

**Gartner**<sup>®</sup>

**MARKET GUIDE FOR DATA CENTER  
AND NETWORK THIRD-PARTY  
HARDWARE MAINTENANCE**



**SMART 3RD PARTY**

# MARKET GUIDE FOR DATA CENTER AND NETWORK THIRD-PARTY HARDWARE MAINTENANCE

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The third-party hardware maintenance market continues to consolidate as private equity investment in large providers has fueled mergers and acquisitions. SPVM leaders looking to implement hybrid maintenance coverage using a blend of OEM and TPM support must evaluate the risks and benefits of TPM.

## KEY FINDINGS

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- Hardware maintenance is increasingly being considered “nonstrategic IT” spending, resulting in organizations seeking low-cost alternatives to original equipment manufacturer (OEM) contracts and pricing. OEM hardware support spending can be reduced by leveraging a blend of OEM and third-party maintenance (TPM) in a hybrid solution. TPM contracts can offer customers 50% to 70% savings off OEM support net prices.
- TPM pricing has continued to become more aggressive as TPM vendors compete against OEMs and each other in greenfield opportunities, and against each other in renewal opportunities.
- Despite the global hardware TPM market being only about \$1.2 billion in annual spend, OEMs have made programs to keep more customers on support for longer, have been more aggressive about multivendor support (MVS) pricing to compete with TPMs and are continuing anti-TPM policies that limit access to software entitlements.

## RECOMMENDATIONS

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To optimize hardware maintenance spend, sourcing, procurement and vendor management (SPVM) leaders focused on hardware maintenance renewals should:

- Evaluate using a hybrid maintenance strategy that combines secondary hardware, managed spares, OEM maintenance and TPM.

- Research the TPM market and providers, assessing in-house capabilities for Level 3 (L3) support versus the use of partners; access to software entitlements; customer satisfaction; in-country capabilities; financial stability; and ownership.
- Secure references from TPMs that are relevant — customers of similar scale that leverage the TPM provider for the same OEM's equipment supported in the same geographical region. Vertical-specific matches are a bonus.

## STRATEGIC PLANNING ASSUMPTIONS

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By 2021, 100% of existing TPM providers with \$20 million or more in TPM revenue will be acquired by a larger TPM provider, owned by private equity firms or both.

By 2021, 85% of North American hardware resellers/value-added resellers (VARs) will have an active, commission-based sales partnership with at least one TPM.

By 2021, hardware TPMs will compete directly against at least one other TPM in 60% of TPM greenfield opportunities and 75% of TPM renewals.

## MARKET DEFINITION

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Third-party data center and network maintenance is the independent market for data center and network maintenance, including servers, storage and network infrastructure equipment. This is maintenance provided independently from the OEMs, often referred to as “TPM” (third-party maintenance or third-party maintainers), “OEM-independent maintenance, alternative maintenance,” or “unauthorized maintenance.” Typically, TPMs will use “independent” or “alternative” to describe their offerings, while OEMs will use “unauthorized” to describe the TPM offerings.

## MARKET DESCRIPTION

TPM maintenance contracts for data center and network equipment may cover:

- Hardware replacement
- On-site field engineering
- Technical support
- Proactive monitoring

## POTENTIAL BENEFITS OF TPM

Benefits SPVM leaders focused on hardware maintenance renewals have realized by leveraging TPMs include:

- **Direct Cost Savings** — Hardware maintenance is increasingly being considered “nonstrategic IT” spending, resulting in organizations seeking low-cost alternatives to expensive OEM contracts and pricing. TPM contracts can offer customers 50% to 70% savings off net OEM support prices. When this is converted to the percentage off of OEM list, it is even higher.

