CISCO SMARTnet RISK ANALYSIS

The Real Study from the Trenches

A Smart 3rd Party Insider Report

SMART 3RD PARTY
BETTER SERVICE. EVEN BETTER PRICE.

Cisco SMARTnet Risk Analysis:
The Real Study from the Trenches

Is Cisco SMARTnet ESSENTIAL TO THE ONGOING MAINTENANCE of your IT infrastructure?

Cisco and its network of resellers is a behemoth in the IT world because they are incredibly successful in producing devices and software that power hundreds of thousands of businesses globally. Of course, users and IT executives appreciate the utility, reliability, and innovation that Cisco brings to their businesses. And, they become incredibly reliant on the Cisco products to accomplish their business mission.

SMARTnet provides software and support for the Cisco networks with an impressive array of services and requirements for warranty, support and maintaining customer networks during the stated life of the Cisco equipment. Many, if not most, companies purchase SMARTnet because they fear that their networks will be vulnerable and they don't want to have to explain to their customers or users why they are down and can't recover in a timely fashion.

1. SMARTnet becomes their "insurance policy," and it is a costly one.
2. But what's the real risk?
3. Are some risks essentially self-insurable?
4. Are there options other than SMARTnet?
5. Is there significant money to be saved with those alternatives to SMARTnet?
6. Where is SMARTnet required?

ISSUES

Let's be clear; we've come to respect Cisco for the unbelievable success they've had in the marketplace. Many of us have made our careers by selling, maintaining and planning for Cisco installations across the globe. But we also know from this experience that even Cisco isn't perfect.

First, let's take a look at the issues we've seen in our work with hundreds of installed Cisco networks. Main priorities, questions, and concerns for those already using Cisco products:

1. How do we ensure that your network stays in service to meet the standards appropriate to your mission and business? There may be written or unwritten Service Level Agreements (SLAs), but essentially most every company has become dependent on their Cisco and other IT infrastructure to be able to operate their business.

2. Given how essential Cisco has become to IT, do you need a maintenance contract? Think of your car, lawnmower, cell phone, laptop, etc. You can buy coverage for all of these items—and many more—but do you always? We need to make the same decisions for IT: Do we go it alone or do we need SMARTnet? Do we have a plan? Who are other partners for the plan, internal and external, for our company?

3. For Cisco equipment replacement or spares, do I need to purchase directly from the OEM? What if I don't? Is there money to be saved? What are the support and warranty issues? Is the used, refurbished broker market reliable? Can I get service on any of the "gray market" equipment?

4. What about iOS updates with regard to the long-term viability of our networks? Is Cisco the only source for iOS updates? Do we need to follow Cisco protocol for our updates? What is the implication if we don't have immediate access to the updates?

5. What about the technology onslaught? Tech keeps changing over time with new versions, new functions, new connectivity, the cloud, virtual networks, faster, better, and more user-friendly. How do we balance this against keeping what we already have working and still meeting the expectations of our management, customers, and stakeholders? There isn't an endless money pot in most companies, so we have to use our budgets wisely, while always moving forward. Besides, sometimes we're mesmerized by the new stuff.

6. Cisco uses the term End of Life (EOL), and there is a constant drumbeat of old products reaching EOL when support and updates supposedly cease. Take a moment to check out Cisco's EOL list. There are dozens of pages! Much of this equipment is still in use in thousands of installations. Look how much of it is slated for EOL and declining support in the next few years. What does this mean? What is the real economic useful life of this equipment?

7. If you have SMARTnet maintenance contracts, there is a new contract number issued with every device you purchase. That can mean hundreds to even thousands of individual agreements with varying terms. How do you manage all these contracts and respond quickly when a support issue arises? How do you know what you are paying for on all these contracts?

8. We do give credit to Cisco and many other IT vendors: Reliability of equipment has never been better. In the meantime, failure rates have been declining for years. Seemingly, then, the risks are fewer, and the life of our networks should be increasing? Are they? Does it cost significantly less to pay for extended maintenance on this equipment? Many Cisco account reps and resellers will suggest a refresh is essential.

