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## Taking the Pulse of the IBM i Market

by Timothy Prickett Morgan

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If you want to know what is going on in an economy – what is really happening – you have to not talk to just the people in the state capitals or Washington DC, but you have to talk to real business people who are out there every day, running businesses and trying to meet a payroll and provide that good or service that keeps the money rolling.

This is why we like talking to business partners in the IBM i marketplace, because the use of the system cuts across industries and geographies and it gives a real sense how small and medium businesses – and quite a few behemoths, too – are doing and what they are doing when it comes to technology. To get a sense of what is happening in the IBM i market, we had a chat with Jim Kandrac, the energetic founder and president of UCG Technologies, whose company is located in – no surprises here – Independence, Ohio, just outside of the post-industrial city of Cleveland, which has turned into a medical mecca with its share of manufacturing, distribution, and retail companies. UCG Technologies has operations in the United States and Canada, and runs the gamut of customers who buy disaster recovery and backup services as well as buy or lease Power Systems equipment to run their mission critical applications.

We talked to Kandrac early in the year, before the coronavirus pandemic hit, to get his feel for the market, and now, as the summer is winding down and people have a better sense – in some ways at least – of what is going on, we thought it would be a good time to check in and get a read on the IBM i market from him.

**Timothy Prickett Morgan:** *What are you seeing out there in terms of how many companies have been hit hard by the pandemic? Psychologically, we didn't know in March how this would affect the segments of the economy, but now we know: Certain industries got slammed, certain industries didn't. Is there an appetite to start investing in technology again? Are people cautious?*

**Jim Kandrac:** What we are seeing is that some companies have been greatly affected. I will give you a couple examples. We had a large coffee distributor that runs on the IBM i platform, and they literally lost 85 percent of their business overnight. We have had half a dozen several retailers – and well-known companies – that have filed bankruptcy. And I have asked them, what really happened? Was it COVID-19? And what I learned is that a lot of the stresses on these businesses was related to COVID-19 and while the Payroll Protection Program funding from the US government helped save them for a while, they probably were highly leverage to begin with and these retailers were filing bankruptcy to shed stores or leases on stores.

Then again, other companies are doing well.

I believe that there is pent-up demand in the IBM i market for new systems as well as upgrades as well as for moving some workloads to the cloud.

We have 200 backup and disaster recover clients, and that business is rocking and rolling. We also have about another 200 clients that are on the buy/sell side that we just take care of on an ongoing basis. Over 30 years we have done business with over 1,500 clients. They're not all customers today, obviously. Some have been bought or sold or are out of business. We do some marketing and advertising, but a lot of ours is just repeat and referral. And here is how we do it.

Say that you have been a long-running customer of ours. You have a services agreement with us for \$500 a month for three years, but you are consuming more services now, at say an incremental \$350 because of



overages. When your contract comes up for renewal, we write it with today's numbers. We play it straight because we appreciate the long-term client, want to be fair and retain them forever. We always price a renewal deal like it is a brand new deal. That's how I would want to be treated.

In general, what I can tell you is that customers want more services. They need more services. And my belief – and what we're positioning UCG Technologies for – is to help with the challenges that companies have been facing for the past seven months. The IT staff is busy 7x24 running the normal ops and getting people set up with security so they can work remotely. The IT staff is still doing this, to this day.

The good news for 40 percent of UCG's business that sells machinery is that in the past four weeks, we have seen a lightening up, an uptick in system upgrades and system orders. Up until then, this business was trending down.

**TPM:** *How is the backup and disaster recovery business doing? I presume that it is up, since systems are critical and people can't be there to babysit them.*

**Jim Kandrak:** I have seen inquiries nearly double since the beginning of COVID, and the business itself has gone up by at least 20 percent – and I am being a little conservative here. The overall company normally grows at 15 percent per year, but year to date we are up 35 percent in the backup and disaster recovery business. The systems business is flat and between March and September, I would say that it was down 25 percent.

Now in the buy/sell business, if someone tells you they're selling a lot of systems, I'd like to know where. I know I don't answer for everybody, I just see what we see and what we go through.

**TPM:** *Nobody I have been talking to in the channel has told me they are selling lots of Power Systems or upgrades this year, but people are saying that it is loosening up a little bit, particularly since Labor Day.*

**Jim Kandrak:** What I can say is what I am spending a tremendous amount of time in managing our three businesses and paying attention to detail in overseeing administration, operations, marketing, sales and finance. UCG is fortunate to have great employees and I sincerely appreciate them and try to make things a very good two-way street.

An enormous aspect of our data protection business is our annual cyber security insurance renewal. The renewal conditions and demands have exploded. We used to have a one or two page renewal questionnaire and now it is a 20 pager with questions to fill out on an Excel spreadsheet. There are 125 functions that we must do to protect client data, things like multifactor authentication, or IDPS (intrusion detection prevention services) to shield against cyber attacks on UCG “and” our clients data. Obviously changing passwords, doing dark data scans continuously, and so on.