- **Escaping OEM Post-Warranty Maintenance Increases** — Customers often switch to TPMs when the original warranty runs out, rather than renew the OEM support contract, at significantly higher OEM post-warranty pricing.
- **Extending The Life Of IT Assets** — Almost all of the installed base supported by TPMs is post-warranty or after end of service life (EOSL). This can provide organizations with flexibility to delay upgrade projects, especially when moving workloads to the cloud.
- **Flexibility In Contract Term** — Some enterprises consider the flexibility and customized support from TPMs an advantage over OEM contracts. For example, OEMs will typically not entertain a contract of less than a full year. A TPM, on the other hand, is typically willing to provide a customer a short-term contract of, for example, nine months (or less).
- **Leverage Against An OEM Quote** — Not all OEMs are prepared to lower support costs if you threaten to move to a TPM or have a TPM quote in hand. Some will not budge on price, while others will lower their price.

## POTENTIAL RISKS OF TPM

The most frequently mentioned caution areas that SPVM leaders focused on hardware maintenance renewals must consider when leveraging TPMs include:

- **Software Licensing/Updates** — Despite being hardware-focused, this market has software implications. The lack of clarity/consistent contract language regarding software access rights can be confusing for end users, and special attention to individual OEM policies must be paid. In addition, “software only” bids for firmware/microcode can be very expensive if needed down the road. Also, OEMs can implement a recertification fee/relicensing fee if you decide to go back to OEM maintenance. Sometimes, these recertification/relicensing fees are forgiven, sometimes they are credited in part and sometimes they are enforced. It largely depends on the vendor, total spend, future spend and many other factors. **Gartner has seen very few customers look to move equipment back to OEM maintenance once it has been moved to a TPM because overall satisfaction with TPMs is good and the savings are dramatic.** There are rare cases where an end user has looked to move back to OEM maintenance. Those seen on Gartner inquiries have been because the overall savings have been diminished because of the high cost for firmware.
- **Lack Of Visibility Into Financial Stability Of Providers** — It can be difficult to analyze TPM financials, including overall business size and growth, as almost all TPM companies are privately held. Many of the larger companies have private equity backing.
- **Risk Of Retaliation By Their Reseller/VAR** — VARs cannot provide TPM services according to the rules of engagement of most OEMs. VARs can be categorized as “TPM friendly,” meaning they will partner with a TPM, or “TPM unfriendly,” meaning they will not. Some OEM-loyal VARs or account executives (AEs) at VARs have reported that a customer is using a TPM or purchasing unauthorized secondary hardware to the OEM. When reported, an audit may be triggered.
- **Risk Of Audit By OEM** — Some OEMs have audit processes that target the secondary- hardware and TPM market customers. For example, Cisco has been conducting Cisco IOS audits, through management consulting firms such as Deloitte and KPMG, of select customers to discover what Cisco deems violations of Cisco (IOS) licensing policy. IBM has conducted audits through management consulting firms for what IBM deems violations of its firmware/ microcode policies.

- **Difficulty Knowing What A TPM Does Itself Versus What It Leverages A Partner For** Many TPMs are regional in stature, so the market can be cumbersome to navigate. It is important to know what providers do versus what they use partners for in terms of Levels 1, 2 and especially 3 support. In addition, understanding models for field engineering and parts procurement for different technologies across servers, storage and networks, and across geographies, is critical. Some providers operate without having parts/logistics and engineers, and use subcontractors for many technologies. Due diligence is required to ensure you choose a viable, effective TPM provider. This will also provide insight into how many layers are between you and the TPM actually handling Level 3. Talk to references for a TPM that is supporting the specific vendor's model equipment you are looking to support.

## MARKET DIRECTION

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A hybrid maintenance strategy that uses OEM-authorized and OEM-independent maintenance is becoming more common in the hardware support market. There is an ecosystem of independent support providers for server, storage and networking equipment. End-user customers are selectively using TPMs to cost-effectively extend the life of IT assets, manage or delay OEM-forced upgrades, and save money.

Third-party maintenance has been around for decades. However, it became more mainstream in 2015 and 2016, and peaked in annual revenue growth in 2018. The market is currently very small, with total global provider revenue totaling about \$1.2 billion. In comparison, total data center and network maintenance spend is over \$65 billion (see "Forecast: IT Services, Worldwide, 2017-2023, 2Q19 Update"). Customers of all sizes, all geographies and all verticals are using TPMs for some post-warranty and EOSL devices.

