The Underground Unix Market

Beneath the surface of IT, out of the spotlights focused on new technology, slick marketing brochures and grand product strategies, are publications like *Compu-Mart, Computer Hotline* and *Processor*. In them you'll find page after page of little ads that speak of a vast undercurrent of computing businesses dealing in used gear, replacement parts and reconditioned equipment—old and not-so-old technology looking for a home somewhere at a discount.

In *Processor*, published weekly and printed on newsprint, are the refurbishers, the brokers, the auctioneers and the resellers. Their ads shout, "We buy, sell and trade" or "Save up to 50 percent on your [hardware vendor name] equipment purchases."

Although the market for second-hand Unix equipment is hard to gauge, brokers may have a base of 1,000 or so Unix-buying customers, according to William Liebsch, owner of such a firm, Market Sales Co. of Tucson, AZ. He estimates that around 50 businesses nationwide deal in used Unix workstations, servers and peripherals. He calls 15 to 20 of them "reputable businesses

that have real connections and can perform."

Current owner companies have an obvious motivation to sell their old equipment. They have gear that's three-to-five years old and is being replaced by newer technology. Just getting rid of outdated hardware can be expensive if a buyer is not readily available who can use or recycle the stuff. So IS people such as Bill Holt, manager of production open systems administration for US West New Vector Group in Bellevue, WA, call a broker like Liebsch, who will pay US West 10 to 20 percent of the product's original value if he can resell it. Holt's usual sale items are peripherals, such as the 1.3GB, 5.25-inch disk drives he's currently trying to unload as a result of an upgrade in his shop. "I have yet to have a problem being able to dispose of them a short time after notifying him," Holt says. After finding a buyer, Liebsch will notify Holt and arrange to have the equipment packed and shipped.

New equipment vendors have their own motivations for selling through a broker—namely, keeping their customers and phasing out old technology. "Customers need options," says Bradley Palmer, business development manager for Pyramid Technology in San Jose, CA, which sells both new and refurbished Unix hardware through brokers. Palmer explains that Pyramid treats brokers such as Market Sales Co. as an alternate sales channel. "Our customer base is open territory," he says. "All the brokers, once they find a vendor's customers, have [access to] them forever and are constantly competing with

Unix Sales Forces Adopt Two Tiers

The most dramatic change to hit the Unix marketplace over the past three years is not in the products themselves but rather in the way that workstations and servers are marketed and sold. Now that hardware profit margins are shrinking, vendors are getting serious about two-tier distribution as a way to lower their cost of sales. "Indirect sales are the order of the day for all but the largest customers," says Dorothy Rosenthal, manager of distribution channel research at International Data Corp. in Mountain View, CA.

In the two-tier model, a vendor's direct sales force concentrates its efforts on the high end—large companies that typically place multimillion dollar orders. Gone are the days when members of a vendor's direct sales force could increase their earnings by selling to companies who otherwise might buy from a local reseller or a vertical market systems integrator in their industry. Through new commission policies, vendors now encourage their sales forces to help assure that most orders from customers at small and medium-size companies are fulfilled through indirect channels. Each major vendor has a group of volume resellers, systems integrators and vertical market solutions providers, which comprise its channel. The channel buys its inventory from distributors, who keep large inventories and offer financing and technical assistance to their resellers. Typically distributors and many of the resellers who buy from them stock Unix hardware from more than one vendor.

Encouragement of two-tier selling is not new. In 1992, both Hewlett-Packard and Sun Microsystems began to incent their sales forces to assist rather than sell against the channel. What's new is that all the major Unix vendors are proactively helping their channels. Even IBM officially put its formidable sales force in support of its channel late last year. The direct sales force can now earn sales credit (commissions) equivalent to one hundred percent of list price for assisting IBM's business partners in closing a sale. Tom Jarosh, IBM vice president for GM operations in White Plains, NY, admits that his company was following HP's lead in announcing plans to shower its business partners with leads, a demand generation program and sales assistance.

"We will be rolling out new programs in our effort to stay in the lead," says Clark Straw, general manager of HP's worldwide channel partners program in Palo Alto, CA. Sun also has tried to become its channel's best friend. "We're creating demand by merchandising our partners and holding events that bring resellers together with customers," says Jay Laurenzi, vice president of marketing for Sun's North American field organization in Dallas.

View from the Channel

Kevin Klimers is an advanced systems consultant at Allied Computer Group, a systems integrator in Milwaukee that specializes in networking. As a reseller of Unix systems from HP, IBM and Sun, Allied has had a firsthand view of vendors' changing attitudes toward assisting the indirect sales channel. IBM's change is the

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the vendor for that customer's business. We supply them with used gear that we get as trade-ins from customers. We refurbish it, test it and certify it." This practice improves the relationship between the vendor and the customer and may keep an old customer in the fold, rather than buying generic or "gray-market" equipment as replacement hardware.

