

New Rage at Work: Used, Revamped IT Gear

With credit tight in a rough economy, businesses are offloading equipment while bargain hunters are picking up retooled hardware on the cheap

By Rachael King

Just off the 101, about nine miles north of San Jose, a section of computer store Micro Center is lined with pristine white boxes. Inside are newly refurbished Dell (DELL) OptiPlex GX280s sporting Intel (INTC) Pentium 4 processors and 1 gigabyte of RAM—all for a modest \$299. When these desktop computers were introduced in 2004, they cost almost \$800 and were considered a respectable corporate PC. Now, for a budget-conscious business owner who needs features like Microsoft (MSFT) Windows XP—but not a top-of-the-line machine—they'll still do just fine.

Originally those Dell computers sat on the desktops of a large corporation. They made their way to Micro Center through Redemtech, a company that takes old corporate computers, refurbishes them, and resells them. Companies like Redemtech are just starting to see an increase in business that will likely accelerate in coming months. As the credit squeeze and economic slowdown force companies into bankruptcy and cause others to merge or trim headcount, many IT departments want to jettison surplus equipment. Other businesses are looking for gently used machines on the cheap. "In the last couple weeks, we've seen a huge upsurge of people contacting us with items they want to liquidate—a threefold increase," says Patrick Sutton, CEO of SoftBuyers, a firm that purchases used hardware and software before reselling it to other companies or simply recycling it. "It's becoming a priority because of the downturn in the economy to supplement IT budgets or to

simply generate revenue."



As alluring as it may be to save money on used equipment, would-be buyers need to make sure they're purchasing from reputable resellers. Companies getting rid of computers need to ensure the machinery is wiped clean of data.

Used High-End Gear, Too

By some estimates, the market for used computer networking equipment alone is worth as much as \$3 billion; that doesn't include the market for PCs or servers. This so-called secondary market encompasses everything from used desktops and laptops to the servers that run Web sites and corporate networks. Some businesses even opt for used versions of

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high-end gear, such as switches that connect computers, routers for linking multiple networks, and the hulking main-frame computers that support hundreds of users. "There will be a bunch of systems that will come out of downsizing or failed companies," says Robert Houghton, president of Redemtech, one of the many providers that help corporations move large volumes of used equipment and determine whether it can be resold. Redemtech sends its best equipment to Micro Center for resale. Other refurbishers include Intechra and Network Hardware Resale. Even IT equipment manufacturers such as IBM (IBM), Dell, Hewlett-Packard (HPQ), and Cisco Systems (CSCO) play a role in helping refurbish used gear.

The secondary market flourished in the wake of the dot-com bust as failed startups flooded the market with lightly used servers and other machines they no longer needed. "Lots of companies were going out of business and we had a chance to buy almost-new equipment, and most of it came with warranties," says Lionel Carrasco, who at the time was starting a company called Alterbrain that was later acquired by Neoris, which specializes in IT outsourcing. In some cases, people had as little as a week to get rid of an entire office, recalls Carrasco, now chief technology officer at Neoris. He was able to buy servers, printers and other equipment for about 30¢ on the dollar. Of the roughly 70 million PCs sold in the U.S. each year, about 3.5 million are refurbished secondhand machines, according to consulting firm IDC.

The influx of used gear slowed in recent years as companies held onto expensive purchases longer. While it's rebounding, few expect the market to glut as much as it did early in the decade. But even if the industry doesn't reach the fire-sale prices of 2001, companies can still find great bargains, often

saving more than 50% off the price of new equipment.

Also Saving on Maintenance

Excel Telecommunications, with about 300 employees, estimates it has saved about half on used Cisco and Juniper (JNPR) switches and routers purchased from Network Hardware Resale. In general, enterprise switches and routers start in the tens of thousands of dollars. Cisco's Nexus 7000 high-end switch for data centers, released in January 2008, starts at \$75,000. Depending on the configuration, it can sell for \$200,000 or more.

Over the past two years, Excel has saved about \$750,000 by purchasing switches and other equipment secondhand, says Excel Senior Network Manager Jim Connolly. While Connolly was initially leery of buying used networking equipment, he started off small and says he hasn't had any problems. Excel also uses Network Hardware Resale's maintenance service, which Connolly says costs about 60% less than a comparable service provided by Cisco.

