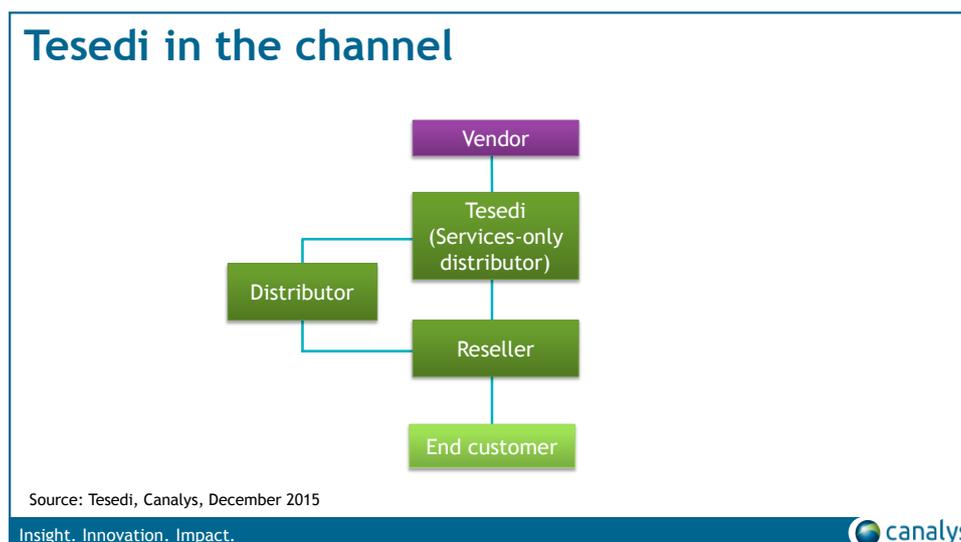


Warranty renewals - Tesedi

What opportunities do warranty renewals bring for Tesedi?

- Warranty renewals bring an important revenue and profit opportunity for the channel, but are often overlooked
- Resellers can lack motivation to actively push extended vendor warranties due to the time and complexity involved
- MaintenanceNet represents strong competition to Tesedi but vendors may be shopping around since its acquisition by Cisco

Warranty renewals (or extended warranties) on enterprise infrastructure can open up important revenue streams for the channel, even if they lack the appeal of other hot-topic IT areas. Dedicated business models have emerged to serve this opportunity. Tesedi is a German services-only distributor, under the aegis of parent company Annuity Management AG, providing warranty renewal and annuity management services to resellers, primarily on behalf of Hewlett Packard Enterprise. The company has built up significant expertise, with a platform capable of handling complex data and analytics. It operates in Germany, Switzerland and France, alongside Hewlett Packard Enterprise processing teams in Bulgaria and India. Tesedi generated around €25 million (US\$27 million) in revenue last year, up by 15% in 2013. This year, it expects this to increase to €30million (US\$33 million), with highest growth of 23% in its home market in Germany.



Driving the sale of warranty renewals through the channel can be challenging for vendors. Resellers can be reluctant to invest time and effort when returns can be relatively low, even on complex infrastructure. Customers may not have the specific budgets available or may regard extended warranties as unnecessary.

