

Selecting an IT Asset Disposition Service Provider

Frances O'Brien

Gartner has long recommended outsourcing the task of IT asset disposition (ITAD). But ITAD is a process-driven business and contains many points for failure; therefore, selecting a service provider requires the scrutiny of potential suppliers.

Key Findings

- Do not presume that just because two providers indicate that they offer a particular service as a primary competency that the services are identical.
- To increase their sales proceeds, some vendors will export hazardous waste to locations where environmental concerns and regulations are less stringent. Determine whether you want to be part of this type of endeavor.

Recommendations

- Customize the evaluation criteria provided here in conjunction with more-rigorous analysis and evaluation when considering companies from which to solicit bids for service.
- Understand and carefully assess disposal alternatives against the corporate tolerance for risk.
- Before selecting an ITAD supplier, investigate its knowledge of the law and its capability to operate therein.
- Check supplier references thoroughly. Many companies have "paid the price" for improper supplier selection in terms of additional costs, regulatory fines and even litigation.

WHAT YOU NEED TO KNOW

Consolidation will continue in this marketplace, even as it expands, so consider the financial stability and business model of the provider when sourcing asset disposition services. Because of the diversity of capabilities presented by ITAD service providers, each business must carefully assess its needs.

ANALYSIS

Historically, the ITAD service market has comprised many small and relatively new businesses. However, when system manufacturers entered the market in the early 2000s, the dynamics of the industry changed. The ITAD service market has evolved from purely equipment de-manufacturing (the disassembly and separation of parts and materials), disposal and remarketing offerings to a complete portfolio of end-of-life ITAD services. ITAD services help companies manage the retirement and end-of-life phases of IT assets. For example, these services may include redeployment of idle assets, remarketing assets, charitable donations, sales to employees, data erasure and sanitization, logistics, lease return or trade-in management, asset reporting, equipment refurbishment and repair, and environmentally sound disposal and recycling.

During the past few years, the ITAD service market has undergone, and will continue to undergo, a series of consolidations and changes. The supplier you select today may be acquired, transformed or defunct in the near future. Therefore, thoroughly investigate any potential service providers to ensure an appropriate fit for your organization.

When evaluating an ITAD service provider, consider the following criteria:

Business Model: There are different types of ITAD service providers (see Note 1); therefore, understanding the vision and business model of each is necessary. Is it strictly a remarketing organization that's focused mainly on reselling used equipment, or is the organization structured and staffed sufficiently to provide a comprehensive list of services when and where needed?

Recommendation: Match organizational requirements to the service providers' capabilities.

Financial Viability: Assessing the service providers' financial viability is as important as the services and contract terms they can provide. This is particularly important in this market because many of the independent service organizations (ISOs) are private companies unwilling to share their audited financial statements. Although service providers with failing financial health may not go out of business, financial problems may prohibit them from delivering contracted services on a timely basis. It may also increase the pricing they offer you because their access to funding may decrease, thus increasing their costs to you.

Recommendation: Enlist the internal credit department to help you conduct a financial analysis. If the company under consideration is a private company, then determine where it got its funding and the stability of the source. If funding is coming from venture capital, then ask how many rounds of funding it has received previously and what the expected exit strategy is for the venture partner.

Value-Added Services: In addition to ITAD services, many of these service providers offer a full range of life cycle services, including equipment deployment, asset tracking, reporting, system integration, maintenance and reconfiguration services. These services are differentiators and separate ISOs from most recyclers. For example, some clients are asking providers to manage lease returns in addition to disposition for owned equipment. That's a common offering from ISOs, but it's uncommon for a recycler to offer that type of service.

Recommendation: Determine what additional services the service provider can offer, include them in your evaluation process and then select among suppliers that match those requirements.