Let's be real: there are more issues than what we've mentioned above. These are just the questions we see most as we work with our clients and business partners. The truth is there is a reason these big OEM's have sustained success over decades. They deliver strong products and support the installed IT networks.

But these are real questions that NEED ANSWERS.

INDEPENDENT INDUSTRY STUDY

Gartner, the world's leading research and advisory company, has done several studies on IT infrastructure procurement, the competitive landscape and maintenance options. In 2016, they released an updated study on the competitive Third Party Maintenance (TPM) landscape. Below is a short excerpt:

"Data Center and Network Maintenance Cost Optimization, North America"

(Gartner, March 2016)

Competitive Situation and Trends

Hardware maintenance is increasingly being considered as a "nonstrategic IT" spending and procurement, with the result being that IT professionals are seeking low-cost alternatives to expensive OEM contracts and pricing. To achieve greater savings, some enterprises consider TPM support, especially for post warranty data center equipment, or for networking equipment at campus or remote locations. Enterprises need to reduce capital expenditure (capex) spend in networking and data centers is a supporting factor to consider TPMs. Some enterprises consider the flexibility and customized support from TPMs as an advantage. Customers will often switch to TPMs when the original warranty runs out, rather than renew the OEM support contract, due to significant increases in OEM post warranty pricing. Because of these trends, the TPM market is becoming of more interest to service providers.

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The third-party data center maintenance, third-party network maintenance, and secondary hardware markets are coming together. With the exception of niche providers that strategically work only as a subcontractor to other TPMs, most providers in this space want to offer support across servers and network.

TPM contracts will offer customers an average of 60% savings off of OEM support list prices. However, depending on equipment type, location and product density, Gartner has seen that the range of savings with TPM contracts is 50% off OEM list up to 95% off OEM list.

EVIDENCE

Cisco Financial Results:

Cisco is undoubtedly one of the darlings of Wall Street and has soared since its founding in 1984. In 2016, Cisco's sales were almost $50 billion. Of this, approximately $12 billion, or about 25%, of their sales are for service revenue. Gross margins on the part of the business are about 65%, so approximately $8 billion is contributed to the overall profit situation at Cisco by service of their products and SMARTnet is included in this number.

So, while Cisco is known for its technology and equipment sales, clearly, they rely heavily on the revenue and profits from servicing the equipment that is sold. Certainly, they have every reason to pursue these profits, but each customer and user has the same responsibility to study how much could be saved with alternative approaches to high-cost SMARTnet or other services from Cisco.

What Users Worry About:

Here is a typical concern posed in an online IT message board:

"We are part of a non-profit org who buys mostly Cisco gear. We have a reseller that we work with who just recently stopped selling gray market and issued a warning saying Cisco flagged them, so if we go through them, they are purchasing from Cisco directly. Another company that we have used in the past still does gray market. These devices are new, not refurbished but most likely overstock from another company. They are usually able to get the devices cheaper than the first company. Which works out for us since we have such a strict budget being non-profit. What are the risks in buying from gray market resellers? Is there any risk to SMARTnet coverage?"

There are dozens of responses to the post—some supportive of acquiring non-OEM gear and others warning of big problems. Some acknowledged the difficult relationships and intimidations from the Cisco community, while others are critical of the gray market. We can't help but notice the tone of the question, the worry behind it because they won't be playing by Cisco rules, the uncertainty of which way to go and the doubt that there is more than one real solution to the cost considerations voiced by this end-user.

Gartner also acknowledges the existence of a valid and responsive market for non-OEM equipment. They stress to ensure you're dealing with a reputable and certified supplier.

Here's a question from someone considering third party maintenance:

"What's the gambit of services you offer? How large is the support team and is it USA-based or contracted to outside engineering teams around the world? Also, if we don't have a service contract with Cisco then could this potentially void other licensing we do have to purchase which enables feature sets and product functionality when we use an outside advisor that is not Cisco based support? Usually, when we experience an issue we still need TAC support for things like RMA's and replacement equipment so how does this all factor in? Many other questions such as this that immediately come to mind when you say you can cut costs."

