

Used-Hardware Resellers Offer Hardware and Support Cost Savings

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IT procurement professionals are increasingly evaluating used-hardware resellers and third-party maintenance providers to reduce costs and extend the functional life of IT assets. This is a viable strategy, but some risks must be identified and assessed early in the procurement cycle.

Impacts

- Enterprises seek used hardware for benefits such as cost savings and reduced lead times, requiring IT procurement professionals to assess when used hardware will be most effective.
- Enterprises seek hardware support services from used-hardware resellers and third-party maintenance (TPM) providers for benefits such as cost savings, requiring IT procurement professionals to assess where these services will be most effective.
- There are risks when using used-hardware resellers or TPM providers, which IT procurement professionals must identify and assess early in the purchasing cycle.

Recommendations

- Utilize used-hardware resellers to purchase hardware in any of the following categories: noncritical, postwarranty, end-of-sale or end-of-support hardware.
- Use caution when utilizing used-hardware resellers to purchase hardware that has OS software bundled with it, unless the OEM policy is that the OS license is transferable, or you plan to relicense it.
- Use support from used-hardware resellers and TPM providers on hardware in any of the following categories: noncritical, postwarranty, end-of-sale or end-of-support hardware. Consider this especially for hardware devices that you will deploy in large volumes.
- Use support from used-hardware resellers and TPM providers when flexible terms and conditions are required.
- Assess the full total cost of ownership (TCO) of used hardware by including a review of software licensing policies and potential additional costs for relicensing.

Analysis

Used-hardware resellers were aggressive in their pursuit of new clients in 2014. At the same time, they were successful in expanding their relationships with existing clients. Private equity investment is a small part of what has contributed to the increased visibility of used-hardware resellers, but ultimately, these resellers are responding to a growing need to reduce capital outlays for nonstrategic IT. Procurement personnel are still under pressure to further reduce capital expenditures relating to corporate data centers and networks.

Gartner has received hundreds of inquiries during the year from CIOs, IT managers, and procurement and sourcing specialists about used-hardware resellers and TPM providers. Questions typically include:

- Do other enterprises of our size and vertical use these providers for hardware procurement?
- What are the cost savings typically achieved on hardware?
- Is anyone considering using these providers for services, such as support, installation or IT asset disposition?
- What are the risks associated with using these providers?
- What metrics should I use in an RFI or RFP when considering these providers?
- Can I purchase OEM support on used hardware?

Figure 1 lists the main impacts of this market, and the corresponding key recommendations, we will review in this report.

Figure 1. Impacts and Top Recommendations for Enterprise IT Buyers and Procurement Professionals

Impacts	Top Recommendations
Enterprises seek used hardware for benefits such as cost savings and reduced lead times, requiring IT procurement professionals to assess when used hardware will be most effective.	<ul style="list-style-type: none"> Utilize used-hardware resellers to purchase noncritical, postwarranty, end-of-sale or end-of-support hardware. Use caution when the hardware is bundled with OS software, unless the OEM policy is that the OS license is transferable, or you plan to relicense it.
Enterprises seek hardware support services from used-hardware resellers and TPM providers, requiring IT procurement professionals to assess where these services will be most effective.	<ul style="list-style-type: none"> Use this support for noncritical, postwarranty, end-of-sale or end-of-support hardware — and especially for hardware with a high product density. Use this support when flexible terms and conditions are required.
There are risks when using used-hardware resellers or TPM providers, which IT procurement professionals must assess early in the purchasing cycle.	<ul style="list-style-type: none"> Assess the full TCO of used hardware by including a review of software licensing policies and potential additional costs for relicensing.

Source: Gartner (February 2015)

It should be noted that the used-hardware market differs from the gray and black markets. In the black market, parts are illegal or counterfeit. In the gray hardware market, new products are sold outside of the channel originally intended to be sold in, and are against what the OEM intended in its rules of engagement.

Impacts and Recommendations

Enterprises seek used hardware for benefits such as cost savings and reduced lead times, requiring IT procurement professionals to assess when used hardware will be most effective

The used-hardware market — commonly referred to as the "secondary market" — can provide significant savings on hardware expenditures. Gartner has found that organizations most often utilize these providers for postwarranty hardware. The purchase of used hardware gives enterprises the ability to stretch the functional life of IT assets where the manufacturer has identified planned obsolescence of hardware in terms of an announced timetable for "end of sale" and "end of support." Depending on the complexity, location, age and product density of the equipment on order, savings can be 50% to 70% off the discounted price of new, functionally equivalent

hardware. It should be noted that savings are dependent on an organization's procurement practices. If best-in-class discounts on the product have already been achieved through structured and aggressive negotiations, savings may not be as high.