Environmental Practices: With the recent media attention to "greening the environment," it is not surprising that ITAD service providers are reemphasizing their commitment to the environment and environmentally sound disposal of IT equipment. While some providers are committed to environmental responsibility, for others it is just another marketing message. Some of these suppliers will claim to be "Environmental Protection Agency (EPA) certified." Although the EPA will certify waste handlers, there is no EPA certification for asset disposition; so be wary of supplier claims. To increase sales proceeds, some providers will export hazardous waste to locations where environmental concerns and regulations are less stringent. Determine whether you want to be part of this type of endeavor. In addition, your corporate policy or legislation may require recycling within the same region. When evaluating this category, determine what processes providers follow when disposing of assets. Ask them to provide you with their policies on landfilling, exporting equipment overseas and subcontractor selection criteria.

Recommendation: Scrutinize all environmental claims made by potential service providers. Determine if they are actual policies or mere marketing. Ensure that each provider is aware of and can operate within the e-waste regulations for each location that services are required.

Operational Practices: ITAD is an area laden with risk. It is process-intensive and provides many points of potential failure. Therefore, it is essential to understand the processes that the service provider follows from the minute it begins providing services until the final disposition of your assets. Things to consider in this category would include security and data sanitization practices (see Note 2), logistics capabilities, and the service provider's ability to attract and retain skilled employees. Reporting is another key area to investigate. Determine what types of reports are available to document all aspects of the transaction. Reports should include serialized asset by manufacturer, model, configuration, equipment condition and any business-specific requirements.

Recommendation: Request a detailed process-flow document depicting the path an asset will take, from pick up or receipt, through final disposition. Schedule a tour of the supplier's facility, and then follow an asset through that process, using the flow document provided to verify that developed processes are being followed.

Contract Terms and Conditions: During the selection process, scrutinize service providers' contracting capabilities. The ability to negotiate acceptable contract terms and conditions is critical to the success of the engagement. For example, much of the risk for choosing an ITAD service provider lies in the provider's ability to indemnify you if there is an environmental error resulting in a fine to you. Some service providers will boast a \$20 million liability insurance limit, but their contract stipulates that in the event of an incident, they will reimburse you "up to the amount you paid for the service." So, if you received a \$100,000 fine, and paid \$40 for services, then you would be indemnified \$40.

Recommendation: Develop a list of contract terms and conditions to manage your ITAD program, and include them in the evaluation. Then negotiate flexible terms into service contracts before making the final selection or risk exposure to hidden costs in the future. Investigate thoroughly any supplier claims of complete and total indemnification. Ask suppliers if you can review the contract language supporting their promise of indemnification.

Pricing: Because the market for ITAD service is still relatively immature, pricing is inconsistent. It is not uncommon to see 20% to 30% price differentials for the same set of services. In some cases, that is a reflection of the immature market; in others, it is because there is a basic misunderstanding of service requirements. Wide swings in pricing could also mean a less-than-scrupulous supplier that is illegally dumping equipment or shipping waste overseas where

recycling is performed by inexpensive labor in unsafe working conditions. In addition, there are also various pricing methodologies offered by suppliers (see Note 3). Therefore, understand the ways in which services are priced and then determine which methodology matches with your service requirements.

Recommendation: Provide potential suppliers with accurate, comprehensive descriptions of the services required, with realistic information concerning the current environment, to ensure that suppliers deliver what is required at the price negotiated. Examine the transportation and logistics costs. With rising energy costs, it is important to know the costs of getting equipment from your site to the supplier site.

Customer References: Perform in-depth reference checks early in the evaluation process. Ask the service provider for a list of customer references (a minimum of five), with comparative volumes and a similar set of services and mix of equipment. References from a business with 500 notebooks to dispose of locally will have a significantly different meaning than a reference from a worldwide business that has 50,000 items of equipment ranging from PCs and servers to cell phones and printers.

Recommendation: Prepare a list of questions that includes information relating to security practices, back-office operational efficiency, service performance and timeliness, and contracting practices to eliminate suppliers early in the process.

