

The Race to OnBoard the Channel to Third-Party Maintenance

Written by Bob Snyder
08 August 2016

Partners Group, the global private markets investment manager, acquires global IT support services provider **Systems Maintenance Services ("SMS")**.



Before you pass by this news, let us quickly remember the fastest-growing channel for third-party maintenance is through commission-based partnerships with the authorized VAR community. More on that, later in this article.

This acquisition will trigger renewed interest in TPM in Europe, a race to acquire growing TPMs, and an avalanche of opportunities for European solution providers.

Founded in 1981, US-based SMS provides IT infrastructure services to a client base of more than 3000 businesses.

SMS calls itself "the global market leader in Third-Party Maintenance (TPM) services, which it offers in conjunction with its full suite of IT system support services."

And it is true SMS has at least 900 engineers on its staff and serves clients through more than 100 service centers across North America, Europe and Asia-Pacific.

Covering equipment from all the major IT original equipment manufacturers, SMS recorded revenues of approximately USD\$ 245 million in 2015. SMS is more than 10X bigger than most of its category.

But it is a big world there and the race to become a truly global provider is on.

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The main reason for the acquisition by Partners Group can only be to grow the SMS's global sales force and expand its portfolio of services and global presence for its clients.

The owners of SMS who sold it were private equity investment groups (Thomas H. Lee Partners and Summit Partners)-- the sale to Partners Group moves SMS to the league of bigger investors, institutional investors with more international resources.

This acquisition intends to give SMS the ability to continue the company's growth trajectory both organically-- and through select acquisitions.

In 2013, SMS acquired UK-based Olympic Support. In 2014, it acquired Careitec A/S in Denmark to provide additional support in Scandinavian countries. In 2015, it acquired Prob-Solve Solutions and GMT360 in the UK. SMS is looking to continue its global expansion organically, and also through continued targeted acquisitions.

Partners Group will provide the funding for further growth. Swiss-based Partners Group is a global private markets investment management firm with its pockets filled by 850 institutional investors worldwide. With more than EUR 49 billion (USD 55 billion) in investment programs under management, Partners Group searches for deals in private equity, private real estate, private infrastructure and private debt.



Seventy percent of SMS's business has been direct to the end customer (largest direct verticals for SMS are healthcare, retail and financial services). Following a new imperative, SMS also is growing an affiliate network for channel sales.

Fueled by a need for cost optimization (particularly for postwarranty and EOSL data center and

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network devices), end-user interest and demand for alternatives to OEM support for data center and network maintenance are increasing.

Gartner says TPM contracts 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 the range of savings with TPM contracts is 50% off OEM list up to 95% off OEM list.

You might want to watch the SMS video called ["What is the OEM Treadmill?"](#)

The main loser, in the TPM wars, will be the OEM, the vendor who has always counted on the built-in service fees not only for profit but as a driver for hardware refresh.

Today's TPM (Third Party Maintenance) market is extremely fragmented (with most providers even in the big USA market making less than \$10 million in annual revenue from TPM). Very few providers have true global scale at this time, but many--like SMS-- are looking to build out global capabilities through acquisition and partnerships.

Gartner Research says today, 85% percent of the time, a TPM competes only against the OEM, not in a competitive bidding situation against other TPMs. But this is changing fast.

The IT research expert also says, by 2020, 80% of North American VARs will have active commission-based sales with at least one independent TPM.

Can we expect less in EMEA? It may not be identical in percentage but it makes sense it will follow, in general, the USA model. Europe has also seen the attraction of 3rd party support in software: European giants like SAP have attracted a big 3rd party ecosystem.

Gartner explains TPM is offered by two types of providers: traditional TPMs and secondary hardware suppliers.

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Traditional TPMs traditionally have had more than 80% of their company revenue from annuity support contracts, and most providers have been around for many years. Many have very recently received investment funding.

Then there are the **secondary hardware suppliers** where more than 80% of their company revenue comes from secondary hardware resale. Realizing that managing parts and logistics is a key factor to success in the TPM market, many secondary hardware resellers begin TPM practices. Atlantix Global Systems, CentricsIT, Curvature and CXtec are the secondary hardware suppliers that provide the third-party support.

By 2018, 75% of secondary hardware providers will have a formal third-party maintenance offering.

Gartner also identifies other types of hardware support...

Resale (OEM support) — The most commonly purchased support is OEM-delivered support. These SKU-based hardware support packages are purchased from different sources, including the OEM itself, or from partners, including communications service providers (CSPs), system integrators (SIs) or value-added resellers (VARs). Examples of OEM support include Cisco Smart Net Total Care (formerly SMARTnet service), Hewlett Packard Enterprise (HPE) Datacenter Care and Juniper Networks' J-Care.

Collaborative (co-delivery support) — Some OEMs, including Avaya, Cisco and EMC, have programs to authorize channel partners, including CSPs, SIs and VARs, to provide their branded support, which is backed by the OEM. This is commonly called "co-delivery" or "collaborative" support. In these programs, the partner typically is taking Level 1 and Level 2 calls and managing the relationship with the customer, but is able to escalate to the OEM when needed. Typically, collaborative support partners are financially motivated to do more on their own, meaning, they receive a higher discount on the price they pay the OEM for support if the number of escalations to the OEM is minimized. Examples of collaborative support include Dimension Data's Uptime and IBM Managed Maintenance Solutions (MMS).

Multivendor support (MVS) (hybrid of resale/collaborative/TPM) — This is when a service provider combines elements of other support types. Globally, MVS contracts are typically

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offered by global OEMs, CSPs and SIs; for example, from Dell, HP Inc., IBM, Fujitsu, Zensar and others. For example, HP Inc. may provide a maintenance contract that includes HP Inc. devices, and end of service life (EOSL) devices from a number of other OEMs in an MVS contract.

Gartner notes 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, storage and network.

"Today, there is more cross pollination between secondary hardware sales and TPMs," says Gartner. They list these trends...

- Server- and storage-focused TPMs are building or acquiring network TPM practices.
- Network-focused TPMs are building or acquiring server and storage TPM practices.
- Secondary hardware suppliers are entering the TPM market.
- Traditional TPMs are entering the secondary hardware market.

Providers in this market are changing to be able to offer both support services and secondary hardware across server, storage and networking platforms.

And that means competition will continue to grow. And market interest is fueled by that competition.

If you are an Solution Provider or VAR, you can expect a knock on your door. Or you can do yourself a favor and search out that TPM commission deal. Now.

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