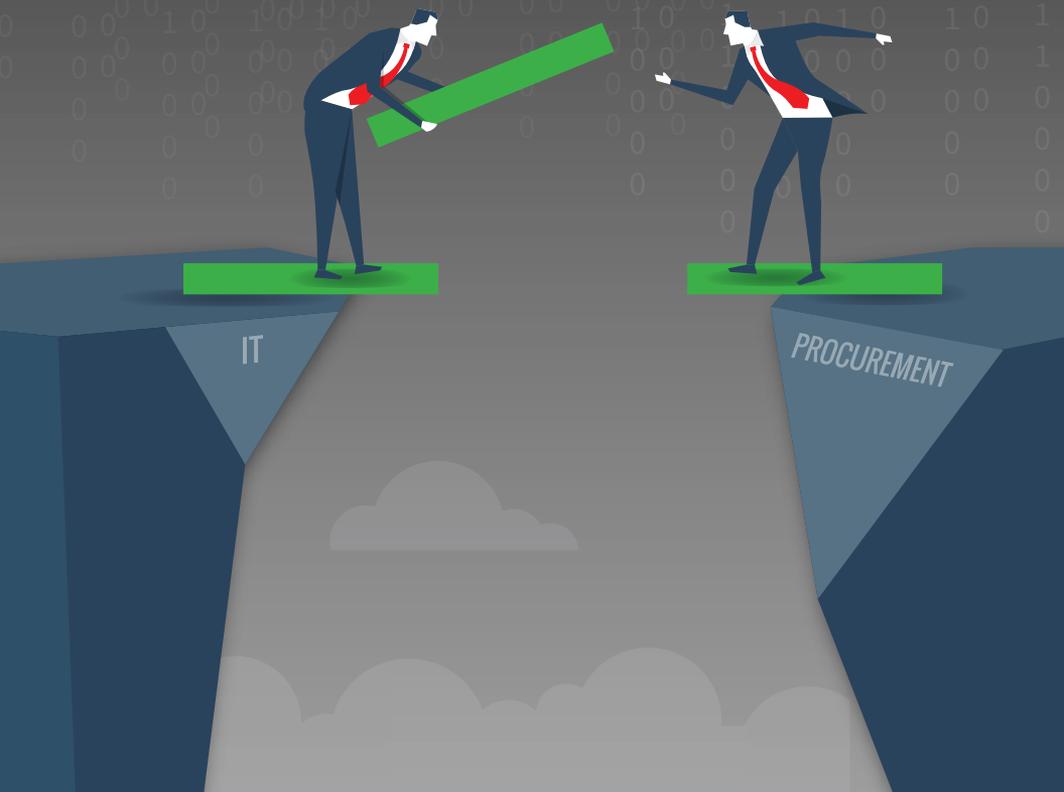


3RD PARTY MAINTENANCE

THE ULTIMATE GUIDE



A Guidebook For IT & Procurement Professionals

by **KEN PECK**

3RD PARTY MAINTENANCE

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A Guidebook for IT & Procurement Professionals
and Aid for Bridging the Gap

By Ken Peck



SMART 3RD PARTY

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EXECUTIVE SUMMARY

Are you an IT executive faced with constant upgrades, equipment at End of Life (EOL) or End of Service Life (EOSL), new technologies requiring infrastructure reconfiguration, users expecting absolute 100% reliability, and CEOs demanding that costs be ratcheted down – all while still growing to keep up with demand? Or are you a procurement professional charged with getting the best overall value at the lowest cost and looking at alternatives that others don't even consider?

The fact is, there are two sides to this coin: one screams for the perceived safest and most familiar, while the other says let's reduce our costs and save the enterprise money.

Who is This Book For?

This book is for you if you've had a hard time keeping your IT maintenance costs in line or are faced with replacing equipment that seems to be working just fine, but the OEM says they will only support it at an exorbitant cost; take it or leave it.

This book answers questions about how to investigate TPM and what the risks are versus the substantial rewards. And, it dispels many of the myths that may be spouted by OEM sales people. Plus, we give you roadmaps, tools, education, and resources that will make life easier as an IT or procurement professional.

TPM has a long history, and was a natural response to the growth of IT and high cost OEM agreements. We review that history and show how TPM has matured to be a real factor while still offering substantial room for growth. There has been a lot of frustration in the user community and people just like you are coming to a new understanding about what the options are.

As you look into your options, you will want to understand TPM and we show you many independent studies and recommendations from trusted industry sources like Gartner. This will give you more comfort that you are on the right track and help you do your own research.

We discuss the natural tension that you all experience about reining in costs versus keeping it all up and running with several real-world examples that show you how TPM is helping many IT executives win the battle.

The OEMs still have a prominent role and they have a story to tell. We debunk some of the most common objections they will throw in front of you. And, we review in much detail the issue of SLAs which end up being the meat of your considerations. How to make the SLAs work for you is key.

Then we tackle the other critical issue of software updates, out of service, etc. A roadmap to address software from installation to true useful life is possible, and we show you how to do it.

Next, we reveal a hidden but vibrant IT Maintenance “Ecosystem” and peel it back to show you how we use it and make it work for you.

In the end, this book is all about helping you make your own decisions for your shop. There are many concrete recommendations and winning paths shown here. Plus, in the Appendix we even provide a process and tools to help you make informed decisions so you are truly in control – not the OEMs or the TPMs. It's all about your organization, and making it work for your users and clients.

CHAPTER ONE: HOW TPM GREW TO BE A REAL ALTERNATIVE

I'm Ken Peck, president of Smart 3rd Party in Atlanta and I want to give you some insights from my 30+ years working with IT vendors, OEMs, support companies, equipment brokers, and thousands of end-user companies like yours.

You probably have some knowledge of Third Party Maintenance (TPM). Its roots go back to the '70s, but the industry really started to flourish in the 1980s. A report from the Journal of Information Systems Management in 1988 stated, "Beginning as an innovative idea in the early 1970s, the third-party maintenance industry realized revenues of \$1.4 billion in 1986. This flourishing industry offers opportunities for vendors and customers alike."

In the early years of computers and IT we were totally reliant on big manufacturers like IBM, Unisys Digital Equipment Corporation (DEC), and Hewlett Packard. Our customers just needed to build their systems and infrastructure and it was kind of like the Wild West. The need for new technology, software, equipment, and innovation was limitless. Everyone felt like they needed to build a network, be competitive, and always have the newest and best technology. Many millionaires were made, and it seemed like this might continue forever. Everyone thought that we would see new technologies and approaches to IT management coming at us all the time.

IT managers and purchasing professionals tried to ride herd while many network, server, storage, and connectivity vendors flourished as our infrastructures grew. The opportunity to look for outside partners to manage all or part of your infrastructure arose. Companies like Sorbus, Bell Atlantic, MAI (Management Assistance, Inc.), and Interlogic Trace were the early market leaders in the TPM space. When Bell Atlantic acquired Sorbus in 1984, Sorbus employed 2,200 people generating \$118 million in revenue. (Source: Washington Post, September 6, 1984.) By the way, these early market leaders don't exist as separate companies today. The industry has really grown since the mid-1980s.