Much of the used hardware sold by providers is refurbished equipment. However, most secondary-market resellers also offer some new hardware as well. Regardless of whether the hardware is "new in box," or has been used in a production environment, it is critical that the provider presents details and documentation relating to the processes and methodologies for quality control and testing facilities. Best-in-class used-hardware resellers will present documentation of their testing processes to ensure that no black-market or counterfeit parts are in their used hardware. Such testing also guarantees the functionality of the used equipment.

Most used-hardware suppliers offer a lifetime guarantee that the parts received are genuine. It should be noted that this guarantee is different from the warranty that comes with the hardware, which is often for one year.

For prospective customers to better understand the capabilities of the used-hardware resellers, an on-site visit to the provider's depot is recommended. Such a visit should include a review of the provider's testing labs to help gauge inventory size and standardized processes for logistics. Hardware brokers that have no testing facilities, engineering staff or inventory on-hand are a significant percentage of the providers in the used-equipment market.

Generally, used-hardware resellers are not certified channel partners of the respective OEMs whose hardware they sell. Authorized channel partners do go through an OEM certification process. Distinguishing authorized channel partners from used-hardware providers can be tricky, because some used-hardware providers will use the word "certified." These used-hardware resellers may have many certified engineers on staff, but may not be a certified reseller. In other words, individual certification is different from organizational certification.

Recommendations:

- Employ used-hardware resellers to purchase hardware in any of the following IT hardware categories: noncritical, postwarranty, end-of-sale or end-of-support hardware.
- Use caution when employing used-hardware resellers to purchase hardware that has OS software bundled with it — unless the OEM policy is that the OS license is transferable, or you plan to relicense the software.
- If the OS license is transferable, make certain the reseller has provided documented proof that the OS is relicensed to your company.
- Negotiate firmware availability and stand-alone software support discount structures during any capital equipment acquisitions. This enables flexibility and cost advantages on support options over the life of the product.
- Test a used-hardware reseller's ability to execute by implementing a pilot in a low-risk, nonproduction or highly commoditized portion of your IT environment.

- When conducting due diligence on a used-hardware reseller, ask for details about the provider's inventory controls, inventory accuracy, logistics processes and depot locations. A site visit is recommended.

Enterprises seek hardware support services from used-hardware resellers and TPM providers for benefits such as cost savings, requiring IT procurement professionals to assess where these services will be most effective

Purchasing used server, storage and network hardware — and related maintenance contracts — is a tactic to reduce IT costs. Unauthorized hardware maintenance can provide significant savings off of OEM maintenance, but it should not be used on all equipment.

Used-hardware resellers are one type of service provider that offers unauthorized hardware maintenance. TPM providers — sometimes referred to as independent service providers (ISPs) or unauthorized maintenance providers (UMPs) — also provide these types of support contracts. Many used-hardware resellers leverage the service capabilities of the most established TPM providers when selling support and maintenance contracts. However, Gartner is seeing a dramatic increase in the number of used-hardware resellers providing their own branded, and staffed, maintenance services.

Some hardware resellers and TPM providers are very good at helping clients evaluate and "optimize" support spend. These providers consult with clients (usually at no charge) about:

- Which devices should be considered within a used-hardware strategy
- What level of coverage is appropriate for a range of used hardware
- In which use-case scenarios one might consider utilizing spare equipment on-site and/or at a service provider's depot (also known as "sparing"), rather than maintenance agreements

Employing used-hardware resellers for support and maintenance should not be considered for all devices from all manufacturers. A good way to evaluate a provider is to ask for these recommendations, and insight about what it can cover, and what it advises should be kept with manufacturer support. Enterprises should stay away from any used-hardware reseller or TPM provider that says it can cover everything, and provide everything.

Some benefits of these maintenance contracts from used-hardware resellers and TPM providers can be:

- Cost savings — The ability to save 50% to 60% on OEM hardware contracts is typical, but for contracts with high product density, it can be up to 85% savings. Gartner has seen that this significant savings is more likely with servers, than with storage or networking hardware.
- Contract length flexibility — The ability to enter into a month-to-month contract. There is not as much pressure to lock in for multiple years.
- Contract term flexibility — The ability to terminate at any time without penalty.

- Pricing methodologies — Many OEMs don't give a benefit for having product density. TPM providers often price on product density, and therefore, enterprises can leverage that more with a TPM provider than with most OEMs.
- Escaping the significant postwarranty service price increases — With some OEMs, there are significant increases in maintenance charges as equipment ages. With TPMs, pricing can be more indicative of net present value (NPV).
- Leverage with the OEMs — Sometimes, a TPM quote can be used to drive down spending with OEMs, or as a way to bargain with authorized value-added resellers (VARs). While OEMs will never match a TPM quote, we have seen instances where they reduced the quote from 5% to 20%.

Recommendations:

- Use support from used-hardware resellers and TPM providers on hardware in any of the following categories: noncritical, postwarranty, end-of-sale or end-of-support hardware. Consider this especially for hardware devices with a high product density.
- Use support from used-hardware resellers and TPM providers when flexible terms and conditions are required.
- Conduct a pilot. Test the vendor's support on commodity or nonproduction hardware before using the provider more broadly in a data center or network environment.
- Evaluate a TPM by asking for a no-fee assessment with recommendations and insight about what hardware it can cover, and what it advises you keep with manufacturer support.