Understandably, many large companies prefer to buy or lease new equipment. American Electric Power (AEP), a utility with 20,000 employees only buys new IT gear. The utility hangs onto it for about three or four years and then contracts with Intechra to handle the disposition, whether it's recycling or resale. "We don't want to keep equipment longer than its useful life because the support costs go up astronomically once something reaches a certain age," says Nick Elkins, an IT consultant at the utility.

But, in light of the capital crunch, some larger companies are starting to take a second look at buying used IT gear. Most of

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Redemtech's clients, for instance, are companies with 5,000 or more employees. Over the years, these have included Pepsi Bottling Group (PBG) and Wyeth (WYE). "We're seeing some of our largest customers reevaluate the use of used-equipment as a stopgap measure," says Redemtech's Houghton, who declined to name the buyers of refurbished gear. Those companies are asking Redemtech to help supplement their existing stock with used equipment. "I think that if credit were flowing freely, if capital were easily available, they probably would not be doing this," he says.

Manufacturers Get in on the Act

As with any purchase of a used product, some people may wish they didn't. Pick equipment that's well past its prime and you'll incur higher support costs.

It's also important to buy from a reputable dealer or risk getting burned with unreliable or even counterfeit equipment. Experts recommend that buyers understand the return policy before purchasing hardware and even then that they buy in small quantities at first and develop a relationship with a provider over time to establish trust and minimize risk.

Buyers who want a particular type of equipment—say hardware from IBM, HP, or Dell—can find good deals directly through the manufacturer. HP, for instance, can help customers find HP equipment going back 25 years. Frequently, the manufacturer's stock of used gear comes from large enterprises that have come to the end of their leases with desktops, laptops, servers, and even mainframes. "We bring equipment back into our factories and retest it and certify it ... with a full warranty," says Kevin Cleary, general manager of IBM Global Asset Recovery Services. IBM tries to reuse rather than recycle as much

technology as possible. About 85% of the IT equipment IBM manufactures ends up being reused in some way.

When Western & Southern Financial Group purchased about 2,000 new laptops for its sales force about 18 months ago, the company was already thinking about how much those laptops would be worth once they were used. "We try to analyze three or four years in the future and try to determine what the value will be," says Doug Ross, chief technology officer of Western & Southern, a Fortune 500 company that sells life insurance, retirement planning, and investment products and services. It took that projected value into consideration as it built the business case for purchasing those 2,000 laptops.

When those laptops have finished their lives at Western & Southern, before they're donated or resold, Ross's staff will wipe the hard drives using a Defense Dept. standard for disk wiping. Experts say it's crucial from a security perspective to make sure data is wiped from computers and other equipment before it's resold. If those computers are going to be recycled, it's important also to understand what your vendors will do with that e-waste, as some recyclers engage in questionable practices (BusinessWeek, 10/15/08) such as selling it for export to China where it winds up contaminating sources of drinking water.

Reploying within the Company

For some companies, the most economical use of IT gear is to hang onto it as long as possible. "More companies are looking for ways to retain their existing computers," says David Daoud, an analyst at IDC. Because of increased capacity in PCs, some companies are looking at going a little longer between upgrades.

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Western & Southern also reuses some of its equipment, such as servers, in its disaster-recovery site where they are used for testing and development. Redeployment programs can be especially effective for highly distributed outfits like insurance offices, medical facilities, and banking operations that may have excess inventory in some parts of the company that can be reused in others. The trick is managing the wiping of the data and the refurbishing of that gear, as well as the logistics of getting it to another location. "If a company uses its own IT staff, it adds to the cost," says IDC's Daoud.

Redemtech specializes in managing redeployment programs, and aside from handling removal and refurbishing of equipment, the service provider can post available equipment on a secure Web site so that geographically dispersed business units can order what they need. Redemtech helped recently acquired Wachovia Bank (WB) put in place a comprehensive program to redeploy PCs, laptops, telecom servers, storage devices, and fax machines. Over two years, Redemtech helped Wachovia redeploy 10,400 assets for nearly \$9.2 million in savings.

"We avoid recycling like the plague," says Redemtech's Houghton. "We always want to refurbish and resell when possible—it's economically, environmentally, and socially preferable."