It was about this time that I was attracted to this industry for a few reasons. First, I loved technology, and I always wanted to see if I could keep up with new generations of network infrastructure and communication equipment. Second,

I realized that the big companies always seemed to have an advantage over some of my friends and colleagues who worked with mid-sized and smaller companies. It's the American way to pull for the underdog, and I've always had a "soft spot" for smaller organizations. I saw a real opportunity to help these smaller companies, and TPMs would definitely be classified as the underdog facing the behemoth OEMs. Frankly, this industry has been very good to me. Over the years I've sold hardware, software, and services dealing with all aspects of the IT industry. So, I've dealt with the large OEMs, and I also know the frustration that many of my best customers had when OEMs withdrew support on equipment just a few years old, or sunset product lines after an acquisition. Or, they were faced with monumental maintenance support contracts that kind of felt like the OEMs had a gun to the heads of my customers.

Eventually, I realized there was a better way. I didn't come up with the idea for TPM, but I realized that there were several companies offering support, service, and equipment that allowed my clients to substantially reduce their costs and work more on just running their businesses instead of chasing their tails trying to keep up with the "techno-wars."

This has become my passion: to help the reseller community, small IT service companies, as well as IT and procurement professionals find a more cost-effective way to operate while eliminating the perceived risk. I realize that many of you may be struggling with how to evaluate and access the right services, vendors, and contractors so TPM can be another partnership to enhance your infrastructure. This book gives you the knowledge and tools you need to begin this process.

Why TPM Is Such A Hot Topic

In simple terms, the environment for TPM has never been stronger. The two main drivers are:

1. IT Infrastructure Costs are under extreme pressure and typically need to be reduced.
2. Many IT Assets have useful lives that extend well beyond what the manufacturers will support or allow.

While some would like to say that our economy is roaring, the fact is that many sectors are still under extreme cost pressure. C-Level executives know that they can grow businesses and be competitive with sound IT strategies. But they constantly pressure IT executives about the replacement of assets and software that appears to be working just fine. Procurement professionals do

their best to monitor costs, but there is a tension with the IT executive and the end users. IT costs are seemingly gobbled up just to maintain the status quo, while C-Level executives are clamoring for more to help them grow and compete in a global economy. Frustration can be high on all levels.

Key Drivers Of Frustration

Pain might be a better word than frustration, but we all are caught up in it. I'm sure you can relate to the following trends I see from dealing with many customers:

1. Cost pressures: customers feel like the cost freight train is running them over.
2. OEMs rush the refresh cycles on IT assets well before true useful life is achieved.
3. Manufacturer support and maintenance is often quite cumbersome and confusing. Due to the OEMs sheer size, it creates dealing with difficult systems, rules, and processes that are not always customer friendly.
4. When a problem or support issue is identified, there can be extreme confusion working through multiple vendors, and equipment suppliers to fix the problem. Conflicting Service Level Agreements (SLAs) slow down fixes. Users pay the price.
5. Vendors and OEMs are constantly selling "new and better" when all that's wanted is "working and cost-effective."

Surprising: Third Party Options Not Well Known

While TPM options have been available for 30+ years, surprisingly the market penetration is really quite low. In fact, my experience tells me that less than 10% of the companies who could realistically use viable Third Party Maintenance do so. In fact, some industry insiders peg market penetration at 7%. Most aren't even aware of the options or don't really consider TPM as a viable alternative.

Why such low market penetration? I'd offer these observations:

- The OEMs like Cisco, Dell, NetApp, etc. have done a marvelous job of selling their services. They use fear (or as we like to call it, FUD: Fear, Uncertainty, and Doubt) as a major de-motivator. They make it appear that working with an alternative vendor for third party support may jeopardize their whole IT infrastructure.
- Against this backdrop and the pressures of keeping their IT systems up and running, IT executives have not really bothered to educate themselves on the options. They hear what the OEMs tell them and say they'd rather be "safe than sorry."

TPM: It's Not Complex

THIRD PARTY MAINTENANCE **FORMULA**

IF YOU MAINTAIN AN INFRASTRUCTURE INCLUDING



SERVERS



STORAGE



NETWORKING

You must have a maintenance and support plan.

A SIMPLE FORMULA OFFERS

1. Reduced Costs

2. Quality of Service

3. Acceptable Level of Risk

$$X^{\uparrow} - Y^{\downarrow} = Z$$

X = Your Current Spend

 Your current spend with OEM maintenance is high.

Y = Reduced Spend with TPM

 Your spend with a TPM company is low.

Z = Savings

Your total savings

The good news is that this perspective is changing. TPM companies have reached a level of maturity and sophistication that allows them to compete more effectively with the big OEMs. According to Gartner, the TPM industry sees their revenues growing, despite a shrinking market of OEM maintenance. The overall IT maintenance market is about \$39B with TPM accounting for \$2.5B and on track to increase 25% by 2020 while OEM maintenance will decline. And, many companies have seen tremendous benefit from working with third party vendors. Finally, IT executives and procurement specialists are much more receptive to TPM now because of cost pressures and the frustrations we've mentioned before.

Accenture, perhaps the largest global business and IT consulting company in the world, said in one of their industry trend reports from a few years ago:

“ *Don't Ignore the Trend Toward Third-Party Maintenance Options for Hardware Support: As our clients look at various ways to optimize their IT cost structure, increasingly, third-party maintenance options for hardware support look like a no-brainer. The quality of third-party support options continues to increase, offering not only significant savings potential, but better global coverage. Most enterprises want a direct global support model, and as a result often look to their largest hardware supplier to manage global hardware support; however, no single supplier has a truly global support model. Although these large hardware providers are ideally suited to provide support for their own hardware, the reality is that most companies have a diverse mix of gear (i.e., servers from one vendor, storage gear from another, networking gear from a third) not to mention a mosaic of data center software. The primary supplier will end up using third-party services to support the hardware/software outside its own brand or in certain geographies where it lacks coverage. This prime/sub-contractor model results in higher costs for the enterprise, and potentially lower service levels. **This begs the question, why not go to a third-party maintenance option directly rather than rely on the primary OEM?***

Key Action: *Whether considering outsourced support for the first time or re-examining existing agreements, be sure to consider third-party options. Despite complexities such as unbundling existing hardware and software maintenance agreements, the savings potential can be substantial (30-60 percent), not to mention the benefits of inventory management services, flexible SLAs, and other benefits.”*

As recommended by Accenture and many other IT experts, you will want to study this book and find ways to evaluate TPM for your shop.

CHAPTER TWO: INFORMATION SOURCES HELP UNDERSTAND TPM

My recommendation is that you do some homework and get to know what TPM is all about. You can certainly do a Google search and find many websites and offerings from some of the players in the market. But be careful, because we all know that just “because it’s on the Internet” doesn’t mean it’s true.

Important Industry Studies You Can Use

I’m sure we are all aware of Gartner, the top IT industry analyst firm. Gartner analysts Christine Tenneson and Stanley Zaffos are experts in TPM, and have led many studies about this market and the services available. Of the other analyst organizations, IDC, Forrester, and Aberdeen Group, only IDC has written about TPM. In June of 2016, Rob Brothers, IDC analyst, wrote the report “Cut Operational Costs: Third-Party Maintainers for Legacy and Stable Datacenter Environments to Help Invest for the Future.” Although it’s a few years old, you may find this report useful.

Gartner continues to research various components of the TPM space and issue forward-looking studies and surveys to help us understand key trends, problems facing the industry, opportunities for growth, etc.