It should also be noted that there is growing end-user interest and adoption in the adjacent software TPM market. In particular, Origina, Rimini Street and Spinnaker Support are notable vendors in the software TPM market. The software support market is smaller in total revenue than the hardware TPM market, and there are far fewer vendors, in part due to lawsuits between OEMs and software TPMs over the years.

## MARKET ANALYSIS

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Depending on the OEM, some large "named account" customers may purchase hardware support directly from the OEM. Each OEM has a different number of customers that are "direct" or has different strategies, if it has direct customers at all.

The majority of end-user customers purchase and renew OEM-branded hardware support contracts through an authorized value-added reseller or partner of the OEM. An example would be Cisco Smart Net Total Care through a VAR such as CDW, Insight or LaSalle Solutions. Some authorized channel partners may also offer customers another option of hardware support, known as co-delivery or collaborative support, where the end-user customer calls the partner for Level 1/Level 2 hardware support, and the partner contracts with the OEM for Level 3 support. Using the Cisco example, AT&T, ePlus, IBM and NTT (Dimension Data) are all partner support services (PSSs) authorized with Cisco. In both of these types of authorized maintenance, the OEM benefits from revenue and margin.

This document focuses on third-party maintenance that is independent of the OEM. Therefore, there is no required back-end payment to the OEM, as there is with co-delivery support. This is one of the reasons that TPM is less expensive than both OEM maintenance and co-delivery maintenance from authorized channel partners.

As shown in Figure 1, TPM is sold by four types of providers:

- Pure-play TPMs
- Secondary-hardware TPMs
- TPM aggregators
- TPM selling agents (including resellers/VARs)

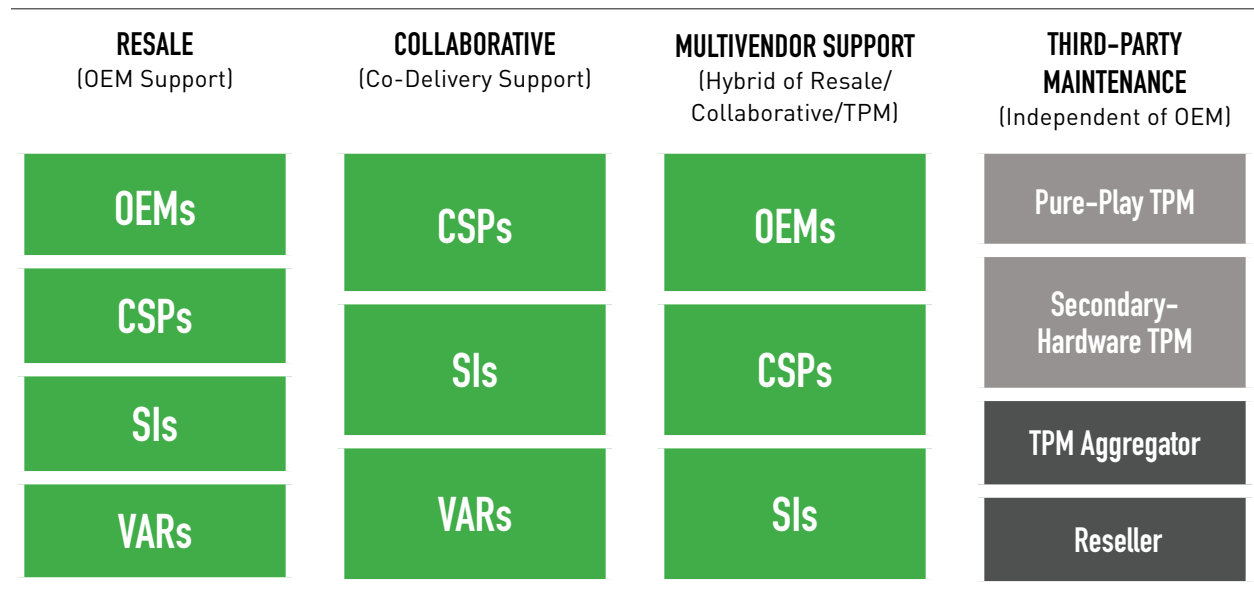
The focus of this Market Guide is on pure-play TPMs and secondary-hardware TPMs; however, each of the four is described below.

