

IT DOWNTURN OFFERS OPPORTUNITIES FOR END USERS

By Joseph Marion

While some in the mainstream press have, for quite a while now been harping on the “downturn” in the IT Industry, the computer reseller community is seeing just the opposite. Secondary Market dealers (companies who sell used equipment) are seeing a changed market with lots of opportunities. Very often a down market for manufacturers such as IBM, HP and SUN is paralleled by an up market for Secondary Market dealers.

Extended Cycle

What the mainstream press is calling a downturn, is nothing more than a change in purchasing cycles. Information-technology equipment purchasing runs in cycles. In years past, most IT purchasers renewed their installations every three years. More recently, purchasing cycles have shifted to a 5 year cycle, as manufacturers are producing technology that surpasses many customers' immediate needs. This “extended cycle” has definitely slowed down the sale of new equipment.

When IT Managers extend their purchasing cycles the equipment they are using stays in productive use longer. Another way of putting this is that the equipment has a greater residual value for a longer period of time.

IT managers should factor in this new extended life of equipment when deciding to lease or purchase their IT equipment. Purchasers should consider spreading out the cost of their IT equipment over a much longer period of time than they have in the past.

And if you are considering leasing, remember the following. When calculating the monthly amount to charge a user, leasing companies factor the original cost of the equipment, the cost of money and the residual value of the hardware.

Knowing that the equipment will have a greater value for a longer period of time means that a leasing company should be offering IT purchasers a much lower monthly rate.

Manufacturers react

Manufacturers are adjusting to this change in purchasing cycles. They have moved their focus from increased sales of equipment to reducing costs through consolidation such as HP's marriage to Compaq and more recently Sun's engagement to Storagetek.

Manufacturers are looking toward services to increase their bottom line as evidenced by IBM's recent personnel shift announcement. IBM will let 13,000 employees in Europe go; while at the same time it has begun to hire an even greater number of employees in India to focus on services.

Speaking of services, IBM also announced that through its Global Finance division, that IBM would offer short term rentals on used equipment to its end user customers who need a short term solution. Apparently, IBM is recognizing that customers are putting off IT purchases for the future. IT Managers can find similar short term rentals of from a number of leasing companies and Secondary Market dealers.

The Secondary Market Equipment Dealer

In this "down market" for manufacturers, many Secondary Market dealers are seeing growth, but they have changed the way they do business. In the past customers who turned to the used equipment market went there for one reason. And that was to save money. Today, Secondary Market dealers provide added value through consulting services, multiple vendor solutions, installation support, leasing/rentals and engineering services.

Another reason for the increase in Secondary Market activity are the changes in the way that some manufacturers have chosen to deal with the Secondary Market. Last year, Sun Microsystems restricted the sale of used Sun boxes by requiring heavy licensing fees on used equipment. Today, they have largely removed that requirement by allowing users to download their Solaris 10 Operating System free of charge. (Updates however, are still chargeable.) This has freed up the flow of used Sun equipment, as evidenced by the large number of sales of used Sun V880's.

Last April IBM made some radical price cuts made to the IBM iseries platform. These cuts have now filtered down to the Secondary Market, making sales of the used iseries more robust.

Cisco 6509's are also a big mover in the Secondary Market.

What this means to the IT Manager

With equipment staying in productive use longer, now would be a great time to look into your IT crystal ball and see what your needs are for the next few years. If you own your equipment, you might want to speak to a leasing company about a "purchase lease-back." Under that program, a leasing company will buy your equipment now, and lease it back to you for some period of time.

Another option for owners to consider is NOT to upgrade but simply to add on. Knowing that your equipment's useful life is longer in some cases justifies buying another system on the Secondary Market rather than buying new.

And if you currently lease your hardware, consider extending your lease term to reflect the fact that you plan to keep the equipment longer. Don't wait for your lease to expire. Contact your leasing company now and tell them you would like to extend your lease term. They would love to give you a new lower monthly charge.

The market is might be down for IT manufacturers, but that could be good news for IT users who team up with a good IT Secondary Market dealer. For a list of them, go to www.ascdi.com.

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