One valuable study from Gartner is “How To Reduce Network Equipment Maintenance Costs.” Although it was published in May 2014, it contains some great information. To keep this simple, I will quote from the summary at the beginning of the report:

“*Each year, maintenance costs swallow 15% to 25% of total enterprise IT budgets, and network managers must constantly reduce and control these expenses. Gartner has identified four ways to decrease network maintenance and support costs that can be applied to all types of networking equipment.*”

My comments on this: Note that this is a major issue. Maintenance is a large cost for most organizations and one that they probably overlooked. One reason it is so high is because of the insistence by OEMs and resellers that

their exorbitant and sometimes ineffective support contracts are necessary. You have alternatives that are cost-effective and maintain service levels.

More from the Gartner Study:

Key Challenges (per Gartner):

- Selecting the same level of service for all equipment is a common practice, however, it results in wasted and/or suboptimal expenditures.
- Enterprises don't usually focus as heavily on negotiating the best prices for support and maintenance contracts as they do on purchasing network equipment.
- Because managing and controlling network maintenance contracts with different providers and expiration dates is difficult, the renewal process is tedious.

Recommendations (per Gartner):

- Negotiate initial maintenance prices at the same time you negotiate equipment purchase prices.
- Ensure that your network equipment has the appropriate maintenance service level, based on business risks, type of equipment, age of equipment, and the equipment's relative importance to the business.
- Co-terminate and centrally manage your maintenance contracts by using inventory and contract management software tools or a service provider for inventory management services.
- Take advantage of limited lifetime warranties for less critical and more stable parts of your network.

This is such valuable information! First, note how Gartner identifies that many of these suggestions are not current business practices. And yet, they identify many opportunities to use TPM. The types of information and inventory tools they mention are typical of what third party providers offer. Gartner is recommending that these issues be addressed at an early stage and that there are many factors to consider, primarily based on business risk factors compared to the age and functionality of the equipment.

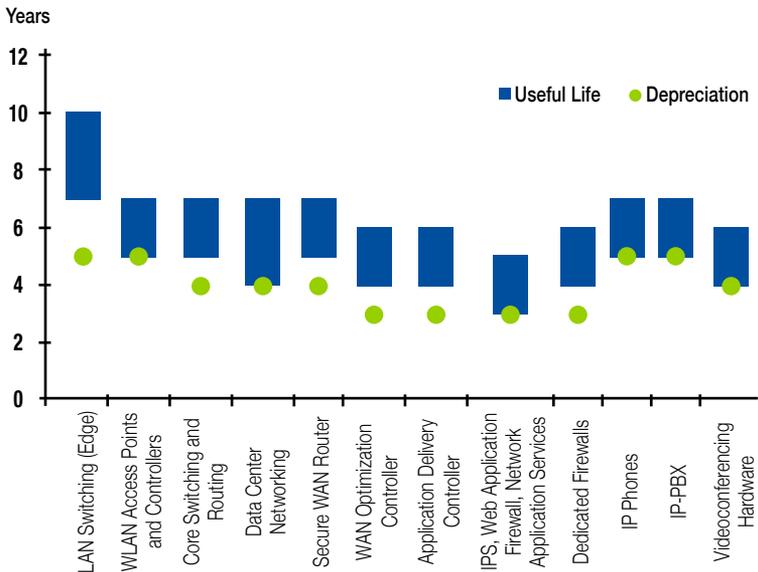
The report goes on to analyze the various options from using the OEM Support, Reseller support, TPM and Self Support. The main recommendation is that there are advantages and business risks to each. A hybrid approach is suggested. They highly recommend that TPM alternatives be considered at the time of equipment purchase. This is not usual in my experience.

Finally, the report shows the potential cost savings from various service levels and use of outside vendors. There is a wide range of service levels from Next Business Day (NBD) 8 AM to 5 PM all the way to 24/7 with 2 hours support onsite. The costs can vary dramatically, so it pays to analyze what you really need from business risk and tailor a program for your shop.

I also want to mention a second Gartner report from August 2012 titled “Know When It’s Time to Replace Enterprise Network Equipment.” The report summary is:

“Four primary factors determine the useful life of network equipment: market innovation, vendor end-of-life policies, operating life and operating cost. Failing to assess the EOL of equipment properly will result in premature equipment replacement or increased risks for the organization.”

So, obviously, the main issue here is useful lives of assets. You can’t rely on OEMs to dictate these lives. Mean Time Between Failures (MTBF) is relevant here. Gartner notes that MTBF is often 4 to 10 years beyond what the OEMs allow. In any event, this report, with other industry analysis, shows us a playbook where we can be true partners with our clients in planning their IT strategy. I wanted to share a chart from this report that really depicts what the issues can be:



Useful Lives vs. Depreciable Lives of Selected IT Infrastructure Assets

*Source: Gartner, August 2012

You can study these working, useful lives versus the lives possible. I would just point out the first one: LAN switching. The life extends to 10 years. Compare this to refresh or replacement cycles from OEMs like Cisco, which may dictate depreciation lives of three to five years! This is why there is so much concern and frustration.

I'd like to recommend another Gartner report updated June 2016, "Used-Hardware Resellers Offer Hardware and Support Cost Savings."

This report offers an analysis of the used/refurbished/new market for hardware acquired from sources other than the OEM. I won't get into the details of that analysis here other than to say that alternative hardware vendors should be considered and note that many have third party maintenance services, either in-house or in partnership with TPMs. Here is a very interesting chart from that study that summarizes many of the major issues and findings:

IMPACTS	TOP RECOMMENDATIONS
<p>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.</p>	<ul style="list-style-type: none"> • Utilize used-hardware resellers to purchase noncritical, post-warranty, 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.
<p>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.</p>	<ul style="list-style-type: none"> • Use this support for noncritical, post-warranty, 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.
<p>There are risks when using used-hardware resellers for TPM providers, which IT procurement professionals must assess early in the purchasing cycle.</p>	<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.

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

The study also offers a very interesting observation that is consistent with the approach we use with our end-user clients:

“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.”

Another more recent study, “Market Share Analysis: Hardware Support Services, Worldwide, 2017,” issued in June of 2018 by Christine Tenneson of Gartner, points out that this market is still largely dominated by the global OEMs who are desperately trying to retain and grow this business because it is so profitable for them. Here’s what the report says:

Key Findings

- Hardware support service spending continues to erode globally, principally as a result of shrinking attachment rates, increased pricing pressures, increasing use of third-party maintenance (TPM) versus OEMs, and cloud shift.
- As the value-added reseller (VAR)/solution provider consolidation trend continues, end-user organizations are looking to consolidate support providers as part of that effort. This creates continued hardware support pricing pressure.
- Hardware support consolidation exercises provide some pockets of hardware support opportunities for providers offering multivendor or hybrid maintenance solutions.
- The top 10 hardware support vendors make up 48.0% of the market and represent support for devices including but not limited to printers, servers, storage, networking and communications equipment. Eight among the top 10 hardware support providers experienced negative growth: IBM, Cisco, Hewlett Packard Enterprise (HPE), Ricoh, Canon, Fujitsu, Dimension Data and Fuji Xerox.

Recommendations

Technology product managers responsible for hardware support services looking to exploit IT services dynamics should:

- Develop multivendor maintenance offerings and actively promote support consolidation.
- Deliver hybrid maintenance solutions using a mixture of OEM hardware support and third-party support to remain price competitive.
- Create partnerships to augment hardware support capabilities in other product areas, for other OEM equipment, or in other geographies.

