How to Achieve the Deepest Discounts on Cisco Smart Net and Optimize Existing Spend

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Cisco Smart Net Total Care ensures Cisco infrastructure support and maintenance. However, suboptimal discounts and support coverage can cause enterprises to overspend. I&O leaders can use this research to optimize Smart Net spending while maintaining appropriate support levels.

Overview

Key Findings

- Smart Net contract discounts off list price depend on many factors, so I&O leaders struggle to determine if they are getting a good deal from their current Smart Net discount structure.

- I&O leaders often do not know what their Smart Net discount is because they accept quotes from authorized channel partners (value-added resellers [VARs]) that are not demonstrating price transparency by not sharing Smart Net SKUs, list prices, net prices and discount percent.

- Five-year contracts do not represent a high percentage of total contracts in the marketplace and should be avoided unless the discount is significantly deeper than the three-year contract.

- I&O leaders struggle to understand the ramifications of dropping Cisco Smart Net sold by an authorized channel partner and moving to an unauthorized third-party maintenance provider.

- Many companies are spending more than they should by covering commodity hardware and noncritical hardware items, covering items with a limited lifetime warranty (LLW), with premium Smart Net contracts.
Recommendations

Infrastructure and operations (I&O) leaders responsible for data center infrastructure should:

- Increase transparency into their Smart Net discounts by requiring an explicit clarification of the total blended Smart Net discount within all bills of material, including identifying all support and subscription discounts on a per-line-item basis.

- Achieve pricing transparency from authorized channel partners by only accepting quotes with Smart Net SKUs, list prices, net prices and discounts line by line. If providers do not offer this, immediately send the quote back to them.

- Maximize discounts by targeting a three-year contract length and co-terminate multiple Smart Net contracts to the same renewal date.

- Reduce Smart Net spend by including lifetime warranties, rightsizing Smart Net coverage tiers, self-sparing and not covering commodity hardware items.

Strategic Planning Assumption

By 2025, maintenance spend on Cisco equipment will exceed 20% of data and voice network capital budgets, up from 6% to 10% in 2021.

Introduction

Smart Net Total Care, commonly referred to as “Smart Net,” is an overarching suite of maintenance coverage for Cisco’s hardware products. Smart Net is a requirement to interact with Cisco’s Technical Assistance Center (TAC). However, as Cisco continues its transition from hardware differentiation to differentiation through software, Smart Net coverage is no longer simply an additional expense to hardware purchases; it is also included as an option for most feature and user licenses. This makes consuming Smart Net more complex, confusing and expensive, and often leads to less pricing transparency.

How can I&O leaders control Smart Net operating expenditures, which can exceed 10% of their total network budgets? This research demystifies Smart Net costs, offers guidance for negotiating discounts and provides cost-effective alternatives to traditional Smart Net.

Analysis
Clarify Smart Net Discounts

Cisco and its authorized channel partners are “coin operated” when it comes to Smart Net — that is, the more you spend, the more leverage you have for negotiating discounts. However, this doesn’t mean that the more you spend, the more your discount will be. Higher spend simply gives you more negotiating leverage. As with other OEMs, Cisco authorized channel partners get a higher discount for contracts with longer terms. Understanding the following few ground rules of Smart Net pricing helps to clear away the fog:

- Average Smart Net discounts in North America range from approximately 17% to 35%.
- Smart Net discount ranges should not be confused with Cisco hardware or licensing discounts, which are totally different and begin at approximately 42%.
- Enterprise hardware and licensing discounts average from mid 60% to high 60% range for routing, switching equipment and Cisco Unified Compute System (UCS) equipment.
- Smart Net and all Cisco list prices can vary by geographic region based on whether the global price list or local currency list is being used as a point of reference.

Figure 1 illustrates the five key components needed to optimize Smart Net discounts.

Figure 1. Keys to Smart Net Spend Optimization

Source: Gartner
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The mean end-user discount range for the majority of Smart Net quotes is 17% to 35%. We have observed this occurring with Smart Net spending between $300,000 and $3 million, and one-year and three-year contracts, respectively. The majority of three-year contracts are financed today, as Cisco requires a three-year prepayment (some vendors allow annual prepayments, and some do not).