Geographic Coverage: When examining a supplier's geographic coverage areas, determine whether a supplier can handle all or most of the locations for which you will require services. Ask suppliers if they are providing services directly or if they will be subcontracting those services. In addition, because pricing is often determined based on origin and destination of shipment, it is important to have the supplier provide you with the location of all of their processing facilities to help determine logistics costs. For example, if you need assets picked up in New York and one supplier has processing facilities in Massachusetts, another supplier's nearest processing facility is Ohio and a third supplier's closest facilities is in California, then the prices you are expected to pay will vary significantly. This does not mean that you should select multiple suppliers based on processing facilities, but it does bear consideration. Another example would be when a supplier tells you it can "service" your locations in Brazil, yet the supplier has neither processing facilities nor partnering arrangements. You may end up paying to have your product shipped to the supplier's home country for processing, in which case you may incur a host of additional costs for international shipments.

Recommendation: Have a clear understanding of how each supplier will provide services in each geography (regional, local and international). If it is subcontracting services, then determine how it selects and audits its subcontractors.

Service-Level Agreements (SLAs): SLAs will identify the service providers most interested in, and capable of, providing the services that your business requires. Explicit SLAs will narrow the playing field — that is, when service providers are unwilling or unable to comply with desired service levels, they'll eliminate themselves from the bidding process.

Recommendation: Develop SLAs as part of the selection process, not as an afterthought, because service-level targets you set are factored into the service provider's pricing. SLAs may help to protect the value of your disposal service, even if the provider changes ownership.

Some transactions will need a service provider that's strong in all the criteria above, whereas other transactions may require less flexibility. For example, if you just have some PCs to be recycled locally, then value-added services and geographic presence would be less important than financial viability and environmental considerations. Figures 1 and 2 depict a sample supplier evaluation matrix incorporating a partial list of business requirements.

Figure 1. Sample Supplier Selection Criteria, Part 1

Category	Supplier A	Supplier B
Business Model	1.0	1.0
Weighted Average (10)	10.0	10.0
Financial Viability	0.5	1.0
Weighted Average (10)	5.0	10.0
Value-Added Services		
Asset discovery and tracking	1.0	0.5
Asset management reporting	0.0	0.0
Data sanitization	1.0	1.0
Total	2.0	1.5
Average	0.7	0.5
Weighted Average (10)	6.7	5.0
Environmental		
Ban export of e-waste	1.0	0.5
Landfill policy	1.0	1.0
Subcontractor evaluation criteria	0.5	0.5
Total	2.5	2.0
Average	0.8	0.7
Weighted Average (15)	12.5	10.0
Operational Practices		
Security routines	1.0	1.0
Employee selection and retention	1.0	0.5
Facility tour	1.0	0.5
Reporting	1.0	0.5
Total	4.0	2.5
Average	1.0	0.6
Weighted Average (15)	15.0	9.4
Contract Terms and Conditions		
Limits of Liability	0.5	1.0
Data breach indemnification	0.0	0.0
Environmental breach indemnification	0.0	1.0
Total	0.5	2.0
Average	0.2	0.7
Weighted Average (10)	1.7	6.7

Scoring Key

Meets requirements	1.0
Partially meets requirements	0.5
Fails to meet requirements	0.0

Source: Gartner (December 2007)

Figure 2. Sample Supplier Selection Criteria, Part 2

Category	Supplier A	Supplier B
Geographic Coverage		
United States	1.0	1.0
Canada	1.0	0.5
Mexico	1.0	0.0
Total	3.0	1.5
Average	1.0	0.5
Weighted Average (5)	5.0	2.5
Pricing		
Consignment Split	0.5	1.0
One-time service costs	0.5	1.0
Recurring service costs	0.5	1.0
Total	1.5	3.0
Average	0.5	1.0
Weighted Average (10)	5.0	10.0
Customer References		
Domestic	1.0	1.0
International	1.0	0.0
Total	2.0	1.0
Average	1.0	0.5
Weighted Average (10)	10.0	5.0
Service-Level Agreements		
Timely pick-ups	1.0	0.0
Invoice accuracy	1.0	0.5
Timely reporting	1.0	0.0
Total	3.0	0.5
Average	1.0	0.2
Weighted Average (5)	5.0	0.8
Total Score	75.8	69.4

Scoring Key

Meets requirements	1.0
Partially meets requirements	0.5
Fails to meet requirements	0.0

Source: Gartner (December 2007)

In this particular example, Supplier B scored better on pricing than Supplier A. However, the environmental practices of Supplier A were much more stringent, and, due to the heavy weighting assigned to "Environmental" and "Operational Practices," Supplier A would be a better choice for a business with these specific requirements.