I added the bullets above to highlight the increasing role of TPMs in the worldwide market for hardware support. Note that hybrid solutions are strongly recommended, and the drift from OEMs continues. However, the opportunities to reduce cost and improve service are huge, given the continued size of OEM support globally.

I include the following chart from the same report to illustrate what your options really look like. Note that the trend is moving to the right two columns since this is where IT executives and procurement professionals have found a great opportunity.

HARDWARE SUPPORT MARKET LANDSCAPE OF PROVIDERS			
Resale (OEM Support)	Collaborative (Co Delivery Support)	Multivendor Support	Third-Party Maintenance
OEMs	CSPs	OEMs	Pure-Play TPM
CSPs	Sis	CSPs	Secondary Hardware TPM
Sis	VARs	Sis	TPM Aggregator
VARs	–	–	TPM Selling Agent

CSPs = Communications Service Providers; Sis = System Integrators; TPM = Third Party Maintenance; VARs = Value-Added Resellers

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Finally, let's take a look at one more recent Gartner report published in June 2017, "Competitive Landscape: Partnering With Third-Party Maintenance Providers for Data Center and Network Maintenance Cost Optimization."

The report analyzes the trends in this market including the growth and consolidation of many TPM vendors, and what users are able to access from these vendors. One summary comment at the beginning of the report says:

“Third-party maintenance is offered by independent support providers with no relationship with the OEM. This alternative to OEM maintenance is the focus of this document and is becoming more common in the hardware support market, with a thriving ecosystem of independent support providers for server, storage and networking equipment.”

The majority of the report reviews the many TPM vendors, so if you want to get a good list of who is out there, you can review this report. Here are some of the major conclusions and observations from Christine Tenneson:

Competitive Situations and Trends

Because of these trends, the TPM market is becoming of more interest to service providers.

- Hardware maintenance is increasingly being considered as “nonstrategic IT” spending and procurement, with the result being that IT professionals are seeking low-cost alternatives to expensive OEM contracts and pricing.
- TPMs that are investing in and offering multiplatform remote monitoring and service automation will achieve a lower cost basis, greater scale, and sustainability for the long term.
- To achieve greater savings, some enterprises consider TPM support, especially for post-warranty data center equipment or for networking equipment at a campus or remote locations.
- Enterprises need to reduce capital expenditure (CapEx) spend in networking and data centers is a supporting factor to consider TPMs.
- Some enterprises consider the flexibility and customized support from TPMs as an advantage.
- Customers will often switch to TPMs when the original warranty runs out rather than renew the OEM support contract due to significant increases in OEM post warranty pricing.

While there are other organizations that have issued studies on TPM such as Forrester, Aberdeen Group, and IDC, our experience is that Gartner’s analysts have spent much more time analyzing the industry. However, you can find good information from all of them. Again, Rob Brothers’ report about cutting operational costs from June 2016 is worth a read. If you have questions about

any research studies or would like copies of some of the Gartner reports mentioned in this book, feel free to contact us directly and we'll be happy to pass along as much as we can.

Finally, I will note that there are several industry/trade organizations for the TPM and hardware reseller space. We are members of the Service Industry Association. This is the best known organization in our industry and, as one leading industry analyst stated, "any company serious about TPM is a member of the SIA." The ASCDI and BrokerBin are also industry trade organizations associated with used hardware and TPM. Both organizations can provide additional information in your TPM research.

CHAPTER THREE: A BALANCING ACT . . .

MEETING THE NEEDS OF BOTH IT AND PROCUREMENT SOURCING

What's the elephant in the room? It's the natural tension between the needs of the IT executive charged with delivering a reliable network and the goals of the procurement professional mostly concerned with securing the lowest cost.

Typically, the IT person is tilted to risk aversion because he or she doesn't want to let down the users or face the wrath of upper-level executives if there are major downtimes or performance issues. In the old days, there was an adage we used, "nobody ever got fired for buying IBM." That's because IBM had created this aura that they were invincible and that they were the leaders in computer technology of the day. How has that played out over time? Are there reliable, innovative alternatives to IBM in the technology industry these days? Today, IBM is referred to as a "legacy company" – a negative connotation meaning it's a lot like a dinosaur.

Coming from a different angle is procurement: "How can we get the best deal? The lowest cost?" Procurement is charged with saving the organization money.

Now the OEM is constantly selling to risk aversion and feeds the fears of the IT executive, while also telling the procurement professionals that alternatives to OEM maintenance is a risky proposition and could be disastrous.

But, let's look at all the alternatives we have today for mainframes, servers, networking, storage, and more. It's changing all the time to new platforms like cloud software, distributed processing, remote management, etc.

Isn't it likely that the innovators have determined better ways to manage the maintenance of all this infrastructure? TPM is part of that innovation. Don't be afraid to look at TPM alternatives. The TPM industry is thriving because it has built its business models to balance the needs of both IT and procurement.

In the next chapter, let's move onto some examples to demonstrate that third party maintenance is really possible, and working today for thousands of IT shops globally.

CHAPTER FOUR: CREATING A WINNING SCENARIO

Has your interest been piqued? Have you already decided that this is something you need to investigate further? But, maybe you're wondering what an effective TPM plan looks like for an organization. What does a winning scenario look like if you engage a TPM for at least part of your infrastructure?

Let me give you an example. RR Donnelly is a print and publishing giant. After they expressed interest in TPM, we worked closely with partner organization Delta Computer Group from Long Island, New York. RR Donnelly engaged in an extensive analysis of TPM organizations while vetting Delta's engineering capabilities and building confidence that there was a good opportunity to reduce costs while maintaining service levels for this Fortune 500 company. Delta provided overall maintenance while we provided back-line, Tier 4, high-level engineering support for Cisco and NetApp.

RR Donnelly made a move to switch to TPM effective May 1, 2013. The contract size to Delta was approximately \$1 million, and their estimated first-year savings was in excess of \$1 million. Therefore, their savings well exceeded the projected 50%.

The end of the story is that RR Donnelly was so pleased with the contract that they renewed for additional years resulting in millions in savings that could be deployed elsewhere. The moral of the story is that reduced cost far exceeded the perceived risk.

Now I'll take you back in time a little to show you how long these types of savings have been available. It was 1987, and I worked for Unisys, the merger of Burroughs and Sperry. In September 1986, Unisys decided to enter the world of third party maintenance which was then dominated by companies like Bell Atlantic, Sorbus, and Interlogic Trace.

We had some success and were feeling pretty good about ourselves. We had just sold a maintenance contract on an IBM System 36 to a large insurance company (Liberty National).

At one of our regular weekly meetings Bill Shookmen, the Unisys Branch Manager, revealed he just talked with the VP of Data Processing for Liberty National who

said he was saving so much money that he no longer could afford Unisys maintenance – and that’s why he had switched to our Third Party Maintenance contract. In fact, he wanted to switch over more business to us.

The problem was that Liberty National’s system had been down. We were scrambling to perform, and Bill was having trouble sourcing the parts. You see, back then parts availability was an issue. We eventually solved the problem, but it was tough and costly for us. Today Unisys still provides Field Engineers (FE) for companies like Dell/EMC, etc.

My point? Fast forward to today when parts logistics is not an issue. Third Party Maintenance is mainstream, and parts are readily available for post-warranty servers, storage arrays, and networking devices. Often, we have better and quicker access to parts than the big guys – because that’s all we do!