You can feel the doubt, skepticism, and fear, but is this concern really necessary? This is what we see every day. These are the questions we get, and the variety of responses is consistent with the user market we live in.

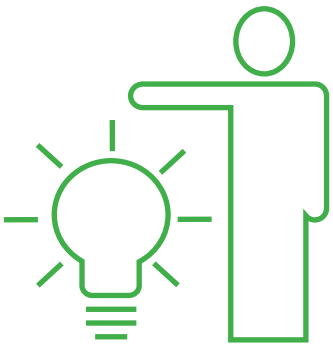
This paper aims to show that THERE ARE OTHER OPTIONS and, with them, potential savings and risk avoidance.

THE SOLUTION

Given the problems we outlined above and the reality of what users and experts are saying, what is a reasonable answer to the question of using SMARTnet for your organization?

How do you determine the real risks, assess the impacts and decide what cost/risk combinations are appropriate for your business? Right now, in many IT organizations, there is an over-reliance on Cisco. It is a brilliant strategy by Cisco, leading many IT executives to fear what will happen if they break free from total immersion in SMARTnet.

The solution is to take control of your IT infrastructure maintenance with an internal plan. In all likelihood, SMARTnet will play some role in your plan.



But, Cisco should not drive your plan. YOU SHOULD.

STEPS TO CONSIDER FOR YOUR PLAN

1. Take a realistic look at how your current system is performing. Do you know what your current downtime, major incidents and SLA's for each area of your operation?
2. If you are a current SMARTnet customer, how many times have you used SMARTnet and what were the potential costs or alternate solutions if you didn't have SMARTnet? You may be able to get some of these reports directly from Cisco.
3. Determine true mean failure times and potential useful lives for essential equipment. Do you have a method of tracking or are you relying on the OEM to tell you when you need to replace or refresh?
4. Assess how many times you need iOS updates from Cisco. This is a big issue for Cisco, but the truth is that many devices can reliably function on earlier versions of iOS. What version(s) of iOS are you using? How do you determine when/how to update iOS for each piece of equipment? And, the risks of doing the updates cannot be discounted. Sometimes the updates increase instability, and they take workforce away from other projects.
5. Method to assess the true cost of Cisco SMARTnet:
   i. How many cases did you open with Cisco TAC last year?
   ii. How much did you pay Cisco for SMARTnet last year?
   iii. Divide number of cases by cost gives you Cost Per Case.
   iv. Of the total number of cases opened with Cisco TAC how many required hardware replacement?

   (After doing these calculations, you may be astonished at how much it costs per year, per case. And, whether it's just a software issue or isolated hardware issues that could be managed by other means).
5. Survey end-users on "worst case" and "what you can live with" scenarios. Every downtime issue is not a matter of "life and death." Some operations are more mission-critical than others and planning for 24/7/365 with 4 hours can be excessive. Users need to have realistic expectations, and IT managers must be comfortable with a level of reasonable risk.
6. Develop a policy for spares, replacement and refurbished equipment. Meet with potential vendors and determine the level of guarantee, maintenance, and service for each area of your business.
7. If you are heavily reliant on SMARTnet for most parts of your business, you may be reluctant to pull the plug entirely. Consider using a 3rd party partner for some test remote facilities or edges of your network to assess. This may allow for gradual weening from Cisco while giving your IT staff and users comfort that there are realistic options to SMARTnet.

Pulling It Together:

CAN YOU ANSWER THE QUESTIONS or do the analysis above? Are you even close?

You may already have some elements of such a plan in place. Or you may have the staff and time to launch into your long-term IT Infrastructure Asset Maintenance Plan.

In many organizations, IT Management feels like you are constantly chasing your tails and the expense, staff and time to create such a plan may seem daunting. Frankly, it can be one of the reasons for such reliance on Cisco. But you could be paying a major price for this.

Many TPM companies offer systems to manage all aspects of your IT infrastructure. They have developed portals, virtual response desks, asset inventories to manage work for their clients and they make them available to the clients.