However, the total negotiable Smart Net discount range is reliant not only on Smart Net spend, but also contract length and total spending patterns with Cisco over the short and long term. More and more, Gartner is seeing higher discounts with bundled services, for example Smart Net bundled with Advanced Services (AS) or Business Critical Services (BCS), formerly Network Optimization Service (NOS). Customers should “beware the bundle” —you can get a higher discount but may be purchasing many more optional services.

Additionally, these ranges are general guidelines and are dependent on other variables, such as geographic region, the existence of a competing proposal or even the time of year when the quote is being negotiated.

I&O leaders should not accept a Smart Net quote with discounts below 20%, especially on multiyear contracts, even with minimal total Cisco spend. For Cisco multiyear spending equaling $1 million or more:

- Mid-seven-figure Smart Net deals should begin negotiations with discounts in the low-to-mid 30% range.
- High-seven-figure and above Smart Net deals should begin negotiations with discounts at or above 40%.

When there is pushback from the VAR against these discount structures, there are usually five courses of subsequent action:

1. Escalate the discount discussion to include the Cisco account team and/or regional sales management team.
2. Solicit competitive Smart Net bids from other VARs.
3. Solicit competitive bids from other partner support service (PSS)- authorized VARs. PSS is a “co-delivery” option where support is provided by the VAR and backed by Cisco.
4. Compare both partner-delivered and non-Cisco-certified third-party maintenance (TPM) options to augment traditional Smart Net. TPM can never be a full Smart Net replacement, but end-user organizations can use a hybrid strategy for some devices. As reported in our Cisco Vendor Rating (see Vendor Rating: Cisco), end-user organizations must be aware of an increasing number of IOS audits aimed at end-user organizations leveraging unauthorized TPM support.

5. Solicit competitive network technology vendor options, and validate offerings for technical and operational cost suitability. Factor the cost of retraining personnel into the total cost of switching to a vendor offering lower maintenance and support costs.

Know Your Discounts

Many Cisco customers are unaware of their Smart Net discount; therefore, they are unable to effectively benchmark the efficacy of their Smart Net negotiations. Ultimately, VARs decide the final discount for the customer, but they do have a ceiling based on their partner level and if they are the incumbent Smart Net provider. However, in our experience, many VARs state that Cisco determines the final customer discount, which is incorrect. Gartner clients report a lack of pricing and discount transparency of many Cisco channel partners. This lack of transparency includes bill of materials (BOM) quotes that are missing the correct Smart Net part number (SKU); or the global list price, net price or discount leads to end-user frustration, and they get quotes from additional VARs.

All Smart Net part numbers (SKUs) begin with “CON,” followed by the level of Smart Net — such as SNTP, SNT and SNTC — and the equipment being covered.

For example, the properly formatted Smart Net SKU for Smart Net Total Care 24x7x4 (i.e., 4-hour response, 24 hours a day, 7 days a week) support on a Cisco ISR 4331 router is CON-SNTP-ISR4331. Many channel partners don’t include this part number, only the serial number and part number of the hardware being covered with only a high-level description of the Smart Net coverage, such as “SNTP.” This is to prevent end-user organizations being able to easily search online for the Smart Net list price, which makes discount calculation and verification impossible. Additionally, the length of the Smart Net term should be stated clearly.
**Recommendation:** Demand clarity in Smart Net pricing from your VAR in all bills of materials, including an explicit identification of the total blended Smart Net discount within the document. This is necessary because Smart Net discounts can vary by line item in some cases. Demand pricing transparency from authorized channel partners (VARs/resellers) by only accepting quotes with Smart Net SKUs, list prices, net prices and discounts line by line. If providers do not offer this, immediately send the quote back to them.

Adding to the pricing confusion are quotes that include prorated Smart Net coverage that will not terminate along the typical 12-, 36- and 60-month terms. With no pricing based on the typical term lengths, the calculated discount becomes obscured even further in a prorated pricing model.

In these cases, I&O leaders should insist that discounts are included on a per-line-item basis.

**Recommendation:** Negotiate Smart Net discounts to include newly procured hardware over the entire term of the contract. Do not accept good discounts on existing equipment but smaller discounts on new procurements.

**Maximize Discounts Based on Contract Length**

Smart Net is not only a maintenance contract, but also an indication of a likelihood to use Cisco products over a given period. As a result, Cisco rewards multiyear Smart Net contracts with increased discounts, which is standard in the hardware support industry. For a given spend, one-year Smart Net contract discounts can be as much as 10% less than discounts for three-year contracts.

