

IF IT AIN'T BROKE...

EXECUTIVE Q&A



■ BY F.Y. TENG

The CEO of one of the world's leading sources for pre-owned and refurbished networking equipment, tells us how much he expects his company's business in Asia to grow, despite the poor economic conditions.

Network Hardware Resale (NHR) was founded in 1986 and since then has signed up more than 10,000 customers from various industries and of different sizes across the world, having built up its reputation as "the world's most trusted source for pre-owned, refurbished and new networking equipment." So when CEO Mike Sheldon came swinging by late last year, naturally, Computerworld Singapore wanted to know how a business built on the secondary market for networking equipment could do as well as NHR has, particularly in the past two years.

Computerworld Singapore: How did this company come about?

Mike Sheldon, CEO, NHR: The genesis of the idea came from the founder—my father, Chuck Sheldon—when he was working for IBM back in the 1970s. By the mid 1980s, he had started a very small business reselling IBM products out of his home in Southern California. Over the next 10 years or so, he hired Glenn [Fassett, General Manager, Asia Pacific], who actually runs this [Singapore] office now, managing our Asia Pacific business. And they were selling modems—back when a 1200-baud modem was expensive—and some server products and some very early storage products—mostly IBM—when literally one day in 1993 or so, one of their modem customers offered them a large quantity of AGS+ Cisco routers. (I was not with the company at that point. I was in investment banking.)

They did their due diligence, bought them and immediately sold them and said: "Wow, we don't know what Cisco is but it's fantastic!" It only took about 12 months from that point for the company to migrate almost exclusively to Cisco products, which was obviously very fortunate because it was right at that time in the mid 1990s, when the market for routing and switching just exploded. And they became probably the only pure play Cisco specialist in the secondary market at that time and really to this day we remain largely a Cisco-focused business.

Many of their competitors at that time were trying to stay diversified so they would do not just Cisco, but also 3Com, servers and telecommunications equipment. I think it was NHR's focus, among other things, that led to a lot of early success. And then a few other key decisions early this decade I think really provided the springboard for growth.

This is the current state of affairs. We will deal with approximately 6,000 unique customers this year. We had about 10,000 unique customers over the last decade.

The vast majority of our customers are repeat, long-term clients. Something like 85 to 90 per cent of our revenue comes from returning or repeat clientele. We would have pushed US\$200 million in revenue this year. We have about 285 employees at this point of which 35 are in Asia Pacific. Asia Pacific is by far our fastest growing region. We have high hopes and strong beliefs that our operations in Singapore will more than double in the next three years or so. Our customers are very diverse but our largest customers tend to be the largest telecommunications and IT companies in the world. Most of them are under NDA (i.e. covered by a non disclosure agreement) so I'm not at liberty to go into them at great lengths but the top telco companies in the world—all ten would be our customers.

We've received a number of honours but we're not in the business to get honours; we want a growth of a wonderful business.

So in Asia Pacific specifically, we started in early 2007. Glenn, moved out here with just 3 or 4 members of his team from the Europe office, which up to that time was largely covering



Asia anyway. The business grew from a few million to US\$7 million that year, it then almost doubled in 2008, and despite the economic troubles will grow probably 50 per cent in 2009 to somewhere between US\$19 million and US\$20 million. We're going through the budgeting process right now and in 2010 we're expecting in the high twenties so that's almost 50 per cent growth again.

Why did you choose to set up your Asian HQ in Singapore?

Singapore was chosen for all the reasons I know you are familiar with but we looked for an environment with a very educated workforce and diverse workforce. We sell into most countries in Asia Pacific so finding one place where we could find a highly educated workforce speaking a number of different languages was important. Then trying to manage a new office from 10,000 miles away; a safe, secure and business friendly environment was what we were shooting for and Singapore really became the only choice. So our plans are to continue to expand into Singapore. We will certainly open small service sales centres as we expand in places like Sydney or Tokyo but the vast majority of our company in Asia and almost all of our technical refurbishment warehousing, finance and HR infrastructure will be in Singapore.

I said earlier that we did US\$19-20 million in 2009, and we're hoping for US\$50 million by 2012 and at that point we will probably have employed something like 75 people in Singapore, up from 4 in 2007.

What is your core business and how do you account for your success in what has mostly been a bad year for the global economy?

Asset recovery. We buy used equipment, then recondition it, make sure it works and sell it at a much better price for the buyer, and cover it with a comprehensive warranty. That's what we do. We're a little bit different than many firms in that we pay cash. We don't consign generally. We stock the equipment ourselves. We're not an intermediary broker but a stocking dealer where we will refurbish the equipment and then market it to our customer base. That actually gives us a distinct advantage over many of our competitors who lack the capital structure to be able to do that. We carry on the order of US\$3-4 million worth of inventory in Singapore at our cost at any given time and that inventory has been growing quite dramatically over the last 12 months. We are first and foremost in the business of saving companies' money. The US\$40 million in equipment we've sold in Asia would have cost companies close to US\$100 million had they bought it from a Cisco partner, which would generally be the case. That would be at a 40 per cent discount, which is roughly standard. Probably the companies that bought from us generally spent less than that because they would do trades and other asset recovery type opportunities that they would take advantage of, so that the net cost to the customer was even lower. ☺

For the audio podcast and the full transcript of this interview, go to mis-asia.com.