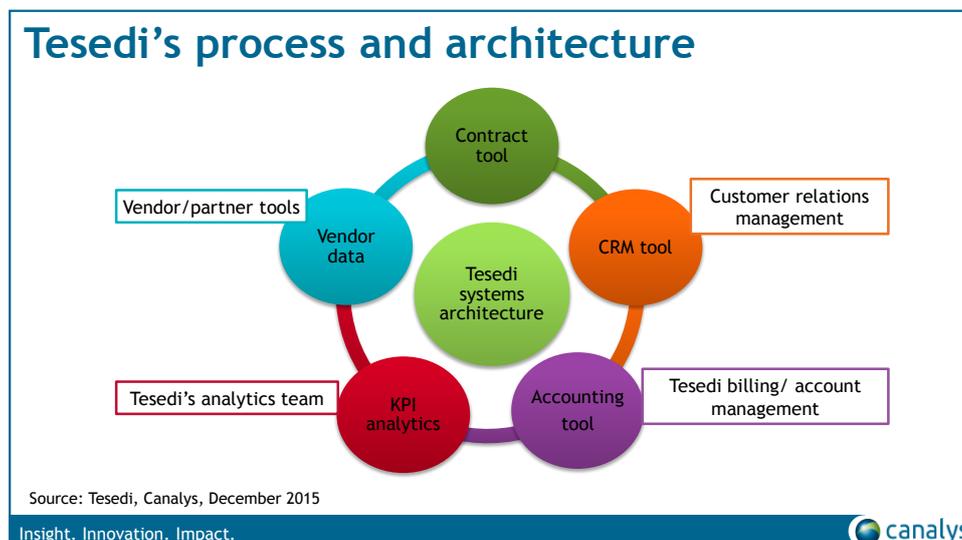
Resellers may also see vendor extended warranties as competing with their own post-sales services. For vendors such as Hewlett Packard Enterprise, the involvement of a dedicated distribution partner with the software tools to manage renewal processes on behalf of resellers can be important. Tesedi claims to have more than doubled Hewlett Packard Enterprise's renewal orders in its core markets of Germany and Switzerland over the last six years, with the average value of each renewal being around US\$8k.

Once an initial warranty has expired, Hewlett Packard Enterprise provides and underwrites service contract renewals that resellers can offer to end-customers. Tesedi helps partners to sell these renewals, monitors and tracks changes to the end-customer's product mix, distributes policies and manages the billing process. The complexity of managing warranty databases, generating contracts for each renewal sale, as well as analyzing data to target groups and improve services is immense. Tesedi has a dedicated team that supports renewal management for Hewlett Packard Enterprise and provides information on contracts that need to be adjusted, changed, approved, or up- or cross-sold. Its tools are fully integrated with those of Hewlett Packard Enterprise, as part of its contract management service offering.

Tesedi also on-boards new partners and countries for Hewlett Packard Enterprise - a process that typically takes around three months for a country - and helps channel partners to engage with customers in selling Hewlett Packard Enterprise service contracts. Data analytics play a significant part in improving renewal rates. In addition, Tesedi has put together an incentive program for Hewlett Packard Enterprise partners in this area. Contracts are typically billed annually, and partners receive bonuses for reaching revenue targets, while new business targets will also earn rebates. Combined gross margin for the partner on warranty renewals is up to ten percent, depending on their performance.

Warranty renewals

The market for warranty renewals faces significant changes over the next few years, particularly with the shift to managed services. For example, warranty renewals are likely to be bundled more frequently into continuous managed service contracts. Moreover, with more servers and storage sold into service provider data centers, this shifts the customer for the warranty service, thereby carrying implications for the channels selling these services.



Therefore, scale is critical for distributors of warranty services. However, for smaller, regional specialists such as Tesedi, expanding beyond core markets can be difficult due to cultural barriers. For example, as a German company, Tesedi has struggled to expand its French presence. An alternative model to establishing local presence is to work with other IT distributors who have reach into local markets. Tesedi partners with a number of distributors in this respect.

One of Tesedi's biggest competitors is MaintenanceNet, a global specialist with a strong focus on Cisco but also working with Hewlett Packard Enterprise, Fujitsu, Lenovo and distributors such as Ingram Micro. MaintenanceNet provides service renewals and data analytics through the use of its contract management tool, called Service Exchange, and its AutoQuote software engine. Its model, with an architecture similar to Tesedi's, has been highly successful. MaintenanceNet's revenue was above US\$3 billion in 2014.

However, since MaintenanceNet was acquired by Cisco in Q2 2015, other vendors may be less keen to allow their service contracts to be managed by a competitor, and they will not want to see Cisco benefiting financially from future recurring revenue streams. This provides Tesedi, as an independent company, with an opportunity to expand beyond Hewlett Packard Enterprise and offer a similar solution to vendors who may now be looking elsewhere for their service renewals.

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