Based on that logic, it follows that a five-year contract should yield higher discounts than a three-year contract. However, this is not always the case. Gartner client interactions have indicated a trend in which channel partners are quoting five-year contracts at the same discount level as three-year contracts. A five-year contract is advantageous for locking in price protection at the negotiated rate, and companies are often able to negotiate a deeper Smart Net discount in exchange for the longer contract length. Therefore, companies that can capitalize a five-year Smart Net contract should analyze the financial advantages it offers over a three-year contract.

**Recommendation:** It can be fiscally advantageous to commit for five years, so negotiate a discount that is greater than the three-year contract discount.
Quantify Existing VAR Relationships

With very few exceptions, Cisco sells exclusively through its channel partner ecosystem and rewards its channel partners that have the highest sales with deeper discounts. While Cisco does give a standard discount to VARs, it has been Gartner's experience that deeper discounts are often applied in highly competitive or strategic deals. This increases the discount the VAR can offer its own customers. Gartner often hears from clients that are getting a poor discount that their VAR’s discount is equally low.

In such cases, I&O leaders should quantify and qualify the existing VAR relationship versus the potential cost savings of going to a larger VAR. For smaller spend, the difference may be only a percentage point or two, which might not be worth the change. For larger spend, the change could amount to hundreds of thousands of dollars.

**Recommendation:** Review the existing discount at the end of each Smart Net contract. Solicit competitive bids if discounts are not in line with the existing number of factors that affect Smart Net discounts. Telegraph your intent to solicit competitive bids so that the incumbent reseller can present its best discount to be compared with competitive bids.

Access Deeper Discount Potential

Discounts are driven largely by the customer’s level of spend through the VAR. Many companies split spend across multiple VARs to foster competitiveness, but this often has the negative effect of a suboptimal customer discount. For example, a customer spending $1 million per year with Cisco could be a million-dollar customer for a single VAR and be able to negotiate resources and discounts based on that $1 million spend. However, splitting that spend among three VARs makes that company a $300,000-level customer to each VAR, with less ability to negotiate discounts and resources.

Additionally, managing Smart Net across multiple VARs can become virtually impossible for companies with large volumes of hardware and licenses. This increases the administrative overhead of delivering Smart Net internally, which increases the overall cost of ownership and erodes the savings realized through the negotiated discount.

**Recommendation:** Improve negotiating leverage and potential for greater discounts by co-terminating and consolidating spend with a VAR that receives larger discounts from Cisco.

Optimize Savings Opportunities

All Smart Net Total Care levels offer access to Cisco’s TAC support 24/365. However, the time it takes to replace nonfunctioning hardware varies by Smart Net Total Care contract level and cost.
Noncritical sites going to a bare-bones support and hardware replacement contract, such as is found with Support Essentials with 8 hour a day, 5 days a week, next business day (NBD), can be sufficient, especially in conjunction with self-sparing. This level of coverage also can be sufficient in highly redundant critical data centers where the failure of a single core component does not cause an outage or degradation in service. But data centers and branch sites using newer Cisco technologies such as Application Centric Infrastructure (ACI) or Software-Defined Access (SD-Access) are not ideal candidates for scaling back Smart Net until the technologies become more mainstream and the hardware/software platforms mature.

Gartner has observed that most companies consume Smart Net at the Advanced Hardware Replacement level (8 hours a day, 5 day a week, with a 4-hour response time).

**Select a Limited Lifetime Warranty With Self-Sparing**

Limited lifetime warranties on switches are a viable option for companies that:

- Are not reliant on Cisco TAC
- Have a large product density of LLW switches so have the option to carry spares
- Have offices in service regions where limited lifetime warranties are less common
- Have the ability to self-spare in the event of a hardware failure

Traditionally, Cisco's limited lifetime warranty does not cover software upgrades. Therefore, limited lifetime warranties on Catalyst 2000, 3000, 4000 and 6000 switches will need a software maintenance agreement to access IOS updates. However, Catalyst 9000 switches are covered by a software update program that includes IOS-XE updates for maintenance, and minor and major releases. While a separate software maintenance agreement is not necessary unless the customer requires technical support, it should be noted that IOS versus DNA coverage and entitlements can be confusing and may increase inventory management requirements.

