Macquarie Equipment Finance, LLC
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Thanks for the question on ways for XYZ to approach a TCO/lifecycle management process for their distributed assets and x86-based server plant. Under the assumption that Dell and HP are their main vendors for these classes of assets (although this would apply to other vendors just as easily), here are some initial thoughts on how they could get started on improving their visibility into costs.

- The main component of this would be a data gathering exercise, <u>performed by the vendors</u>. XYZ should consider issuing an RFI to them, explaining that they are considering substantial changes in their sourcing processes, vendor relationships, and technology refresh policies. This would create enough 'urgency' on the part of their vendors to be aggressive in responding to this RFI.

- The RFI would basically require quantification of a vendor's TCO – specifically in/for the XYZ environment – **in comparison to** the TCO of their <u>competitor</u>(s). The goal is to surface/generate several things from each vendor:

    - One: A set of TCO cost categories. Since it will expected that one vendor might mention (or emphasize) the cost categories which are most favourable to their product (perhaps omitting or at least de-prioritizing others), combining the cost elements from each RFI response will give XYZ a more comprehensive set of cost variables to begin measuring and managing.

    - Two: A (possibly) understated TCO cost profile for their products. Again, it is expected that the vendor will attempt to demonstrate that their TCO is 'less' than that of their competitor(s), and so their TCO figures might be assumed to be 'optimistic'. But this would form the 'best case' scenario for that vendor.

    - Three: A (probably) overstated TCO cost profile for their competitors' products. This, again, is an expected outcome of the competitive process, but will be helpful in setting a 'worse case' scenario for the competitive vendor.

    - Four: Suggestions for improving TCO of their own products. Although the first suggestion will likely be 'standardize on OUR products' (which is, of course, one sure-fire way to lower *some* TCO costs), there may be some usable process improvement suggestions or asset management automation options that emerge for XYZ to capitalize on.

- The RFI should be under STRICTEST of NDA's, since XYZ will need to grant access to data about the installed base of systems, help desk trouble tickets, and some 'vague' level of computing capacity forecasts.

- Vendors should be required to **justify** specific TCO cost estimates, based on actual XYZ service experience. Presumably, XYZ has utilized each vendor's warranty repair service and this means that the vendor should have detailed hardware failure rates for their systems. TCO costs categories based on failure rates, out-of-warranty repair, downtime, hardware-related calls to the helpdesk, etc. should be scrutinized closely by XYZ—in light of this service history data.

- Vendors should be required to offer alternate TCO models for <u>different</u> refresh periods. Since having too many generations of a product in service at the same time adds significant support costs, refresh policies that reduce the number of images/systems on the floor should generate lower TCO costs. Vendors should provide TCO models for at least the following refresh scenarios:

  - Laptops: 2 year, 3 year, Vendor recommended cycle
  - Mainstream desktops: 3 year, Vendor recommended cycle
  - Premium desktop/workstations: 2 years, Vendor recommended cycle
  - High-performance x86 servers: 1 year, 2 year, Vendor recommended cycle
  - Mainstream x86 servers: 2 year, 2.5 year, 3 year, Vendor recommended cycle

- Although this is an RFI and not an extensive RFP/RPQ, it will still require some effort to construct. I recommend –to reduce the cost of getting this started—that XYZ actually give the vendors copies of our three whitepapers related to this topic, and tell them they will need to account in their RFI response for all the TCO cost categories mentioned in the studies or in those papers. They should also be informed up front that we (Macquarie) will be helping XYZ look at their responses from a vendor-neutral and comprehensive (including financing and ITAD) cost perspective.

- Vendors should be required to 'unbundle' everything in these cost models. The bundling of products, services, financing, disposal, etc. under a smaller number of 'cost aggregates' is not helpful to lifecycle management at all. The copier pricing models of the past should have taught us that (e.g. "only X cents per page"). Each product and service component must stand on its own two feet—and be granular enough to be managements in isolation (as feasible).

- I would recommend that XYZ plan to schedule an afternoon for all the vendors to present their results/responses, and that Macquarie be a part of those sessions. The vendors will be more accountable, detailed, and perhaps more direct, knowing that other vendors are presenting to the same group on the same day, and that Macquarie's Strategic Advisory Services will be asking questions, and presenting a "post-game" commentary/analysis to XYZ.

Discuss this approach with them when you can. I will return from Asia in about a week or so, and I can plan to try to help them with this.

I hope this adds some additional ideas for them on this. Let me know next steps--
Glenn (April 10, 2011)