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Hardware Reliability Comparisons, Benchmarks and Monitoring



Warranty is Never "Free"

A warranty repair is not just an inconvenience, it has all of the same direct costs as a non-warranty repair. With the exception of the part cost itself, warranty repairs exercise the organization just as completely as any other.

We estimate that the minimum cost to manage a hardware problem through common tracking systems is at least \$ 595 per event, totally exclusive of any parts, labor, contract warranty costs or impact on users. (see chart on right)

Costs add up starting with the initial trouble call, attempts to resolve the problem over the phone, escalation procedures and eventual dispatch of a technician.

Once the technician arrives, even when the vendor provides both parts and labor, the repair has to be tracked, security access provided, off hours monitoring may be needed.

After the repair is completed, managers work through the root cause of the problem, then track and report on the completion of the repair. The parts replaced need to be returned to the vendor under an RMA process, which engages warehouse, shipping, and inventory systems.

So a "free" repair is never "Free" and may well cost the organization more than the part itself.

Warranty – No Substitute for Reliability

Reliability informs all warranty and post-warranty service choices. In this issue we discuss how to use reliability as a tool for planning a comprehensive service strategy, including warranty.

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Warranty – Vendor Strategies

In order to negotiate effectively for warranty and post-warranty support, it is essential to know how warranty programs are structured.

Warranty programs exist to support product marketing for new product sales. The challenge for vendors is to balance the marketing advantages of a warranty offering with the need for revenue recognition of the full value of the sale. Long warranty periods require an accounting "reserve" which is disclosed deep in financial statements. (continued page 2)

Checklist of Cost-per-Repair Elements

Initial Problem Ticket	\$25
Call Escalation	\$75
Service Team Alert	\$25
Scheduling	\$50
Security Access	\$25
Off-Hours Monitoring	\$100
Root Cause Analysis	\$200
Closing ticket	\$25
RMA Process and Freight	\$75

Total : \$595

Warranty Strategy

From pg 1

In order to be able to offer the appearance of a long warranty, but be able to book the full revenue, vendors long ago hit upon a clever strategy. They market the product with an extended warranty as though it is free. In reality, the vendor is providing their basic warranty and adding in additional service charges that will be directed through a services organization.

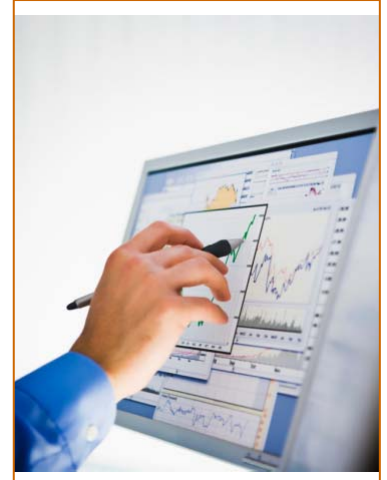
In this way, the vendor reports the (almost) full value of the sale, and the services organization gets a guaranteed long-term contract at terms which are rarely challenged.

It's a perfect solution for vendors, but a poor bargain for users. Many vendors do not inform their representatives of how and alternative service programs might be considered. Many users simply pay and never know

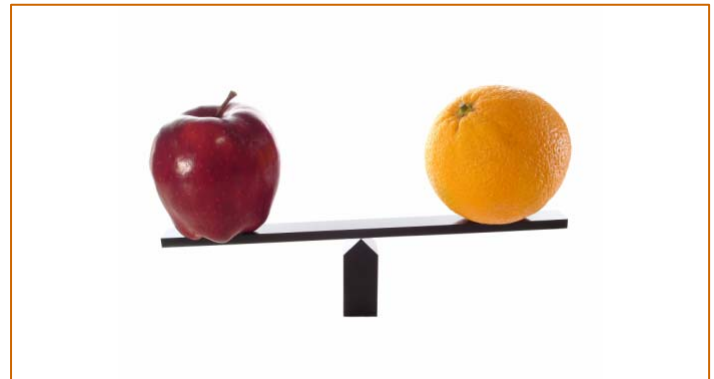
how much of their "free" warranty was a high-profit pre-paid service contract.

Managers should insist on comprehensive breakdown of the service contract (warranty) elements distinct from the hardware.

Not only will this reveal the hidden costs of the "free" warranty, but is also essential when taking depreciation and managing taxable personal property for the assets themselves.



"One cannot manage what one cannot measure"



Calculating the Value of Service Proposals – See Chart pg 3

Users can manage their service level agreements (variations of warranty upgrades) by starting their analysis with the **service needs of the equipment**.

The ideal metric for this discussion is the Mean Time Between Failure (MTBF) of the equipment in question. The MTBF of any device allows managers to calculate the total number of repairs that will be likely. They can then easily consider if the total cost of the proposed contract is reasonable for the service needed.

For example, if a proposed service agreement would result in a total cost per repair of \$ 400 a service call, this is probably reasonable considering technician time, travel, and overhead. Similarly, the unit cost of the equipment should be considered as many cases show that a spare unit is less costly than a service contract.

Reliability – First and Foremost

Have you heard this phrase? “We don’t care about equipment reliability – everything we have is under Warranty”.

warranty from the vendor covers the parts and labor to continue to repair the vehicle, yet no one would prefer a lemon to a trouble-free car.

Ouch. Equipment that breaks needs to be repaired – and the costs and risks to the organization of managing that repair are the same regardless of the warranty status.

Similarly, Warranty contracts for technology products are only a small piece of the overall service and maintenance strategy for equipment.

Equipment is either Reliable, or it is not. No amount of warranty makes a poor product into a good one.

A warranty agreement buffers users from some of the costs of failed parts, but is no substitute for buying the best possible products with the highest reliability.

Consider a car that is a “lemon”. The



PRODUCT	MEAN TIME BETWEEN FAILURE	REPAIRS PER THOUSAND	1 YEAR “WARRANTY” FOR 1000 UNITS	COST PER REPAIR	ANALYSIS
Small Servers	57 Months	210	\$ 300,000	\$ 1428 each	½ Unit Cost
Desktops	151 Months	80	\$ 120,000	\$ 612 each	Exceeds Unit Cost
Workgroup Laser Printers	5 Months	2400	\$ 200,000	\$ 83 each	Excellent Value

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