This Market Guide evaluates the market for data center and network TPMs delivering end-user support directly or augmented by partner support. Third-party maintenance aggregators are mentioned as a category but are not included in the representative vendor list. Likewise, companies that resell TPM support but do not provide any L3 support themselves on any technologies are not included in the representative vendor list.

In addition, multivendor support (MVS) providers that have authorized OEM relationships are a valuable option for end users, but they are not the focus of this research note. The MVS market is very mature and viable, and is over \$10 billion in size. IBM has the most significant market share, and other providers include Computacenter, DecisionOne, Dell Technologies (Dell EMC), Econocom, Fujitsu, Hewlett Packard Enterprise (HPE) and Maintech.

## FIGURE 1 | CHOICES FOR DATA CENTER AND NETWORK HARDWARE MAINTENANCE

Hardware Support Landscape



■ Covered by this Market Guide ■ Not covered by this Market Guide

Source: Gartner (2019) | CSPs = Communications Service Providers, SIs = System Integrators, TPM = Third Party Maintenance, VARs = Value-Added Reseller, OEMs = Original Equipment Manufacturers

Both pure-play and secondary-hardware providers offer TPM across server, storage and networking equipment, and commonly compete against each other.

- **Pure-Play TPMs** — Primary line of business is TPM. These independent support providers do not have a secondary hardware business. They may have field engineers, but not all do. Some pure-play TPMs only focus on providing Level 3 support in-house and leverage partners for field engineering. All pure-play TPMs will have technical support staff, though some may leverage a specialized pure-play TPM for certain technologies, particularly enterprise storage. Pure-play TPMs have the capability of managing spare parts, including testing and distribution via central and remote stocking locations, with varying degrees of sophistication. Few have remote monitoring capabilities across platforms, and some have native remote monitoring functionality within network, server and storage products. Most pure-play TPMs will also offer a suite of data center professional services.
- **Secondary-Hardware TPMs** — Primary line of business is secondary-hardware sales. These independent support providers focus on the secondary-hardware resale business and also provide technical support for network, server and storage products. Realizing that managing parts and logistics is a key factor to success in the TPM market, many secondary-hardware resellers have started TPM practices. They may have field engineers, but few do. Most use partners or a contingent labor force such as Field Nation or SiteHands for field engineering. Most secondary-hardware TPMs will leverage TPM partners for Level 3 support, particularly enterprise storage from TPMs such as CDS, known for Level 3 Dell EMC, ISC Group, known for L3 Hitachi, and **Smart 3<sup>rd</sup> Party (S3P), known for L3 NetApp**. Few have remote monitoring capabilities across platforms, and some have native remote monitoring functionality within network, server and storage products.

Most secondary-hardware TPMs will offer a suite of data center professional services.

IT asset managers may also consider purchasing TPM indirectly through TPM aggregators or TPM selling agents. These are providers that do not deliver TPM services directly, but resell them. IT asset managers should investigate if VARs they currently do business with do or do not have relationships with TPMs, and, if so, with what providers.

- **TPM Aggregators** — Although these providers do not provide third-party maintenance directly, they sell third-party maintenance provided by others — both pure-play TPMs and secondary-hardware TPMs. They do not have field engineers or technical support staff, do not own parts, and most do not have remote monitoring capabilities. These can be consultants/brokers that develop commission-based relationships with the TPMs, but add value through consultative maintenance optimization engagements. They also can be vendors that have developed tools to evaluate and offer hybrid maintenance recommendations to clients and then fulfill the recommendations based on predefined partnerships with TPMs based on platform, geography and customer fit. We do not include TPM aggregators in our list of representative vendors, though two examples are CloudCover and Integrated Service Partners (ISP).
- **TPM Selling Agents** — TPM selling agents do not provide TPM services. They merely act as a sales agent, taking a commission from a TPM. These providers can be system integrators (SIs), VARs, managed service providers (MSPs) or independent consultants. No agents/resellers are included in our representative vendors list because thousands of agents/VARs/SIs/network service providers (NSPs) can opportunistically sell TPM. Two VARs that resell TPM are CDW and SHI.