The vendor's other main concern is that older technology tends to become a burden to maintain. "When you make something that stays around for a dozen years, it becomes more costly to maintain than the revenue you get for service," Palmer says. Therefore, selling newer hardware that is discounted by brokers may pay off by keeping a customer more up to date.

Profiles in Purchasing

The customers for this used equipment are of two types. Some have limited budgets and are just looking for an inexpensive way to keep their businesses running. Others have niches in their systems that

> **Used Unix systems don't necessarily die or fade away; some move on to new owners.**

have to be filled with specific equipment, which is more readily available from a broker or reseller than from the original manufacturer; for example, failed disk drives or monitors that must be replaced.

Usually buyers of used Unix equipment can expect to save 50 percent, sometimes 60 to 70 percent, off the original list price. Some of the hardware Liebsch resells is just used, much of it sold by leasing companies or large user organizations. Some is refurbished, some is new and discounted from the manufacturer, and most is sold with a warranty of 30 to 90 days. "It's good for the end user," Liebsch says. "It lowers their costs and allows them to be creative with their budget and accomplish their goals with a combination of generic, used and new equipment. As long

as you know how to pick through the mine field carefully, you can come out in an advantageous position."

But that mine field can cause headaches for managers who attempt to patch their systems with used gear. In all cases, it's advisable to deal with a broker whose reputation you know, who has been in the business for at least several years and who will back up the goods sold. Some brokers work in collusion to set prices on certain items, Liebsch warns, so it's good to know who those dealers are and shop around enough to get the best price.

Also, when purchasing components, some degree of technical acumen is required, such as the ability to swap out a board or unplug a disk drive and install a replacement. The most important fact to know about the hardware component is whether its revision level matches the equipment you already have, Liebsch says. "You have to be careful on compatibility with your hardware and software and get a guarantee that if you plug it in, it will play. You have to deal with somebody who has the ability to order properly and get you the technical help that you need."

Users who need discounts but also want insured reliability may choose to buy from a well-known equipment refurbisher. Many used and refurbished equipment dealers restrict themselves to one vendor's products. One such firm, Workstation Technologies, headquartered in Fremont, CA, was formerly a partner and authorized reseller for Sun Microsystems. Now it buys old Sun equipment from various sources and resells it at reduced prices, much of it to users who can't afford the switch from SunOS to the Solaris operating system, or from the 32-bit to the 64-bit environment.

"A lot of customers can't make that transition," says Michael Cavallaro, president of Workstation Technologies, which has sold nearly 10,000 refurbished workstations in the last eight years. "Either their applications don't run in the new operating environment or the cost of migrating applications and retooling with new hardware far outweighs the benefit."

Whatever the motivation, when dealing in used equipment, it's advisable to heed this warning. "You have to watch who you do business with," says Liebsch. "Plug and play, then pay."

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Unix Sales Forces Adopt Two Tiers

most dramatic, says Klimers. "They're not throwing us table scraps any more. They're inviting us to seminars and asking us about our specialty so that they can bring business our way."

Gordon Dickens, CEO of Dickens Data Systems of Roswell, GA, a remarketer and systems integrator for the IBM RS/6000 that has been in IBM's business partner program since 1982, has also noticed a change. "In the past 60 days, I've been embraced by the IBM field sales force. We're now brought in to situations that they formerly kept to themselves," says Dickens.

Klimers notes that members of vendors' direct sales groups can lend strong support to help close deals. "It's as if we have a second sales force," he says.

For example, without assistance from Liz Fitzgerald, a sales representative in HP's Naperville, IL, office last September, Allied would have had to walk away from a demanding set of requests from Custom

Direct sales forces no longer have financial reasons to compete with channel partners.

Products, Inc., a Milwaukee-area custom machining company that wanted to upgrade a manufacturing and accounting system, based on software from Symix of Columbus, OH, running on an RS/6000. David Schliewe, Custom Products' director of information services, wanted Allied to replace the RS/6000 with an HP 9000 K200 server; lay about one mile of fiber-optic cable between Custom's five buildings and about 10 miles of twisted-pair cable inside six buildings; install and configure about 200 non-HP PCs and six HP file servers and configure all printers and other related peripherals; get a dozen Sun computer-aided design (CAD) workstations to work on the same network; and

implement full network management. Schliewe wanted everything up and running in less than two months.

The first and biggest problem was that Allied gets its Unix servers from distributor Western Micro of Palatine, IL, which did not have a K200 server in stock. At Klimers' request, Fitzgerald worked with Western Micro to get the required order numbers and communicated with HP's manufacturing facility to speed up the Custom Products order. With that help, Allied was able to take on the large project despite Custom Products' stringent requirements. The work was completed by Nov. 1 as specified.

To Fitzgerald, who has worked on HP's sales force for five years, cooperative selling is nothing new. "It only makes sense to funnel certain business through the channel," she says. What may be new is the universal acceptance by major competitors of the same strategy. **IT**

—Peggy King