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The Long Arm Of The Manufacturer How They Affect The Computer Resale Market

by Joseph J. Marion

Obsolescence in the computer products market is not much different than obsolescence in other products, except for one thing. In the world of computers, the manufacturers have much more control over what becomes obsolete than possibly any other industry.

The Games Manufacturers Play

A used computer becomes obsolete when it costs more to buy and operate it than it does to buy and operate a new one. And the costs of buying and operating used equipment are tightly controlled by the equipment manufacturers. After purchasing a new or used computer, end users are typically charged a software support fee from manufacturers to keep the equipment's microcode up-to-date. On top of that, after the warranty expires, end users are charged a fee to keep the equipment under the manufacturer's maintenance.

OK. So you pay a manufacturer to keep your microcode up to date and to keep your equipment running in a top notch, showroom condition. You would think this would help enhance the value of the equipment when it comes time to sell it. But what do some manufacturers do? They charge the buyer of a used computer a fee to inspect the equipment for a maintenance contract, as well as a fee to upgrade the equipment to the latest engineering level. (And you thought you were paying for that with your microcode and maintenance charges all those years!)

When you first purchased your computer new it came with the proprietary operating system that is required to run the computer. Then you paid an annual fee to keep that software up-to-date. When it comes time to sell your computer, you should be able to pass that software on to the next user, right? Not in the eyes of some manufacturers. Many make the new end user buy that software a second time by charging a "right to use fee."

So here is the formula for the real cost of a used computer:
cost of hardware + maintenance inspection + engineering upgrade charges + right to use fee =
cost of used computer

One more bit of algebra:

If the cost of the used computer is greater than the cost of a similar new computer, then the used computer is obsolete. And this is what many manufacturers attempt to do.

Maintenance Policies

Not all manufactures try to devalue their own used equipment. In fact, some manufacturers actually "get it." The leader in this area is IBM. IBM has always realized that the more value end users get for their used equipment, the more likely they are to buy a new IBM box. In other

words, the cost for a new IBM system is calculated by taking the new price *less* the amount the end user gets for his old equipment.

IBM's strives to enhance the value of used equipment. Take for example its maintenance policies. When a piece of hardware which has been under IBM maintenance is sold, IBM will inspect it at no charge for transit damage and assuming it was previously under IBM maintenance, it will place it under maintenance at a new end user location at no additional charge. No other manufacturer comes close to IBM in support for used equipment.

Operating System Software

Some manufacturers use the operating system software to try to control the secondary market. By charging the second end user a high fee for the "right to use" the software, manufacturers make the equipment obsolete and therefore force end users into buying new.

HP and DEC are reasonable in this regard. They charge \$300 to \$400 to for a "software transfer license" that gives the second end user the right to use the software.

Again, IBM has over the years been the fairest to end users on operating system transfers. IBM's AS/400 or iSeries Base operating system, OS/400 or i5/OS, is dedicated to the machine serial number and travels with the machine to all subsequent owners. No additional fee is payable to IBM. The RS/6000 (P Series) AIX operating systems, the current releases also have no transfer charge.

A Zebra Changes Its Stripes

The worst offender with regard operating system software transfer *used to be* Sun Microsystems. Sun would charge the second users high *license fees* to use its operating system for a second time. Sun recently changed its policies. (I wonder if it was because of an end user awareness campaign spearheaded by the ASCDI.) Effective **November 2004** Sun agreed to allow the purchasers of its used equipment to download a free copy of its Solaris operating system for free. There still is a charge to keep the Solaris up-to-date, but nothing as unreasonable as it used to be. Hats off to Sun for changing its policy!

Sun does, however, have a ways to go in its hardware resale practices. Sun currently charges recertification fees to inspect the hardware and upgrade fees to meet what Sun calls "minimum acceptable maintenance levels" even if the equipment has always been under Sun maintenance. By the way, there are no published guidelines for what "minimum acceptable maintenance levels" are.

You can find out a lot more information on these manufacturer's secondary market policies at www.ascdi.com/IndPolicies/default.asp. In our next column we will talk about what smart end users can do to postpone obsolescence in their computer equipment.