There are risks when using used-hardware resellers or TPM providers, which IT procurement professionals must identify and assess early in the purchasing cycle

While used-hardware resellers are able to provide significant savings on hardware, and hardware maintenance contracts, these savings come with risks that may not be tolerable for some regulated industries or for specific IT use cases. Used-hardware resellers are typically used in addition to, not as a replacement for, hardware and services from authorized channel partners of the OEMs. The used-hardware market is very fragmented and can be cumbersome to navigate. Almost all providers are privately held, making it difficult to discern the financial viability of the providers. Additionally, there are few large providers with global or even national capabilities. If investigating a global, hybrid hardware-purchasing strategy, enterprises may have to use the best in-region providers, depending on the OEM's hardware desired.

Many small providers operate without having their own parts or logistics and engineers, using partners to secure parts and people. Therefore, diligence to investigate providers (an RFI is suggested) is recommended to ensure the viability of a provider. An on-site visit is recommended when providers are being placed on a shortlist. Reference checks must focus on the equipment the enterprise is looking to maintain (in other words, IT procurement professionals should talk to references for a TPM provider that is supporting the specific OEM hardware for which the enterprise desires support).

Many of the largest used-hardware market suppliers are members of the United Network Equipment Dealers Association ([UNEDA](#)). UNEDA actively works to set standards for its members on best practices for testing products for legitimacy and functionality, and works to fight gray- and black-market activities. UNEDA actively promotes legislation designed to promote the secondary-market industry.

Other organizations with similar missions include:

- The Association of Service and Computer Dealers International ([AscdiNatd](#)) also works to fight gray- and black-market competitors and, like UNEDA, promotes right-to-resell and right-to-repair initiatives.
- The Service Industry Association ([SIA](#)) is an organization that many of the TPM providers belong to. The SIA seeks to promote right-to-repair legislature and choice for customers for support services. Many of the TPM providers also belong to the [Digital Right to Repair Coalition](#), which is active in promoting rights for independent service providers, across consumer and enterprise support industries.

Despite concerns related to OEMs' objections to the acquisition of used hardware, the used-hardware resale market is an established and growing market. The risks for end-user customers can be mitigated, including:

- Unclear software licenses — The lack of clarity in information regarding software access rights can be confusing. OSs are becoming more subscription-based. Some OEMs have had long-standing policies in place to keep TPM providers out of the market. Other OEMs, more recently, have released policies limiting access to microcode or firmware without an OEM support contract.
- Additional cost potential — Going to market for "software only" bids for firmware or microcode can be very expensive. In addition, OEMs can implement a recertification fee or relicensing fee if a user decides to go back to OEM maintenance after acquiring hardware and services from a used-hardware reseller.
- Lack of access to OEM technical support and sustaining engineering — Should the used-hardware reseller exhaust its own technical expertise to resolve incidents and problems, it is unable to escalate to the OEM. Many OEMs also refuse used-hardware resellers any access to per-incident, time-and-materials support. In addition, many OEMs will not take time-and-materials calls from end-user customers with no support contract. Each OEM has its own policy regarding accepting noncontract support from a TPM provider, and these policies, and potential work-arounds, must be identified.

Recommendations:

- Fully research used-hardware resellers and TPM providers before entering a contract.
- Be aware of software licensing policies and potential additional costs for relicensing.

Gartner Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"Magic Quadrant for Communications Outsourcing and Professional Services"

"Magic Quadrant for IT Asset Disposition, Worldwide"

"How to Reduce Network Equipment Maintenance Costs"

Evidence

As a result of user and vendor inquiries, Gartner analysts have reviewed bids and proposals for used network and data center equipment and services, where savings of 50% to 90% were proposed by vendors and/or accepted by purchasing professionals.

Some noteworthy examples that Gartner has reviewed included:

- A global company in the communications, media and service sector planned to refresh its network hardware, according to the OEM's end-of-life agenda. When the company investigated using a used-hardware reseller, it acquired hardware with next-business-day and four-hour response for its 114 locations in 18 countries, for a savings of \$1.3 million.
- A global manufacturer of durable goods (electronics) invested in used hardware and related maintenance services for 1,600 devices to be used in 119 offices across 25 countries. The hardware and maintenance cost savings came to a combined total of more than \$4 million.
- A large, global communications service provider (CSP) engaged in a hybrid used-new network strategy across 60 offices around the world, covering nearly 5,000 devices. For most of the CSP's sites, it was able to secure service contracts for next-business-day, on-site response. For remote locations, the company leveraged a focused on-site sparing plan for hardware replacement when needed. By partnering with a reseller of used hardware and maintenance services, the CSP saved nearly \$5 million in hardware and service costs.

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