**Recommendation:** Cut costs by using limited lifetime warranties as an alternative to Smart Net. Limited lifetime warranties are not recommended for companies deploying SDA or ACI because of the complexity and reported issues with the new technologies. Additionally, limited lifetime warranties are not available for Cisco's Nexus data center switches or its routers, and are limited by geographical area.

**Don’t Cover Commodity Items With Smart Net**
Access points receive their software from the LAN controller and are always updated when the LAN controller is updated. Therefore, software is covered under the LAN controller's Smart Net contract. For this reason, I&O leaders should not include commodity items such as access points in Smart Net contracts. Likewise, IP phones receive their software from the Cisco Unified Communications Manager (CUCM) cluster to which they are connected and should be omitted from Smart Net contracts. Updates are included as part of the CUCM Cisco Software Support Services contract. In the event of a hardware failure, simply replace using your own internal inventory. Since both rely on configuration from the LAN controller and CUCM cluster, respectively, any TAC support issues will be conducted on the controller or CUCM cluster and not on the access point or phone.

**Recommendation:** I&O leaders should keep up to 1% of the total population of commodity items as spares at each mission-critical branch site, especially where overnight delivery of replacement hardware is not feasible. All other sites should be serviced from a central regional repository.

**Explore Alternatives to Smart Net**

Many unauthorized TPMs offer their own brand of support, in addition to Cisco authorized channel partners that also provide services under Cisco's PSS model. These are not the same thing:

- TPMs are not authorized by Cisco and cannot deliver integrated and tiered support with Cisco.
- PSS partners are authorized by Cisco, and support is integrated into the Cisco TAC's support tiers.

Under Cisco PSS, Cisco partners provide technical support and escalate to Cisco TAC when or if needed. The most significant difference for end-user customers under this model is removal of direct access to Cisco TAC and reliance on the skills of the Gold partner for issue resolution. Additionally, because software updates required for IOS-XE, NX-OS and others are available only from Cisco, some Cisco partners offer varying supplemental software support contracts that enable access to software without having a Smart Net contract. Because Cisco has specific certification requirements to meet and maintain various partner levels, including a specific number of Cisco Certified resources (such as CCNA, CCNP and CCIE) on staff, issues getting support, even for complex problems, are rare.
Savings through third-party maintenance and support contracts can be 20% to 60% over Smart Net, and companies of varying sizes have found third-party support to be a viable alternative to Smart Net. However, companies exploring this option should be aware of two important caveats:

1. Third parties cannot provide software upgrades, although they can provide hardware RMA services. Therefore, their customers must go to Cisco for IOS firmware and DNA software upgrades. Furthermore, Cisco's End User License Agreement (EULA) is clear that Cisco software and firmware is nontransferable unless Cisco explicitly approves the transfer or appropriate license fees are paid. Companies may find themselves in violation of Cisco's EULA without any Smart Net contract, which covers at least firmware and software entitlement.

2. Companies consuming newer technologies, such as DNA, SDA via Catalyst 9000 and ACI via Nexus 9000, Firepower Next-Generation Firewall (NGFW) Identity Services Engine, and SD-WAN via ISR 4000 and Catalyst 8000 series routers should use extreme caution when moving to third-party maintenance contracts. This is because these new technologies have higher incidence rates as well as the need to update software or replace parts more frequently than traditional networking technologies.

**Recommendation:** Use Gold partners for their own brand of support for established product lines such as non-Catalyst or non-Nexus 9000 switches. Ensure that the Gold partner has software support services or maintains existing software support through traditional Smart Net. Be cautious when using third-party maintenance services to prevent violation of Cisco's EULA and the increased likelihood of an audit.

**Negotiate a Smart Net Contingency to Cover Uncertainty**

Gartner has observed contingencies of up to 20% of total Smart Net covered inventory, which provides for the removal of covered devices from the contract over the length of the contract. Such contingencies are useful for companies with significant M&A activities and during the current climate of uncertainty in terms of reductions in workforces working from the office.

**Evidence**

From May 2020 through August 2021, Gartner's client interactions on the topic of Smart Net and Smart Net discounts increased by 19%, indicating continued and growing interest in this topic.