You can also find examples sprinkled throughout industry studies from Gartner and other sources. They often showcase studies with the names of the organizations kept anonymous for competitive reasons. Here are some observations from the Gartner Report “Used-Hardware Resellers Offer Hardware and Support Cost Savings” from June 2016:

- *A global company in the communications, media, and service sector planned to refresh its network hardware, according to the OEMs end-of-life agenda. When the company investigated using a used-hardware reseller, it acquired hardware with next-business-day and four-hour response to 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.*

You can create your own winning situation by following the ideas presented in this book. We’ve thought out the process so you don’t have to jump in with both feet.

CHAPTER FIVE: IS THE OEM FUD REAL?

PERCEIVED RISK VS. ACTUAL RISK

Perhaps one of the reasons you've come this far in this book is that you have many questions, a little confusion, and maybe even some fear of whether you should consider TPM as a realistic option for your IT infrastructure. What if the TPM provider fails? What if there are major breakdowns and the TPM provider can't get your system back up? What if we have a major data breach or loss of data? Etc. Etc.

Maybe you're past these questions, but you can see how others in your organization could have them, or certainly, you've heard this from the OEMs. Creating the illusion that they are the only option to consider is a universal tactic being used by all the OEMs.

I first learned this while I was at Sperry (now Unisys) in 1984. The term we used for it was FUD (Fear, Uncertainty, and Doubt). The theory goes that if you can create FUD in the buyer's mind about your competitors that will move your sales agenda forward.

So, is FUD real? In some cases, you certainly need caution, but generally, FUD is way overstated. When it comes to TPM, the OEM sales representatives typically suggest that if you move to TPM your IT world will end. We all know this is not true. Furthermore, while attending a Gartner event in Orlando in September 2018, analyst Christine Tenneson was asked by a user, "how often do users go back to the OEM?" Her response was that, in her 13 years of covering TPM for hundreds of accounts and service providers, she can count the instances on less than 10 fingers. In every case, it involved IBM, and the customer's reason was a software/firmware issue.

Part of the process is education and knowledge of the true risk vs. perceived risk and understanding the substantial cost reduction in the equation. Ultimately, what is best for any organization is finding that sweet spot that maximizes cost reduction and minimizes risk. This book intends to guide you and give you the tools to find it. In most cases, the answer is not 100% OEM

nor is it 100% TPM. However, the OEM would like you to think the answer is 100% OEM maintenance.

We created the Infographic to the right to depict this ongoing tension that we see in our clients and prospects. This tension can play out between users and IT, or between IT and procurement, or between IT and C-level executives.

In the end, isn't that what it's all about? Getting the information you need to 1) minimize risk while 2) maximizing your cost savings plus 3) gaining the flexibility of service offerings combined with 4) the more customer-oriented business philosophy that TPM provides? Peace of mind isn't free, but you can certainly get closer by educating yourselves and doing your due diligence. We believe this book will help you get there.

THIRD PARTY MAINTENANCE RISK VS. REWARD

MAKE SMART HARDWARE MAINTENANCE CHOICES

It's important for IT and Procurement management contemplating third party maintenance (TPM) to evaluate the associated risks and rewards as they consider the service. Here's a simple way to look at it:

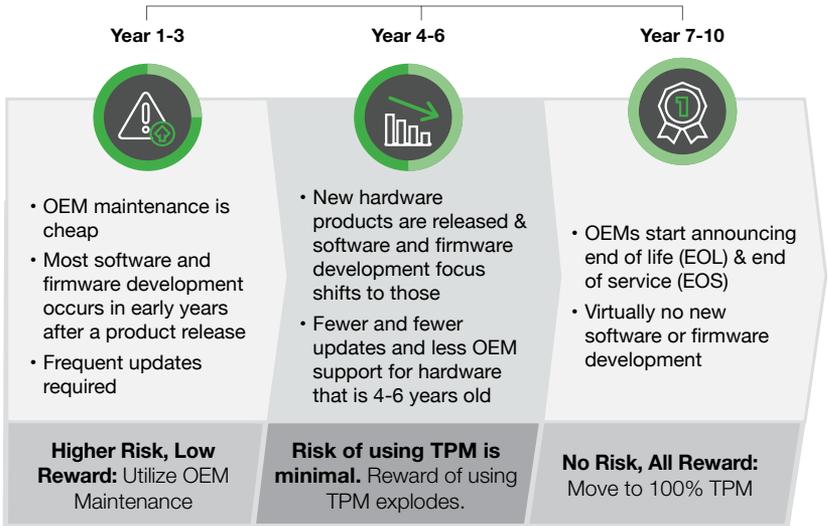
In the early years after a product release:

- OEM maintenance is cheap
- Parts are scarce and expensive
- Need for software & firmware updates is greatest

4 years after a product release:

- OEMs raise maintenance cost
- Parts become abundant
- Need for software & firmware updates decreases

INVERSE RELATIONSHIP OEM VS TPM



Source: Gartner, 03 March 2017

REMEMBER



The perceived risks of using TPMs are greater than the actual risks.



Service hardware life is nearly always greater than their planned service lives.



The rewards are saving 50% to 85% on maintenance costs.

CHAPTER SIX: WHAT ABOUT THE OEMS SLA?

So, now the question becomes how to factor in SLAs. After all, aren't they really the essence of the maintenance agreement? The real issues that should be addressed in your SLAs include what service standards, equipment functions, and time to repair are maintained. Why else would we even bother?

And frankly, what I see is that most users don't put enough time into understanding the SLAs, questioning them, or even knowing what it is they are really paying for or what the OEM puts on paper.

Ideally, you will start internally and discuss what SLAs you really need. SLAs relate to what you can accept for downtime, outages, equipment breakdowns, etc., so it's important to look at what your history has been to answer these questions:

- How many times have you needed to bring in inside or outside maintenance or replace equipment?
- How long were you actually down?
- Which systems or equipment are mission critical to the extent that almost no downtime is allowable?
- What workarounds or backup systems are available?
- What is the effect of failures on operations or customer service?
- Is 24/7/365 coverage with 4-hour response time necessary?

Keep in mind we've suggested a hybrid approach to your IT Maintenance, and that means that you may need to cover some with OEMs and some with TPMs. Even with that, no one organization truly covers it all. We talk about that elsewhere as we discuss the Ecosystem of IT Maintenance in chapter 8. There are multiple vendors, internal techs, equipment sources, etc. that are part of a comprehensive strategy for SLAs.

As you really look into the details of what the OEMs have as their stated service levels, you may find that it's not really what you think it is.