Think about the uptick in hacking and phishing and the like during the pandemic. It has gotten much more intense with cybersecurity. Here's why. I could have a \$3 million business insurance policy to protect against hacking, and it might cost me \$10,000 a year. Would you take \$10,000 from me and insure me for \$3 million if I got hit?

**TPM:** *Absolutely not.*

**Jim Kandrak:** That is why cyber insurance requirements and costs have gone through the roof. Insurers are not turning the tables on end users. As far as I know, 60 percent of the managed service providers out there are not being approved for insurance, and if they do get approved, the rates are triple. And not only do you have to say you are doing all these things to protect data, but you have to do it and you have to actually prove that you did it.

We always keep two copies of the client data in remote datacenters, and it is encrypted. And now, we want to add a third offline copy, holding five or seven days of data, and keep it absolutely unconnected to the network so that in the event of a worst case scenario – they are hit and we are hit – we are covered. This is the stuff that wakes me up at 3:00 AM in the morning. It's my job to worry about it and defend against it.

We have got to have the customer data protected. It's got to be available 7x24. And we got to provide customer service. I didn't mean to make this sound like a sales pitch, but I'm very passionate about what we do in the marketplace.

**TPM:** *I would characterize the current situation like this: If companies had to do more with less before the coronavirus pandemic, now they've got to do a lot more with a little less or in some cases a lot less.*

**Jim Kandrak:** Correct. Absolutely. Things are still flux in the IT world. I see heads spinning at our clients, I see them just very busy. If they had to do more with less before they just got a whole bunch thrown on their plate. The CFO, the CEO, and the COO of the company are calling them into the office and saying, "Tell me about this, this, this and this. What are you doing?" Some of them companies with resources and foresight might have been 75 percent or even 90 percent prepared. Some of them were just not at all prepared. And those guys are scrambling. So we get calls for some things that we don't do and we will refer them to other companies. We don't do firewalls and stuff like that. We stick to backup, disaster recovery, cybersecurity and phishing testing, and training.

Normally, the first quarter and fourth quarter are the busiest of the year for us, and we see a lightening up in my mind. But what I don't have an answer to is what's going to happen with US election and the pandemic. And I think like a business owner about other business owners and in their mind, I think, there's going to be more of a belt tightening across industries to be more efficient, do more with less yet again. They would like to push more stuff to the cloud, to clear off their plate – provided they are very comfortable that those solutions are really solid, really solid, and affordable.

**TPM:** *What about full-on high availability? What's going on specifically there right now? I don't know the level of nervousness among IBM i shops about their systems, particularly when they can't be on site.*

**Jim Kandrak:** We're not seeing a huge uptick in companies that want an on-premises or managed HA service. The following statistics have generally pretty held true for a long time: For every ten clients we have, one is doing real HA, another four do some sort of disaster recovery with us, and five just have data backup with us and do like a disaster recovery quick ship system with us. But they can be down five to seven days with that.

What we have seen is that good-sized US companies – sometimes those that are owned by Japanese or Chinese companies – have mandated to their divisions: Shore this up. We don't care how you do it. But we need to know that we have good backups and a respectable disaster recovery plan. I'm not getting a lot of calls that are saying companies have a mandate of a 15 minute recovery time objective and need HA software all of a sudden. Everybody would like to flip a switch and have a 15 minute RTO, of course.

**TPM:** *How do you act differently when times are tough to survive?*

**Jim Kandrak:** It's simple. You pay attention and you help. A big client ours has two IBM i systems and 30 Intel-based servers, and we provide backup and disaster recovery for them. We noticed some things on their end are just not right. So we rolled up our sleeves did a remote online meeting and had my engineers analyze backups and restores, the whole nine yards. The customer then started to think of us as an extension of its IT staff, and that of course is outstanding for both us and the client. So we do health checks and find things like there is a cache battery warning on the IBM I box and it has a few disk drives that are dying, and the customer has gone from split second response time down to three or four seconds response. And then we figure out what we can do to help.

The admin and operational people are so busy doing other tasks that other important items get back burnered. They're managing by fire. They're not being proactive. They are being reactive. Not good.

We are all dealing with a larger number of unknowns. I'm the eternal optimist, and I think the UGC Technologies business has been able to do great in the great times and hold our own and do decent in the bad times, and I still say that today. But because of our recurring revenue stream, which we starting 16 years ago, and our attitude about serving our customers and lending a helping hand instead of having our hand out, we can do well. Any business partner that is sitting out there looking to survive on the transactional business, this is not going to be a lot of fun.