

IBM Keeps Residuals Up in a Grey World

By Joseph Marion

The residual value of computer equipment (what you can sell your IT equipment for after you are finished using it) is an important factor in managing the costs of an IT installation. Realizing more money on the sale of your used equipment lowers the “entry cost” for your new equipment. Why is it that IBM equipment constantly commands a higher residual percentage than companies like SUN, HP and CISCO?

Support of the Secondary Market

Prior to the 1950's, IBM equipment was only available on a rental basis. There was no such thing as a used IBM equipment market. In 1956, IBM began to sell its equipment and a new industry centering on the resale of IBM equipment was born. Early on, IBM adopted a philosophy that support of its used equipment was good for end users and IBM. IBM opened up parts centers for resellers of IBM equipment around the world. End users could buy a used IBM machine, ship it anywhere and be guaranteed that IBM would accept it for maintenance.

IBM believed then, and it does today, that an orderly secondary market was good for all concerned. Used equipment dealers and end users all knew the rules of the game when it came to used IBM equipment because IBM put its secondary market policies in writing. IBM even put a group in place to police adherence to its policies and to work with secondary market dealers in support of their end users. Today, IBM regularly attends meetings of secondary market dealer organizations in order to train used equipment dealers on how to support their customers who use IBM products.

The concept is simple. IBM believes that a used IBM footprint at a customer is better than no IBM machine at all.

Compare that to the “other guys” who have obviously not studied IBM's 50 year history in dealing with used equipment. Most have not clearly defined their secondary market policies and very few have any policies in writing at all. Those who do have established secondary market policies embrace policies which make it difficult and expensive for end users to get support on their used equipment. They seem to believe that by confusing and making it expensive for end users to put used equipment into productive use, they will force the end users to buy new equipment.

Their lack of support for the secondary market is reflected in the relatively low residual value of their hardware as opposed to IBM's.

The Grey Market

Another thing which has hurt residual values is the grey market. Lately, SUN, HP and CISCO have issued press releases touting the resources they now have put behind their brand protection groups to get control of their grey market problems. Compared to those companies, IBM has almost no grey market problems at all.

The grey market is created when a manufacturer or their authorized dealer sells a new product in an unauthorized manner. For example, some manufacturers sell the same model machine to their European distributors at a cheaper price than they do to their US counterparts. Some of those European dealers resell the hardware into the US, seeking to take advantage of the price differential. Although such a sale is usually in violation of most reseller agreements, it happens every day.

The effect of that sale is that the real market price for that model is no longer the US list price, but the discounted imported price. The reduction in the real market price drives the residual value of that model down which adversely effects those customers who purchased the equipment legitimately from an authorized US dealer.

Now take IBM. IBM tracks the serial numbers of most of the equipment they provide to their resellers and they reserve and often use their right to audit the books of its resellers to see where the equipment is going. If IBM finds out that one of their resellers are violating their agreement, they cancel their contract and/or charge them back the discount they are granted as a reseller. Ergo, no IBM grey market.

The Fear Factor

Other than IBM, most manufacturers have used the grey market to their advantage as a way to scare customers away from buying used. On top of that, they have tried to confuse the issue of grey market by talking about fraud, counterfeit and used equipment in the same breath they talk about the grey market. Let's be clear. Although manufactures say they don't like the grey market and used equipment and in some cases they won't support it, neither is illegal to buy or sell. However, counterfeit and fraudulent products are illegal to sell and might be illegal to own too.

If the other manufacturers really want to do a service to end users to help them shore up their residual values, they will start by stealing a page out of IBM's book by supporting their used equipment, getting their distribution channels under control and closing down the grey market. Short of that, I say stick with IBM if you are concerned about your residual values.