Also, they can offer excellent assistance and input to your plans. Some may even be able to manage the planning process, either for a fee or in connection with other services.

Many new clients or prospects find that just talking to a TPM provider can result in the first realistic look at how your systems are performing. It reveals the number of assets truly in service, how many assets are under contract, which ones are still under warranty, what the warranties really cover, iOS updates available, and more.

SUMMARY

As we started this paper, the question before us was: What are the risks of the decision to engage Cisco SMARTnet for infrastructure maintenance and support? How much does it cost? And are there alternatives that will minimize the risk?

No vendor can eliminate all risks because nothing is 100% risk-free. Consider that there are major risks associated with staying with Cisco SMARTnet as we have demonstrated in this paper.

1. You could be paying for iOS updates that you never use.
2. You could be forced to refresh your assets or do unnecessary upgrades to major systems.
3. Even Cisco fails in its support from time to time, so a 4-hour service commitment may get stretched to 24 or 48 hours.

The takeaway here is that the decision to go with SMARTnet may result in high costs, manpower and strategies that could be deployed in other parts of your business. Cisco may be completely essential for certain aspects of your business.

Our point of view, and what we have demonstrated here, is that there are alternatives and all that you hear from Cisco, resellers, consultants, brokers and 3rd party maintainers may not be true.

The information in this paper and the planning process we outlined can help you sort out these risks better. We are confident there is money to be saved. While the price of peace of mind and more informed decision-making is incalculable, it is massive and priceless.

In the end, the real question is: HOW "SMART" IS IT TO RELY ON SMARTnet?

ABOUT THE SPONSORS OF THIS PAPER:

We're Smart 3rd Party, an IT equipment maintenance support company that holds the philosophy that our customers deserve high-quality service without the high costs that some companies attach to it.

As Amazon founder Jeff Bezos said, "There are two kinds of companies. Those that work to try to charge more and those that work to charge less. We will be the second."

At Smart 3rd Party, we also want to be that second kind of company. We focus on reducing expenses so we can be the low-cost leader because the customer expects everybody in our space to deliver a certain degree of quality support. What makes Smart 3rd Party stand out is price.

Along with a lower price, we provide excellent customer service because we want to establish long-term relationships with our customers built on trust and on doing the right thing.

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In-House Cisco Capabilities at Smart 3rd Party:

We are proud to say our Tier 4 Engineering Team holds many certifications including:

- CCIE Cisco Certified Internetworking Expert
- CCIE-R/S Cisco Certified Internetworking Expert Routing and Switching
- CCDE Cisco Certified Design Expert

ABOUT THE AUTHORS

Ken Peck joined Smart 3rd Party as President in 2013. As part of the changes he led at the time, the name of the company was changed from IT Network Security to better reflect the goals of the revitalized organization. ITNS primarily provided backline Cisco support to third party maintenance providers such as Delta Computer Group.

Before joining Smart 3rd Party, Ken served in IT sales and management for hardware, software, and services for companies including Unisys, Motorola, London Bridge Group, and Dickens Data for 30 years. It was at Unisys that Ken had his first entry into TPM in 1986 long before Gartner started referring to third party maintenance as TPM. He gained further TPM experience at Motorola who was closely aligned with Interlogic Trace an early TPM pioneer. Ken attended the University of Alabama where he earned his Bachelor of Science degree in Finance.

Julio Carvajal Segura is a Senior Network and Security Engineer at Smart 3rd Party with more than ten years of experience in the field. A former Cisco TAC Escalation Technical Engineer, Julio has extensive expertise in security and core network issues. His skill set allows him to provide S3P clients with a variety of solutions including designing, securing, configuring and deploying networks in multi-vendor environments. He is a Cisco Certified Internetwork Expert (CCIE) and holds certifications from a variety of other vendors including:

- CCIE Routing & Switching #42930
- CompTIA Security+
- Wireless OffSec Pentesting
- Cisco Certified Network Associate (CCNA)
- JNCIA
- CCNA Security Certification
- Certified Network Professional Security (CCNP Security)
- CCNP Routing & Switching
- JNCIS-SEC
- JNCIP-SEC

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