The weights used in Figures 1 and 2 are only *sample weights*. Adjust the weightings to reflect your specific requirements and corporate tolerance for risk. In addition, most companies will have to adjust or delete some categories and the specifics included therein, depending on geographic requirements, the mix of service capabilities, and by the type and age of equipment they're disposing of.

Tactical Guidelines

- Develop a comprehensive list of service requirements, along with realistic information concerning the current environment, to ensure that suppliers deliver what your company needs at the price negotiated.
- Check supplier references from clients in each location where you are looking for services to be provided.
- Include an early termination clause in any contract you enter into with ITAD suppliers.

RECOMMENDED READING

"Electronic Waste: Take It Back"

"Q&A: Donating Surplus Equipment Still Causes Clients Concern"

"Carefully Consider Leasing When Using It as an Equipment Disposal Methodology"

"Creating a Process for PC Disposal"

Note 1

Different Types of ITAD Service Providers

The business model will vary depending on the type of service provider you select. Following is a summary of the various types of service providers:

- ISOs are companies that do not manufacture their own products, but provide ITAD services for multiple types and manufacturers' hardware. Increasingly, these providers are adding in-house recycling service capabilities to their service portfolio mix. Professional service companies that may directly provide asset disposition services are also included in this category.
- Systems vendors manufacture system hardware and provide ITAD services on their own and other manufacturers' hardware. They perform the services directly or manage a subcontractor to perform the service. IBM and HP offer services through their leasing organizations. Dell mainly offers subcontracted services.
- Resellers include traditional dealers and resellers, distributors and value-added resellers that provide independent services, typically on resold hardware and software. Typically, resellers provide ITAD exclusively through the use of partners.
- Recyclers include those providers that focus mainly on spent material separation and processing. Some recyclers are adding remarketing and limited asset management service capabilities to their service portfolios.

Note 2

Outsourcing Data Sanitization

When contracting with a service provider for data sanitization, ask the following questions:

- How is confidential company information handled?
- What process is used to cleanse hard drives of all data?

- What process is used to verify that all data is eradicated?
- What asset-tracking procedures are used?
- How is licensed software removal documented?
- What security procedures does the provider follow at its site? Is equipment held in a secure location? Are the organization's procedures well-documented?
- What are the qualifications of the people who will be servicing the organization's account?
- Are background checks performed on employees or contractors who will have access to the organization's most-sensitive data?
- Will the service provider give the organization a certificate of data destruction and an indemnification for improper data disposal?

Note 3

Pricing Methodologies

ITAD service providers will price in a number of ways:

- Consignment pricing models are where the provider will take your equipment back and try to remarket it. Once the equipment is sold, the provider will share a percent of the proceeds with you. The consignment split can range from 50/50, to 60/40, to 70/30. The amount of split you negotiate could be inclusive or exclusive of service fees.
- A la carte pricing models incorporate a list of services from which you would choose. The price you pay will depend on the mix of services that you choose.
- Fixed-fee pricing models assign a set price for a prepackaged set of services or a specific type of equipment (for example cathode ray tube monitors or notebooks).
- No-cost pricing models are theoretically free. However, these models work based on the mix of the equipment you are offering for disposition. The suppliers' assumption behind this model is that a certain portion of the obsolete equipment will bear a cost for disposal that will be offset by sale proceeds from more-valuable equipment included in the mix.
- Payment based on weight is typically offered by recyclers or scrap dealers. The type, age and mix of equipment will determine the price per pound.

REGIONAL HEADQUARTERS

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters

Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9º andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509