

## CASE STUDY

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### Nor-Tech Makes a Case for Robust White-Box Servers

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Sponsored by: Intel Corporation; Microsoft Corporation

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## INTRODUCTION

As competition in the personal computer market has intensified, many hardware resellers and system builders have sought higher ground, complementing their PC business by selling software and services or shifting their assembly assets to servers. The U.S. Upper Midwest market has been just such a competitive hothouse, providing a breeding ground for new business models and at least one distributor with a new appreciation for servers.

## NORTHERN COMPUTER TECHNOLOGIES

Northern Computer Technologies (Nor-Tech) is a five-year-old company that began business in Burnsville, Minnesota, as a wholesale component and desktop systems distributor, providing products to resellers that serve the U.S. Upper Midwest market. During the past two years, Nor-Tech has adapted its business model to the changing PC market, building white boxes for former PC builders that abandoned the fiercely competitive PC market in favor of a reseller model.

As Nor-Tech evolved to a model of supplying white-box PCs to resellers, the company also heard a new clarion call — to supply servers to the local small business market. Most local white-box builders — Nor-Tech included — initially met this changing market need with "overgrown desktop" systems, adding components such as extra memory, storage, and RAID controllers to existing PC configurations. However, the company soon realized how difficult it was to meet customer requirements and provide quality support with that type of product.

Clearly, the real market opportunity was in moving up from desktop-based servers to more robust configurations with reliability features such as redundancy, hot-swap components, and server management. In early 2002, Intel® addressed this opportunity by providing building blocks specifically designed for servers based on its Intel® Xeon™ processors, along with more marketing support for Intel processor-based servers. Now, more system builders could make high-performance, competitively priced servers available to small businesses that were previously unable to afford them.

Based on customer demand and recognition of the support available from Intel, Nor-Tech decided to build systems expressly designed to be deployed as servers. Components, which used to be the majority of Nor-Tech's business, now account for only about half of the company's revenue, with finished desktops and servers making up the rest. Today, about 95% of the servers Nor-Tech sells are Intel Xeon processor-based. The company has annual revenue of about \$28 million and 30 employees.

As Nor-Tech migrated to more robust Intel architecture-based servers based on the Intel Xeon processor, it found the biggest challenge was addressing the learning curve from both sales and technical standpoints. Intel stepped up to technical training,



including "Tech Builder Summits" that allow Nor-Tech technicians to gain hands-on experience building the products. Microsoft® has also supported the company through information and training seminars, which it holds every other month. The sales force also needed to understand the ins and outs of the new configurations to sell them effectively; however, with the depth of experience the company already had available internally, it was only a matter of weeks before the sales team was taking and filling orders for Intel Xeon processor-based servers with the Windows® 2000 Server operating system.

As word spread that Nor-Tech had a credible server offering, the volume of requests increased. The company now averages 40 to 50 server orders per month. Nor-Tech not only benefits from the greater revenue and margins available from servers, but it also has found that it is more likely to win the desktops, monitors, and network product components of customer solution sales.

## **BEST PRACTICES**

Public relations have been a cornerstone of Nor-Tech's strategy, particularly the impact of articles in trade magazines, with an assist from its partners. "Microsoft and Intel have helped raise our profile with the press," says Jeff Olson, vice president of operations for Nor-Tech. Once the company was written up in the press, component manufacturers started to provide leads.

Among the key lessons learned at Nor-Tech through its shift to servers is the pressing need to provide reliable solutions. Nor-Tech has been able to build highly reliable solutions by using Intel components as well as third-party components identified by Intel. The technical training provided by its key vendor partners has also helped. "Once you have all the Intel components in a server and you put them together, it's basically flawless," Olson says.

Nor-Tech has also maintained its distribution heritage, with 100% of its products passing through value-added resellers. Nor-Tech believes that refraining from selling direct — even when faced with competitive pressures in the price-sensitive education market — has strengthened its relationship with channel partners.

Nor-Tech has narrowed its focus in a tight market, drastically reducing the variety of components that it offers and configurations that it sells. This approach has enabled the company to provide a more reliable product. Nor-Tech resellers also use the reputation, quality, and support of component manufacturers such as Intel as part of their customer value proposition.

## **SERVER TECHNOLOGY**

System builders such as Nor-Tech have found that using industry-standard components and software has helped them overcome customers' tendency to buy from name-brand manufacturers. With components identified by Intel and Microsoft-supported preinstallation tools, Nor-Tech has been able to use the pull of the Intel and Microsoft brands to overcome resistance and get a foot in the door at larger accounts.

Intel's building-block approach to servers has helped Nor-Tech and other white-box server builders ramp up their server production quickly, with minimal investment. Intel provides training and support for builders, including "Tech Builder Summits" (Technical Solutions Training) that give engineers hands-on experience in building server configurations. Intel complements this training with ongoing 24 x 7 technical support. This approach has enabled Nor-Tech and others to build and support a

reliable array of server configurations that scale up through the enterprise without having to bring in outside expertise.

Both Intel and Microsoft have helped Nor-Tech get its product to market. Intel invites resellers to trade shows that provide vendors such as Nor-Tech with recruitment opportunities. Intel and Microsoft also provide development support for program members' marketing efforts, which has paid off in increased exposure and lead generation for Nor-Tech.

Being in the server business has also raised Nor-Tech's profile with resellers. Not only do servers help sell other products, such as desktops and network products, but they also help keep competitors at bay because they allow the company to offer a one-stop shop to its reseller customers. "Nor-Tech's reputation in the market has been enhanced by its server offering," Olson concludes.

## **FUTURE OUTLOOK**

Having access to white-box servers differentiates Nor-Tech's resellers from competitors that provide only name-brand products and curtails the potential of direct competition from these manufacturers. Intel's and Microsoft's reputations and brands, along with the companies' training and product support, have allowed Nor-Tech and its resellers to compete effectively in the face of the more recognizable server brands.

Nor-Tech will continue to focus on the white-box business, with plans to increase its server line and possibly enter the mobile market segment. Increasing its server business will be made easier by taking advantage of the marketing assistance provided by both Intel and Microsoft, allowing Nor-Tech to reach customers through print advertising and direct mailings. This assistance is provided to Nor-Tech as a result of its participation in programs such as Intel Premier Provider. Nor-Tech is also planning its first trade show to highlight close relationships with its key vendor and resale partners.

Nor-Tech has seized the opportunity to add value to its components business by focusing on desktop systems and by providing reliable servers based on the Intel Xeon architecture-based processor and the Microsoft Windows 2000 Server operating system. This move not only has provided direct revenue, but it also has contributed to the sale of add-on products and increased the company's relevance to current and prospective resellers. Nor-Tech has recovered from the downturn in the PC market segment and is anticipating additional opportunity for growth that its expanded product line provides.

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