At a recent session, "How to Leverage Third-Party Hardware Maintenance Providers for Cost Optimization," at the Gartner IT Orlando Management Summit, Christine Tenneson was asked if TPMs can meet the SLAs of the

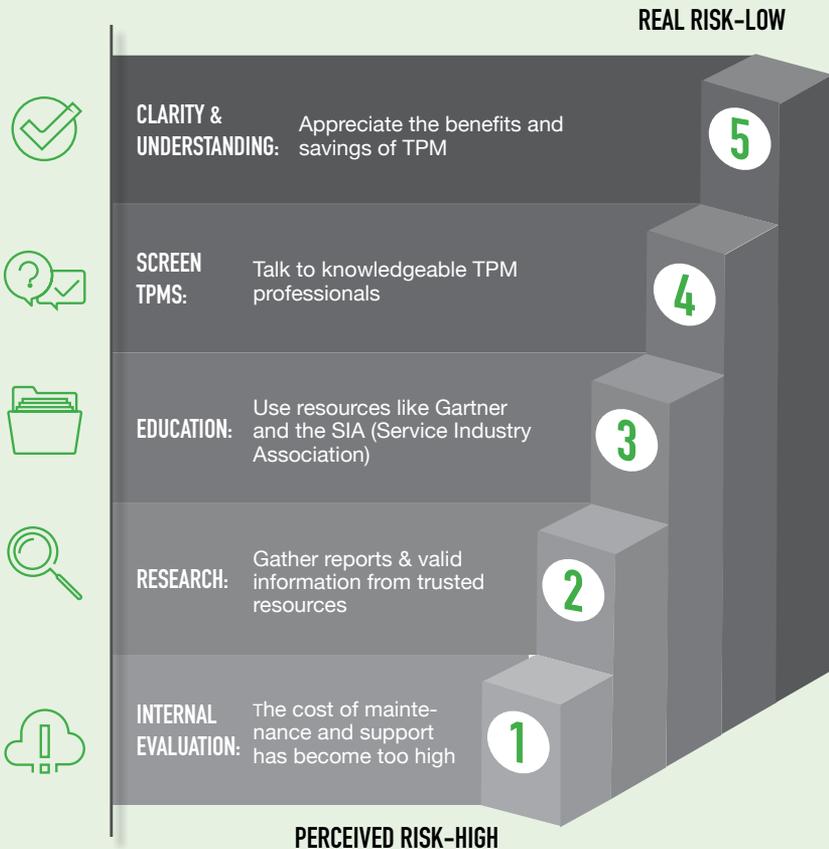
THIRD PARTY MAINTENANCE

PERCEIVED RISK VS. REAL RISK

BRIDGE THE GAP

OEMs want to protect their “cash cow” maintenance revenue by creating the illusion of risk or FUD in using a third party maintenance (TPM). By using this simple 5-step process, you can more accurately gauge the real risk and get a real picture of how TPM works – and can work for your organization.

5 STEPS TO MOVE FROM PERCEIVED HIGH RISK TO THE REAL LOW RISK



OEMs. Christine's response, "Yes, the OEMs SLA is best effort. They actually offer an SLO (Service Level Objective) not like an SLA that an MSP (Managed Service Provider) might offer with penalties."

What is she really saying here? The OEMs do not commit to a guaranteed SLA, just an "objective" that is "best effort." They will also use terms like "replacement parts target response objective," "limited to commercially reasonable efforts," "non-mission critical parts may be shipped overnight," "based on severity level," etc. Or they will factor in how close you are to a restocking facility or say overnight shipping is required, etc. So, while they are really hedging what they actually provide, you take your SLA literally and look at it as guaranteed. Then, when there is a problem, your expectations are not met.

In some cases, you need to downsize your expectations, as I mentioned above, by realistic internal analysis. You also need to know what you're really buying. They are happy to sell to an uninformed buyer.

Also know that many TPMs can help you analyze your SLAs realistically, while at the same time exceeding what the OEMs will do.

Let's pose a question nobody wants to ask: Is it reasonable for any OEM or TPM to have every part for every device for every location every time? The simple, honest answer is no. Let's use IBM, the world's largest hardware maintenance and support provider according to Gartner's "Market Share Analysis: Hardware Support, Worldwide, 2017" (\$6,228B) as an example. IBM has six major parts depots with the main hub in Mechanicsburg, PA and smaller stocking locations in select cities. Through a key partner, we were engaged with a professional sports league where IBM was the incumbent. The customer revealed they had occasions involving their four-hour SLA when they did not receive their failed part within four hours "due to parts availability." The point being, even the world's largest hardware maintenance and support company does not guarantee their SLA.

The thought that the SLA is a type of guarantee versus a "best effort target objective" has led to a "keep up with the Joneses" mentality with some TPMs overstating their true ability to deliver. Some TPMs have made seemingly outlandish promises that far exceed what the OEM offers. Here are just a few we have seen on various TPM websites:

“90% critical on-site parts stocking level-guaranteed.”

“Onsite IT service and support with parts and technicians within 50 miles of your company regardless of your geographic location.”

Do the above claims pass the smell test? Or better stated the “just do the math” test? Simply analyze how many locations and parts stocking facilities would be necessary to provide the coverage noted in these claims. Keeping in mind IBM, the largest maintenance provider on the planet, that has six major stocking locations, does not meet the criteria above. There are 3,797,000 square miles in the USA so the math simply does not add up for a “within 50 miles” claim either.

By the way, we’ve heard of sales reps in the field claiming they have never missed an SLA. Really? Is that even believable given all the different types of service, the range of equipment, and the need for quality field engineers to troubleshoot and fix? Never is a pretty high standard.

What does all this mean? We see much confusion which leads to unmet expectations. The remedy is an open and honest conversation regarding service delivery and certain expectations for worst case scenarios. It does not mean you just throw a “part response-within-4-hours” out the window, but everyone would be better served with being a little more transparent. Have an open and honest dialogue asking:

1. *Is the SLA a target or a guarantee? and*
2. *If the SLA is a target, then what is the appropriate expectation and worst-case resolution?*

Let me give you an example from a real conference call with a potential NetApp service customer. They posed a series of questions:

What is generally stocked in your local depot’s common parts?

Our Response: Yes, typically common parts like drives and power supplies.

What happens when we have a controller fail on a Friday night? (We assume they were wondering if they have to wait until Monday or worse.)

Our Response: We have a 24/7/365 warehouse that has 99% of all NetApp parts we service and would ship out FedEx same day, (meaning the controller will arrive typically within an 8-14 hour window). Potential customers response, “that’s perfectly acceptable.”

The result was we won the opportunity, and a reasonable expectation of worst-case scenario was set. Would the response meet a literal definition of four hours? No. But it set a reasonable expectation of what may occur in a worst-case scenario and allowed the potential customer to evaluate the risk appropriately. If we discover in pre-sales activity that the customer absolutely had to have a controller in four hours, the solution is simple: It would be an additional cost to have a controller placed at their location or depot (onsite spare) dedicated to that customer only, offering a dedicated spare vs. a part of a spares pool.

WHAT'S UP WITH MY OEM'S SLA?

IS THE OEM'S SLA A GUARANTEE OR DOES IT ACTUALLY OFFER A "BEST EFFORT" DELIVERY?

SLA confusion is one of the big "bugaboos" in the industry that nobody wants to address appropriately. Reading the OEM's published documents, one can easily conclude the SLA is more of a Service Level Objective (SLO). A clear understanding of the OEM's SLA is the first step in creating open dialogue around expectations and ensuring they are met.



The examples below are from various OEM's published documents:

"Availability varies"

"Based upon many factors including parts availability"

"Limited to commercially reasonable efforts"

"In most cases, only available if you are within 50 miles from a service center"

"4-hour parts locations stock mission - critical components"

"Non-mission critical parts may be shipped using overnight delivery"

"Initial on-site response objective is based on severity level"

"Non-mission critical call coverage is during normal business hours"

"Offered as best effort service"

"Shall use commercially reasonable efforts to provide customer with hardware replacement service where available"

"Consumable parts such as batteries are not covered"

CHAPTER SEVEN: WHAT ABOUT SOFTWARE?

Another critical issue is the availability of software, OS, patches, updates, firmware, and microcode. TPMs cannot provide these updates, only the OEM can license the code. But you should check with your OEMs licensing agreement as they do vary. If a TPM states they have an exclusive agreement with the OEM and can provide patches/updates, ask to see an agreement from the OEM stating this. The OEM is not in the business of giving special treatment to one TPM and taking sales away from themselves.

