

# Services and Support

---

## A White Paper



## Introduction

### TekPlus and euROLAN

This White Paper has been researched and written by Keith Humphreys, of euROLAN, an independent Channel Analyst company in conjunction with TekPlus.

euROLAN has tracked the networking integration market since 1993 and the percentage of the business which channel partners derive from services has increased from 32 per cent of total sales to close to 50 per cent today.

This White Paper is an objective appraisal of the key elements of service and support mechanisms that networking vendors put in place for its partners.

## Services Tax

### We discuss services that channel partners can access from networking vendors

The “services tax”, which was introduced by Cisco as the 3x3 (three per cent over three years), is now ubiquitous but it varies greatly in how it is charged across the manufacturers. Alcatel includes a 3-4% charge and, like Cisco, mandates it at product purchase.

As Avaya and Nortel make some charges, which are based on usage, we took an example - in order to arrive at the Effective Percentage. The assumptions we made of a typical deal of \$100k and the project was  $\frac{3}{4}$  data and  $\frac{1}{4}$  VoIP.

For Nortel we assumed one Case Usage and one RMA and that the network integrator receives a median discount of 50% - the figure in the table was less as it rounded up to 2 per cent.

### HP ProCurve take a different approach to service charges. Instead of a tax it has a yearly levy of \$20,000

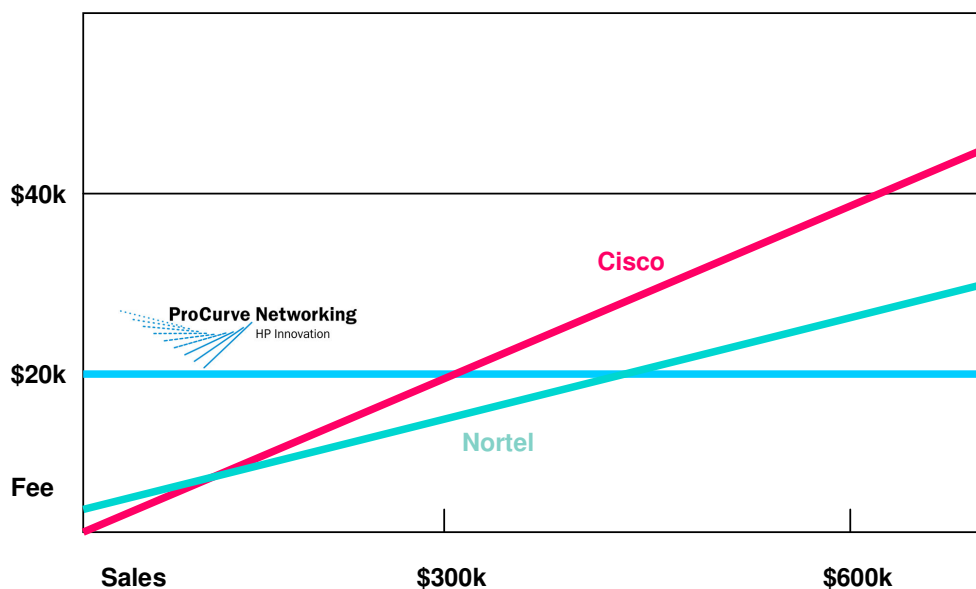
	“Services Tax”	Effective %
<b>3Com Guardian</b>	<b>3%</b>	<b>3%</b>
<b>Alcatel</b>	<b>3-4% included</b>	<b>3%</b>
<b>Avaya ServiceSpan</b>	<b>2-6%</b>	<b>4%</b>
<b>Cisco Shared Support</b>	<b>SmartNet less 70%</b>	<b>7%</b>
<b>Nortel PSC+</b>	<b>1-2% + RMA/Cases</b>	<b>2%</b>

Service programmes cover –

- Access to telephone support
- Software updates
- Hardware replacement
- On-line support

HP ProCurve charges a one-off fee of \$20,000 for its Service Advantage, which covers the above, plus an escalation procedure, proposal help, help in a multi-vendor environment and help with spare parts stocking.

The following chart illustrates the differences between obtaining services from Cisco, HP ProCurve and Nortel based on the above assumptions.



Source: euROLAN

## Partner Perspective

From the discussions euroLAN have had with Cisco’s partners we know that there is a great deal of concern and consternation with the Cisco Shared Support (CSS) service program that is replacing SIS98. Many partners have calculated that their cost will significantly increase because of the requirement to provide exhaustive asset management for all Cisco products installed (and retained) in the customers’ networks. Further, partners are not aware what they will have to pay Cisco in the future for support services since the price is dependent on three (macro) variables that Cisco will measure – service quality as measured independently, service delivery and service sales. Contrast this with the simplicity, affordability and predictability of the equivalent support service from HP ProCurve which makes an up front fee of \$20,000k. And with Nortel’s PSC+ the reseller pays a nominal base fee (a percentage – ranging from 1 per cent, 1.5 per cent to a maximum of 2 per cent - of the annual product purchases), a case usage fee (directly proportional to the amount of Nortel resource you consume) and fee for advance replacement. It is quite clear for the reseller, you only pay for the service you take from Nortel, and further, the cost to administer it is clearly much less than that for Cisco’s CSS. We estimate that the cost to the reseller of PSC+ from Nortel would be 25 per cent of that of Cisco’s CSS for equivalent levels of service. The comparison to HP is even clearer although the partner will have to amortize the initial fee against product sales although a reseller only has to sell \$300,000 of product before he breaks even compared to Cisco.