## REPRESENTATIVE VENDORS

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The vendors listed in this Market Guide do not imply an exhaustive list. This section is intended to provide more understanding of the market and its offerings.

## MARKET INTRODUCTION

Tables 1 through 4 list a total of 40 TPM providers (the maximum allowed per Gartner's short Market Guide methodology). Vendors listed represent a selection across geographies. The TPM market is extremely fragmented. Many pure-play TPMs have under \$10 million in revenue, and many secondary hardware providers have a TPM line of business that is under \$10 million in revenue. We have included the largest vendors — the only three providers exceeding \$100 million in TPM revenue are Park Place Technologies, Curvature and Service Express — and a representative list of smaller TPMs.

## MARKET RECOMMENDATIONS

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Today, the majority of hardware support services are still OEM-branded, OEM-delivered support contracts purchased through the authorized reseller channel from providers such as NSPs, SIs and VARs, and direct from the OEMs themselves. However, using a hybrid maintenance strategy that combines secondary hardware, managed spares, OEM maintenance, and TPM and is becoming more common.

Using a TPM can have significant benefits, including hard dollar savings, the ability to escape OEM post-warranty maintenance increases, the ability to extend the life of IT assets and having additional flexibility in contract structure. Also, a viable TPM quote may be leveraged to encourage an OEM to reduce its support pricing, though some OEMs react differently than others to this pressure. Some OEMs will lower pricing, while others will not.

The risk most commonly heard is regarding software licensing and updates. OEM audits are becoming more of a risk, and these are sometimes triggered by an OEM-unfriendly VAR informing the OEM when it realizes its support renewal is down and the customer may be using a TPM. Other challenges in using a TPM include the amount of diligence required to research providers. First, on the financial side, there is a lack of visibility into financial stability of providers. Second, on the operations side, it is difficult to know what a TPM does itself and what it leverages a partner for. Just because a vendor sells TPM, doesn't mean it provide TPM directly.

For those looking to engage with TPMs, the following steps are recommended:

- **Develop A Hybrid Strategy.** Develop a broad, optimized hybrid maintenance strategy that combines secondary hardware, OEM maintenance, OEM-independent TPM and managed spares.
- **Research, Research, Research.** Ask about the satisfaction of customers of a similar size, in- country capabilities, financial stability and ownership of the TPM, and on what technologies the TPM leverages in-house capabilities for L3/backline support versus leverages partners.
- **Ask The TPM To Perform A Maintenance Optimization Assessment.** Leverage TPMs that have built automated analysis tools that arm SPVM professionals with all the information they need to make recommendations about OEM support versus TPM support, and critical information about software update entitlement and EOSL.



- **Educate Your Organization About OEM Policies For Software Licensing And Updates.** This is the most common area about which you'll get questions from IT and other business leaders. Depending on the OEM, and the device, OEM policies limiting access to firmware/microcode or forbidding the transferability of an OS on hardware exist. Some OEMs offer software-only support, which are for purchase separately.
- **Beware The Risk Of Audits.** Be aware that perceived violations of software policies may trigger an audit.
- **Secure Relevant References From TPMs.** Speak with customers that leverage the TPM provider for the same OEM's equipment supported in the same geographical region and on a similar scale. Vertical-specific matches are a plus.
- **Start Small.** Often, customers "pilot" a TPM by using it for just one OEM's post-warranty equipment or just in certain locations. Once a relationship is established, Gartner has seen that customers typically will evaluate moving other OEM's equipment or other locations to the TPM. Or, the customer will move other equipment to another TPM — for example, the customer starts with network devices at a network-focused TPM and then will evaluate moving storage to a storage-niche TPM provider.