For software, updates, etc., you need to find the sweet spot when TPM fits best to provide adequate support with minimized risk. Gartner recommends a blended environment. Such an approach would look something like this:

- For the first three years of a device's lifecycle, utilize the OEM for maintenance. The first three years is the time the majority of anything software related will be updated. This is when active development is ongoing.
- After the third year, the OEM will most likely release new hardware and shifts software, firmware, microcode, etc. development to the new hardware. Then shift those devices to TPM. While the devices are still under OEM maintenance/warranty, consult with your TPM, determine a safe harbor, then download the safest current version of any software or firmware and then freeze the code going forward.

For most organizations, a safe, smart approach is to save a substantial amount of money on maintenance spending and redistribute the savings within the enterprise.

CHAPTER EIGHT: THE IT MAINTENANCE ECOSYSTEM

What may not be apparent is that the network of field engineering platforms, supply chain parts logistics, backline engineers, contractors and outsourcing, etc. utilized by OEMs and TPMs alike have formed an ecosystem that is behind the scenes in your IT maintenance contracts. Of course, those of us on the inside of these deals have long known about all these relationships, but customers and onlookers may not be aware or understand what is going on with IT maintenance agreements.

This whole subject was brought to my attention around 2012 while working with one of our partners on a huge opportunity. The customer asked whether the partner provides support utilizing their own employees 100%, or do they contract to outsource components of their overall service delivery? Our partner responded honestly that they use a combination of employees, vendors, and contractors. The prospect's response was "that's okay." They further stated, they actually view maintenance and support as a giant ecosystem where all the players are pulling from the same resources, like a giant IT maintenance pool. That's when I started thinking of it in those terms, drilling deeper into understanding this truth, and explaining it to customers and partners in the same fashion.

This whole ecosystem works to your advantage as a user because many of us share resources or personnel that become proven experts or preferred providers. We know how to put together the right team, effectively utilizing the ecosystem that ultimately delivers quality maintenance and support at a great price point customers enjoy. Maximizing the ecosystem is a crucial competitive advantage as the industry has more and more downward pressure on price.

The interesting point is that the OEMs fully participate in this ecosystem. Digging deep, one could see that OEM maintenance and support utilizes some resources internal to the OEM and some with partners, outsourced contractors, etc.

For example, Dell/EMC dispatches Unisys field engineers (FEs). NetApp uses the company TSP for FEs. Cisco outsources parts of TAC and all FEs. HPE recently cut their FE staff, replacing them with outsourced FEs from Unisys. In 2018, Hewlett Packard Enterprise made the decision to outsource their FEs to Unisys and better utilize the ecosystem for their field engineering. This approach allows them to be more nimble and scale to the needs of the business instead of hiring on more and more W2 employees. This is just one example of how TPM and OEM IT Maintenance are part of a giant ecosystem allowing everyone to utilize the same resources.

The bottom line is everyone uses the ecosystem and pulls resources from the same pool. All OEMs and TPMs use a combination of W2 employees, 1099 employee/contractor, outsourcing, partners, field engineering platforms, supply chain, parts, logistics platforms, and backline support.

The key is how does the TPM provider utilize the various parts and pieces while delivering great support at a winning price point in a market space that is moving toward commoditization. Indeed, this becomes the art of putting together the right components to service you as an IT maintenance and support customer.

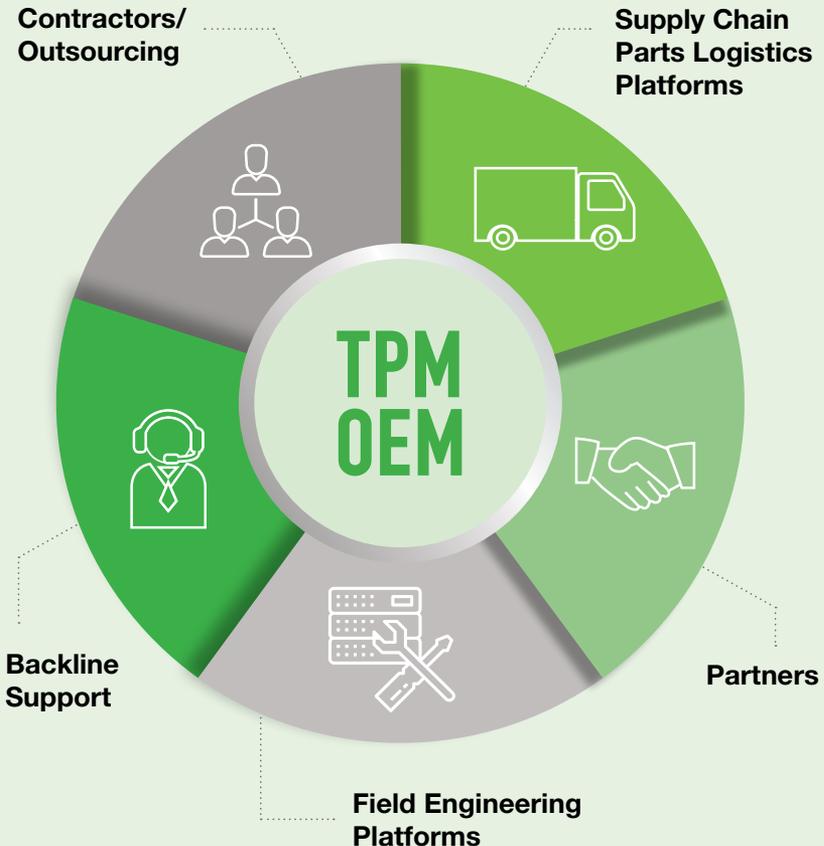
We've put together the ecosystem infographic to the right that illustrates how this all works.

IT HARDWARE MAINTENANCE ECOSYSTEM

MAXIMIZING SERVICE DELIVERY

All OEMs and TPMs utilize the ECOSYSTEM and pull resources from a large pool of resources.

All OEMs and TPMs are part of and utilize various organizations within the ECOSYSTEM for service delivery. Whether it's Field Engineering for NetApp using TSP or IBM and Dell/EMC utilizing UNiSYS or Cisco outsourcing parts of TAC and onsite delivery, the key question for both OEMs and TPMs is: How do you deliver great service and maximize the ECOSYSTEM for cost reduction as the marketplace becomes more price driven?



CHAPTER NINE: FINAL THOUGHTS

As we come to the end of this book, let's review what we've learned.

You cannot avoid the central issue or push/pull that is part of every IT executive and procurement professional's world. Money or cost is a constraint that always inhibits the paradise view of what IT systems and infrastructure is expected to deliver. You know this because you're in the middle of it daily.

However, you do have real options. You can get better at managing your hardware from OEMs and the maintenance and support agreements that follow. We all want to do our job well – that's our responsibility.

In this book, we've shown you the options and demonstrated that TPM is a viable alternative to the OEM for your maintenance and support. The world of IT maintenance and support ultimately is not a one-size-fits-all game. Using the OEM exclusively, in most cases, is not the best and only solution. Doesn't it make sound business sense, at a minimum, to explore your options?

Throughout this book, we've laid out some good questions to ask or show you new ways to look at things like the OEM's SLA, ecosystems, risk vs. reward, perceived risk vs. real risk, software updates, end-of-life, and more. In the Appendix, we've shown a process and checklists you can adapt to your own shop.