### Partner Quotes

#### 3Com

Source: euROLAN interviews

“3Com's lack of credibility in the Enterprise space would deter us from signing them up”

Quote on 3Com Partnering by Cisco Gold network integrator

## **Alcatel**

“Currently Alcatel cannot provide next day or even next week RMA in Europe as it comes from the US”

*Quote on Alcatel Partnering by Cisco Gold network integrator*

## **Avaya**

“Avaya services were very poor and expensive. It was also difficult to make money on them which is the reason why we have dropped Avaya”

*Quote on Avaya support by Cisco Gold network integrator*

## **Cisco**

“Far too dangerous to be too close to one vendor; see the example of RCS - 98% of business through Cisco - now bankrupt”

*Quote on Cisco Partnering from Cisco Silver network integrator*

“Clearly Cisco wants to squeeze its partners and customers for more services; We found this programme quite heavy regarding administration and are not convinced it will bring us much more than SIS98.”

*Quote on Cisco Shared Support by French Cisco Silver Partner and Nortel Gold Partner*

“Viewed as negative. There are extra costs with CSS and yet service content seems the same as SIS98. Estimates that over a four-year contract the CSS cost is double the SIS98 cost!”

*Quote on Cisco Shared Support by Cisco Gold network integrator*

“Costs will increase. Based on the multiple quotes we have done using the new Shared Services costs we have concluded that our Cisco charges could increase by up to 30 per cent per annum.”

*Quote on Cisco Shared Support by Cisco Silver partner*

“Not as good as SIS98; before, we could buy support on a per contract basis, now we have to buy on a per product basis...these products can be installed months after they're purchased/sold”

*Quote on Cisco Shared Support by Cisco Gold network integrator*

## **Nortel**

“Nortel is more flexible”

*Quote from French Avaya Gold and Cisco Silver network integrator*

### **Cisco's Framework**

## **Shared Support**

Cisco is in its third iteration of “services tax”. The first was the 3x3, as discussed earlier; the second was SIS98/RS98, which was a one time up front fee, and the third is Shared Support.

Cisco announced Shared Support at the beginning of 2005 after a pilot in Europe but it is still causing consternation among partners.

euROLAN interviewed partners across Europe and discovered a great deal of consternation regarding the additional administrative burden which Shared Support is bringing because of the asset management requirements.

Microscope, a weekly channel magazine in the UK, picked this up and reported on 16 June 2005 that the additional administrative burden is the main concern. One Cisco Silver partner commented: "At the moment [Cisco is] asking people to climb Everest — it is huge. We are going to make [the deadline], but we are investing a shed load of money."

## SIS98

## Cisco Shared Support

<b>One time up-front</b>	<b>Annuity-based contracts</b>
<b>Pay for service on all products purchased</b>	<b>First year of product life: Full entitlement—purchase service on all products at time of order. Second year of product life and onward: Selective renewal—purchase service only on products for which customer renews service</b>
<b>Pricing is based on percentage of contractual</b>	<b>Pricing is based on discount off SMARTnet and Software Application Support/Software Application Support plus Upgrades</b>
<b>No discount differentiation</b>	<b>Discount is driven by your performance</b>
<b>One hardware service offer</b>	<b>Multiple hardware service options: Same-day shipment (SDS)/Next business day</b>
<b>Service granted without question</b>	<b>Entitlement enforcement</b>

### Summary

Cisco staff in Europe, with responsibility for channels, has indicated to euROLAN that they are addressing channel partner concerns. If they are not successful partners may look elsewhere.

Partners may wish to look to HP ProCurve Service Advantage if capping the “services tax” is the main goal and may wish to avoid the administrative burden of Shared Support although this requires becoming an HP ProCurve Elite partner to be eligible.

For more resources Channel Managers may login to [www.euolanresearch.com](http://www.euolanresearch.com)

### Copyright and Disclaimer

*This white paper is Copyright © 2005 by Tekplus and euroLAN Research Limited. It may be freely redistributed in its entirety provided that the copyright notice is not removed. It may not be sold for profit or used in commercial documents without the written permission of the copyright holder. These documents are provided “as is” without any express or implied warranty.*

*While all information in these documents is believed to be correct at the time of writing the authors and publisher of this White Paper are unable to accept any legal liability for any consequential loss or damage, however caused, arising as a result of any actions taken or not taken on the basis of the information contained on this or related Internet sites.*

Copyright ©2005