TABLE 1

| TPMs With Headquarters in North America |
|---|
| CDS — U.S.                              |
| CentricsIT — U.S.                       |
| CPLUS — U.S.                            |
| Curvature* — U.S.                       |
| CXtec — U.S.                            |
| EmconIT — U.S.                          |
| ISC Group — U.S.                        |
| TeamKCI — U.S.                          |
| Keltech — Canada                        |
| M Global Services — U.S.                |
| Memofix — Canada                        |
| OSI Global IT (OSI Hardware) — U.S.     |
| Park Place Technologies* — U.S.         |
| Service Express* — U.S.                 |
| Sherlock Services — U.S.                |
| <b>Smart 3rd Party (S3P) — U.S.</b>     |
| SYMM-Care Services — U.S.               |
| Tredent Data Systems — U.S.             |
| TRIDENT — U.S.                          |
| XSi — U.S.                              |

\* Total TPM revenue over \$100 million.

Source: Gartner (August 2019)

TABLE 2

| TPMs Headquartered in EMEA            |
|---------------------------------------|
| Cantel — U.K.                         |
| Citycomp Service — Germany            |
| Evernex — France                      |
| Fortitude NICS Global — U.K.          |
| General Computer Italia (GCI) — Italy |
| Integra MVS — Holland                 |
| K&P Computer — Germany                |
| Nordic Computer — Denmark             |
| PLES IT Services — Nigeria            |
| Solid Systems Global — U.K.           |
| Technogroup — Germany                 |
| Velez Managed Services — U.K.         |

Source: Gartner (August 2019)

TABLE 3

| TPMs Headquartered in LATAM    |
|--------------------------------|
| INTOSYS — Mexico               |
| América Tecnologia — Brazil    |
| INSIEME TECNOLOGÍA — Argentina |
| SYSTEMSCORP — Argentina        |

Source: Gartner (August 2019)

TABLE 4

| TPMs Headquartered in APAC                                    |
|---|
| Basis Bay - Singapore   |
| Einsis — Korea  |
| Interactive — Australia                                       |
| Information Technology Services Management (ITSM) — Australia |
| Procurri — Singapore  |

Source: Gartner (August 2019)

## GARTNER RECOMMENDED READING

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- “Market Guide for Software Asset Management Managed Services”
- “Market Guide for Software Resellers”
- “Market Guide for IT Asset Disposition”
- “Hype Cycle for Compute Infrastructure, 2019”
- “Leverage VARs to Reduce Costs and Improve Network Technology Project Outcomes”
- “Hype Cycle for Storage and Data Protection Technologies, 2019”
- “Hype Cycle for Enterprise Networking, 2019”

## EVIDENCE

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Gartner conducts regular vendor briefings of the providers included in this research. Topics typically covered by providers on the briefings include service capabilities, investments, case studies, go-to-market strategies and service differentiators.

In addition, Gartner conducts hundreds of inquiries each year with end-user organizations looking for alternatives to OEM maintenance. From these inquiries, Gartner is able to collect data about market demand for TPM, drivers and inhibitors for adoption of TPM, service providers being considered, and, ultimately, service providers selected. Because many of these end-user inquiries result in providing a review of a TPM’s quote, analysts are also able to continually gauge market pricing from these contract reviews.

Gartner also conducts inquiries each year with investment clients, primarily private equity firms looking to invest in the TPM market. From these inquiries, Gartner is able to collect data about the perception of market performance.

## NOTE 1 REPRESENTATIVE VENDOR SELECTION

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The focus of this document is on the market for data center and network TPM delivering end-user support directly or augmented by partners. Companies that resell TPM support but do not provide any L3 support themselves on any technologies are not included in the representative vendor list. Likewise, third-party maintenance aggregators are mentioned as a category but are not included in the representative vendor list.

In addition, multivendor support (MVS) providers that have authorized OEM relationships are a valuable option for end users, but are not the focus of this research note. The MVS market is very mature and viable, at over \$10 billion in size. IBM has the most significant market share, and other providers include Computacenter, DecisionOne, Dell EMC, Econocom, Fujitsu, HPE and Maintech.

The vendors named in this document were selected from more than 200 to provide end-user organizations with a selection of vendors across servers, storage and networks, and across geographies. The TPM market is extremely fragmented. Only a handful of providers have over \$10 million in TPM revenue, and many more have under \$10 million in TPM revenue. The greatest concentration of TPMs is in the U.S. market.



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