strategies hold the greatest potential to make the most immediate and substantive impact. For those that are open to hardware support strategy remodeling, this white paper will help the reader begin to understand "why" and receive insights into "how much" can be saved within their unique environment.

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Adoption of Support Alternatives – Remodeling the “Sacred Cows”

Although independent hardware support and secondary hardware resellers have existed for several decades, more companies are now turning to measures which directly impact Operating Expense (OpEx) and Capital Expense (CapEx) budgets, proactively striving toward IT cost optimization. Whereas hardware infrastructure had once been a “sacred cow” for many data center managers, companies have begun to embrace IT Asset Management (ITAM) best practices and pay closer attention to independent reporting that educates on the value of hardware lifecycle strategies for logical segments of their environment. Clients seem to no longer be drinking the Kool-Aid poured for them by hardware manufacturers in the attempt to control (and encourage) the frequency of an expensive tech refresh.

Both Gartner and IDC estimate that the typical data center contains 20-22% post-warranty hardware assets. This data point often runs much higher for federal agencies or companies experiencing long periods of financial duress. The analyst industry's data of 20-22% post-warranty status is quite likely an increase from 15-20 years ago. But, since such a sizeable percentage of assets need NOT be under expensive OEM maintenance, it is no wonder that modern data center decision-makers have grown more curious about alternative support models.

In March 2017, Gartner's Stanley Zaffos published a report named, “Lower Both Storage Acquisition and Ownership Costs by Using Third-Party Maintenance.” Gartner Doc. [ID G00324284](#). He stated, “Many third-party maintenance (TPM) providers are delivering quality storage array break/fix support to stable storage systems with savings typically in the 40% to 70% range.” In the same document, he also offered, “The useful service life of storage arrays, which is seven to eight years in clean data centers, and almost always greater than their planned service lives.” Zaffos added, “TPM represents a significant opportunity to reduce costs, negotiate lower rates from vendors and/or extend the useful service life of installed storage arrays.”

Additionally, Gartner's Christine Tenneson explained, “Third-party maintenance (TPM) as a hybrid strategy to support server, storage and networking equipment continues to gain adoption. Some OEMs' pricing methodologies demand significant increases in maintenance charges as equipment ages, which drives customers to consider cost optimization using TPM. Seventy-one percent of the world's largest companies used a third-party maintainer as a form of support in their environment in 2016.” Gartner Doc. [ID G00294372](#).

Following this published document, Tenneson presented the following and related data points to members of the Service Industry Association:

- "59% of F500 companies used third party maintenance in 2016
- 70% of F100 companies purchased secondary hardware in 2016
- 57% of F500 companies purchased secondary hardware in 2016"

While these numbers for the world's largest companies are influential, we believe that the greatest saving opportunities exist for SMB enterprise (\$400-900M) and federal agencies, where the infrastructure personnel have believed they have zero negotiating leverage with manufacturers. Alternatively, hardware past End-of-Life (milestone date) announcements are, in several sectors, still being relied upon with an incomplete or sub-par support plan. In such cases, this is where we have witnessed the greatest percentage of OpEx savings for data center clients.



Global Adoption of Independent Hardware Support

In June 2016, IDC published another report in favor of third party maintenance alternatives, "Cut Operational Costs: Third-Party Maintainers for Legacy and Stable Datacenter Environments to Help Invest in the Future." IDC Doc. ID US41447716 (no longer available for online purchase). Details and statistics were based on a global survey of data center clients and survey questions included third-party usage, reasons for choosing TPM support and percentage of the data center covered by Third Party Maintenance companies. The report included several influential data points, comparing TPM usage from 2013 to 2015, showing a substantive increase in reliance. And that now, "nearly half of all global respondents are using third-party maintainers for a portion of their data center environment."

While the evidence for marketplace acceptance is incredibly revealing, the savvy infrastructure leader should next be asking themselves, "Well, okay, how much can I save? Help me to quantify the potential for cost savings in my environment."

Here are three sample case studies to help the reader begin to visualize the magnitude of potential savings:

Case Study 1: Global Pharmaceutical

- Situation/Problem: 200+ sites across North America and Asia. HQ recognized they were being over-charged by Cisco for older assets, or assets not benefiting from specific elements of SMARTnet coverage.
- Original Client Objective: Seeking a hybrid support model, with assistance from an independent provider to receive cost for coverage appropriate to the asset base. 7,500 line items to quote.
- Solution Provided: Presence of TPM in process gave client the leverage to drive Cisco pricing down for assets requiring SMARTnet. Appropriate assets were placed under an independent support agreement.
- Financial Outcomes: Client is now saving \$3.25M annually from its original Cisco budget.

Case Study 2: Regional Bank

- Situation/Problem: Client realized they were paying too much for support of older assets with the OEM, but were also growing frustrated with multiple vendors (and vendor channel) across numerous geographies.
- Original Client Objective: Client wanted to simplify the base of vendors and save money on n-3 (means three generations back from current generation) and older servers.
- Solution Provided: TPM provided the geographic scalability to cover all sites, simplified their invoicing and reduced the clients overall staff hours spent on vendor communications. Internal time/cost savings were not tabulated for the financial outcomes referenced below.
- Financial Outcomes: In addition to labor savings, client reduced their annual server support budget by \$150,000.