Finally, ask yourself a simple question: Why pay more? What is the risk in exploring TPM options? We're successful players in this industry and active in industry associations. We know the analysts, the OEMs, and the huge support system that can be brought to address your situation.

Let me know if you have questions about anything in this book or if we can help you create a better, winning scenario for your organization.

APPENDIX ONE: IT MAINTENANCE RISK ASSESSMENT FORMAT

As your organization begins to consider various options for IT long-term maintenance, it is imperative that you have the facts and analyze the true risks.

We have developed this tool and divided it into two major sections:

Internal Analysis of what your network infrastructure looks like, how you are currently managing maintenance, and what the true costs are.

External or Vendor Analysis to determine options that should be considered when evaluating potential support services or deciding to stay with the OEM or to manage some of the maintenance internally.

Internal Analysis

1. Do you have a full list of all assets owned with the model number, serial numbers, date of purchase, manufacturer, and exact location?
2. Take a realistic look at how your current system is performing. Do you know your downtime, major incidents, and Service Level Arrangements (SLAs) for each area of your operation?
3. If you currently use an OEM or TPM for maintenance, do you know how many tickets you opened last year or how many per month?
4. If you do some maintenance in-house, do you also have a similar tracking mechanism as in number three above to track all maintenance issues?
5. Have you determined true mean failure times and potential useful lives for essential equipment? Do you have your own method of tracking or are you relying on the OEM to tell you when you need to replace or refresh?
6. How many times do you get software updates from the OEM? Was there a cost for the updates? Many devices can reliably function on earlier versions of software updates. What version(s) of software are you using? How stable is the software? How do you determine when/how to update software for each piece of equipment? (The risks of doing the updates cannot be discounted. Sometimes the updates actually increase instability.)
7. Have you surveyed the team on “worst case” and “what you can live with” scenarios?

External TPM Analysis Process

User concerns about TPM providers generally center on their lack of access to the manufacturer's development team, support infrastructure, and maintenance tools.

Based on our history with large and small clients, many users have decided that this is a manageable risk, particularly when supporting non-mission-critical workloads or stable software environments.

The following due diligence script enables users to quantify TPM provider risks quickly, understand support offerings, and gain insights into their support effectiveness.

"The Five Steps to Achieve a Hybrid Maintenance Solution" from Christine Tenneson's "How to Leverage Third-Party Hardware Maintenance Providers for Cost Optimization":

1. Maintenance Assessment
2. Research OEM Policies
3. RFI With TPMs
4. RFP/Diligence
5. Contract

Within the vetting process it always comes down to the organization you feel most comfortable with or trust that, at the same time, delivers on your price point expectations. A key event in the process usually involves a technical vetting conference call where you can have discussions with the Tier 3 or 4 backline engineers. Your Tier 4 team will engage if you have a serious problem beyond simple drive or power supply replacement issues. The Tier 4 engineering team should be able to make you feel comfortable in minimizing any risk concerns.

Common sense tells us to ask for references. This is obviously encouraged, but ask yourself: does anyone ever really provide bad references?

Kind of like everything in life, at the end of the day you must ask enough questions to engage in adequate dialogue that tells you that TPM can perform up to your expectations and deliver at a price point you are ecstatic about.

Potential questions:

1. What is your coverage area: USA or global if needed?
2. What is your go-to-market strategy channel vs. end-user direct?
3. Where are your parts locations and how are worst-case scenarios handled?
4. Is your support center or NOC USA based or overseas?
What about Tier 1 support?
5. Do you have monitoring or phone home availability?
6. What is the process to open a ticket: call an 800#, send an email, contact the portal, etc.?
7. Do you provide only break/fix maintenance or do your Tier 3-4 engineers offer additional support, i.e. configuration assistance or software knowledge?
8. What is your escalation process?
9. Is your SLA a guarantee? Ask the OEM as well.
10. Explain your overall service delivery process from opening a ticket to resolution

*You may want to ask: Are you a member of the Service Industry Association and subscribe to their code of ethics?

ABOUT SMART 3RD PARTY

We're Smart 3rd Party, an IT equipment maintenance support company that holds the philosophy that our customers deserve high-quality service without the high costs that some companies attach to it.

As Amazon founder Jeff Bezos said, "There are two kinds of companies. Those that work to try to charge more and those that work to charge less. We will be the second."

At Smart 3rd Party, we also want to be that second kind of company. We focus on reducing expenses so we can be the low-cost leader because the customer expects everybody in our space to deliver a certain degree of quality support. What makes us stand out is price.

Along with a lower price, we provide excellent customer service because we want to establish long-term relationships with our customers built on trust and doing the right thing.

Two quotes with a lot of truth in them are by high school football coach Bob Ladouceur and Spanish sea captain Hernan Cortes.

Ladouceur, who has more wins than any other coach in history, said the key to success is "Commitment. Accountability. Perfect Effort." Cortes, upon landing in Mexico, said "burn the ships" before beginning a campaign. If his expedition failed, they couldn't retreat. That's commitment. And, these truths are dear to us at Smart 3rd Party.

Smart 3rd Party hardware maintenance programs offer high-quality IT infrastructure support at a low cost.

We are based in Atlanta, Georgia and offer nationwide service. Our principal owners have over 50 years in the IT industry.

Our programs emphasize reducing problem diagnosis and problem resolution timeframes. We do this by eliminating all of the confusing layers of technical support and escalation.

We offer flexible service levels to fit your business and budgetary requirements from 'mission critical' support 24/7/365 to 'next day' service.

Contact info



Phone: 1-800-583-3894 • Fax: 1-800-583-3894

Email: sales@smart3rdparty.com

Web: www.smart3rdparty.com

Having a hard time keeping your IT maintenance costs in line? Faced with replacing equipment that seems to be working just fine, but the OEM says they will only support it at an exorbitant cost? Does it seem like the only options you have are take it or leave it?

This book is for you.

The fact is, there are two sides to the hardware maintenance coin: the OEM side shows what is often believed to be the safest (and the most familiar) choice, while the TPM side reveals deep cost savings - that are often mistakenly said to come with a risk. But is that reality?

Do you want to know the truth about third-party maintenance and what it can do for your enterprise? This book will tell you everything you need to know to make smart third-party maintenance decisions.

INSIDE THIRD-PARTY MAINTENANCE: THE ULTIMATE GUIDE:

- **How TPM became a real maintenance alternative**
- **How to investigate TPM for your business**
- **OEM FUD: Perceived Risk vs. Actual Risk**
- **Understanding what your SLA is actually promising - and what it's not**
- **How OEMs and TPMs use the IT ecosystem**
- **Real-world examples of how TPM helps IT executives win the costs vs. managing risk battle**
- **Concrete recommendations to help put you in control**

If you are interested in reducing costs, skipping expensive, unnecessary upgrades, and avoiding future support issues this guide is a must-read.



My name is Ken Peck, and I'm president of Smart 3rd Party, an IT equipment maintenance support company based in Atlanta. We believe that our customers deserve high-quality service without the high cost that some companies attach to it.

After 30 years in IT sales and management, hardware, software, and services for Unisys, Motorola, London Bridge Group, and leading Smart 3rd Party, I'm ready to share this Guidebook to help bridge the maintenance gap for IT and procurement professionals.



SMART 3RD PARTY
BETTER SERVICE. EVEN BETTER PRICE.