Case Study 3: Oil & Gas Company

- Situation/Problem: Client needed to address a major market disruption – falling oil prices throughout the U.S. They needed to be dramatically reducing all operating costs so profits could meet shareholder expectations.
- Original Client Objective: Client wanted to identify assets best-suited to independent support models, then find a single multi-vendor TPM that could greatly assist in cost containment – fast.
- Solution Provided: TPM found that 80+% of hardware assets were eligible for TPM support and on-boarded those assets into the new support program within 30 days.
- Financial Outcomes: Client saw annual OpEx savings of 58% from previous support budgets.

Case Study 4: County Government

- Situation/Problem: Client desired to better understand their Cisco assets and where SMARTnet created no additional value. They had over 500 Cisco networking assets on a SMARTnet agreement that was due for renewal within 45 days.
- Original Client Objective: Wanted to undertake a thorough discovery then better understand how much money could be saved within sacrifice to service quality.
- Solution Provided: TPM quickly analyzed the asset list for eligibility, identifying assets with low-risk vs. those that should stay under SMARTnet support, educating the client in critical asset details and the value of managing milestone dates.
- Financial Outcomes: Client reduced their annual Cisco budget by \$250,000.

In February 2015, Gartner published a similar study addressing the financial benefits of secondary hardware and independent maintenance support, named, "Used Hardware Resellers Offer Hardware and Support Cost Savings." Gartner Doc. ID [G00270507](#). At the very end of this published research, Gartner provided several case study examples, with detailed financial outcomes. It's a worthwhile read, if your company has a Gartner subscription.

Additional Gartner-Published Documents

- [The Gartner Top 10 Recommended IT Cost Optimization Ideas](#)
- [How to Manage the IT Budget Wisely Through Cost and Value Optimization](#)
- [Lower Both Storage Acquisition and Ownership Costs by Using Third-Party Maintenance](#)
- [Forecast Analysis: IT Services, Worldwide, 1Q17 Update](#)



A Simple & Helpful Formula – Predicting the Savings Potential

In September 2015, a very smart and resourceful **friend of mine**, built a formulaic approach to predicting the savings potential of using an independent hardware support provider and based it solely on two, easy-to-collect data points. Not only did he validate this formula with a dozen real-use cases, he validated the logic with Gartner's primary analyst for Third Party Maintenance. Since he began sharing this formula with clients and service providers, its accuracy has been between +/- 3.5%, on average.

With his permission, here are the details so you can predict savings within your own environment:

"Here's a very simple formula to help you quantify and forecast the financial impact you can make by driving the adoption of a hybrid hardware support model. It starts with the collection of two data points. Whereas an estimate (for these two data points) is "okay" and may suffice, collecting real numbers will establish credibility when presenting your concept to management.

- *Find or estimate the percentage of hardware (footprint "counts" of servers, storage and networking) physical assets that are post-warranty. Is it 18.5% or is it 23.75%? It's possible someone in IT Asset Management (ITAM) can help you find that number, but the hardware infrastructure team will know this data point, if the ITAM team isn't helpful.*

Ideally, find the total estimated annual hardware maintenance spend for all hardware assets – both in-warranty

- *and post-warranty.*

From those two data points, use the following to estimate the savings impact possible:

- If **post-warranty is 18%** of the total asset count, a hybrid support model will drive **10-11% reductions** in Total Annual Hardware OpEx Budgets (TAHOE)
- If **post-warranty is 20%**, hybrid support will drive **11% to 12%** reductions in TAHOE
- If **post-warranty is 22%**, hybrid support will drive **12% to 13%** reduction in TAHOE
- If **post-warranty is 24%**, hybrid support will drive **13% to 14%** reductions in TAHOE
- If **post-warranty is 26%**, hybrid support will drive **14% to 15%** reductions in TAHOE.

Think about that! Even for a smaller company spending \$1M annually in hardware OpEx, with 18% in post-warranty status, IT procurement can still drive \$100,000+ in annual savings. It's definitely worth taking a closer look, wouldn't you agree?

Summary

When the percentage of post-warranty hardware (servers, storage, & networking devices) in your environment reaches or exceeds 15% of your total asset count, the value from this important milestone date (warranty expiration) can and should trigger an alert to IT Procurement and IT Ops. In lieu of such automated business intelligence, respected independent hardware support providers can provide multiple assessment tools – including physical site audits to help establish a baseline for this data, as well as other important milestone dates (EoS, EoSW and EoL) – each of which can effectively trigger even great IT cost containment. When approximately 50% of global enterprise IT is now relying on independent maintenance providers for the savings and service, it would seem logical that the remaining 50% would soon want to more deeply understand the potential of this 40-year-old alternative support model.

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Brent joined XSi in 2020, bringing with him 30 years of marketing expertise, mostly IT and healthcare. Early in his career, he worked for a few of the country's leading brand development firms in the Twin Cities, but landed firmly in IT and Independent Hardware Maintenance in 2002. During his IT Maintenance career, he worked at four IT maintainers (Qualtech/QSGI, Top Gun Technology, SMS/Curvature, SSCS), helping two of them from their origins to a recognized and successful business entity. In all instances, he managed the marketing departments, was the primary liaison with industry analysts (e.g. Gartner, IDC) and oversaw all marketing objectives, strategies and tactics. His greatest strengths have been in brand or market positioning and building a solid digital presence. His interests include: prairie restoration and habitat improvement projects, pollinator education, movies, music, craft beer, cooking, cast iron cookware restoration, youth education, fishing, hunting and BWCA camping.



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