Ibm Company Essay, Research Paper

I. Current Situation (1991-1993)

1. History of IBM:

IBM is a multinational corporation that started its activities in 1911. But its origins can be traced back to 1890, during the height of the Industrial Revolution. It was first known as the Computing-Recording Company, then in 1924, it took the name of International Business Machines. Nowadays, this multinational company is known as the ? Big Blue ?.

2. Mission statement

IBM main activity is to find solutions to its wide range of clients using advanced information technology. Its clients are individual users, specialised businesses, and institutions such as government, science, defence, spatial and educational organisations.

To meet and respond to its customers needs, IBM creates, develops and manufactures many of the world?s most advanced technologies, ranging from computer systems and software to networking systems, storage devices and microelectronics. Indeed, IBM has various product lines and services a few of which are: the Personal Computer that was first created in 1981, AS/400 business system, RS/6000 family of workstations and server systems, S/390 enterprise server, groundbreaking ThinkPad notebook computer; the award-winning IBM Netfinity and finally, PC Servers. It is an important supplier of hard disks, random access memories, and liquid crystal monitors.

IBM has created the image ?Solutions for a Little World?. Its products and components in other firm?s products are so widespread that people around the world associate the name IBM with computing functions.

3. Organization:

IBM is a global information system and computing company. It is organized in 5 worldwide regions, and the following business units:

1. Application Business Systems

2. Application Solutions

3. Enterprise Systems

4. Networking Systems

5. Pennant Systems Company

6. Personal Systems

7. Programming Systems

8. Storage Products

9. Technology Products

4. Past and current performance:

For many years, IBM succeeded in holding a very good market position. In fact, the company achieved a very high market share and huge profits. However, this situation did not last forever. In 1990, IBM experienced its first quarterly loss of $2billion due to some unexpected accounting charges. However, revenues increased from $62.7 billion in the previous year to $96 billion. In 1991, the company faced a net loss of $2.83 billion that was mainly due to downsizing and restructuring costs. In addition, total hardware sales were down by 16%. The years 1992 and 1993 knew a slight increase in revenues that reached $13.4 billion and a net loss of $399 million that changed to a net profit of $392 million in the first quarter of 1994.

5. Industry trends:

IBM?s old belief was that personal computers are a vital part of their overall strategy to link personal computers, minicomputers, and mainframes, their preferred product in this line. It was not quick in adapting this belief to the new reality and importance of the PC potential, so during the 1980s and early 1990s, IBM was thrown into turmoil by back-to-back revolutions in the trends of the computer industry. The PC revolution placed computers directly in the hands of millions of people, and then, the client/server revolution sought to link all of those PCs (the “clients”) with larger computers that labored in the background (the “servers” that served data and applications to client machines). Both revolutions transformed the way customers viewed, used and bought technology, and both fundamentally rocked IBM.

6. Tactics at IBM were as follows:

Marketing at IBM has often been based on recycling and updating older proprietary systems architectures in which it had a vested interest. It was a product rather than consumer oriented strategy.

® IBM has made modest moves towards more industry specific approaches to problem solutions in an effort to better meet customer needs.

® 1988 attempt to restructure decision making from HQ to 6 group executives failed.

® Due to its size, IBM makes sure that when introducing a project, worldwide capacity is available to manufacture it, and those foreign manufacturing requirements are met.

7. 1991-1993 CEO Akers undertook a major overhaul of IBM: he believed the problem was high centralization, so he followed a decentralizing strategy that would greatly reduce employee levels. Layoffs were as follows: 1991 20,000, 1992 20,000. Although a $3 billion charge was made against 4th quarter earnings, IBM expected savings of $1 billion in 1992, followed by $2 billion in later years.

Restructuring objectives:

a- Accelerate product deliveries.

b- To avoid or minimize costly delays and disruptions IBM would have to completely separate its units into distinct independent divisions with greater control over development strategies, including financial independence. IBM HQ would become a holding company with 6 autonomous divisions reporting to senior vice presidents. Divisions are to present annual plans to executive committee, set goals for return on investment, share in profits, issue stocks in some cases. Each individual unit to report its results separately thus allowing managers to gain responsibility for controlling costs and developing competitive product marketing strategies. Emphasis to be placed on return on invested capital. Executive pay to be tied to unit profits

c- Encourage 3d party relationships

d- Reduce staff.

e- Reduce product prices to match competitor prices. For example, IBM?s lap top model costs about $2,500 more than Dell or AST models.

8. Gerstner?s strategy is to maintain IBM?s broadness to take advantage of consumer confusion in the market. Consumers will recognize IBM?s name in different products and purchase it. This will keep costs high however because the different units need to stay coordinated. According to him, IBM?s challenge is to develop good working relations across the various operating units. It doesn?t need an overall vision but a series of tough minded, market driven strategies for each of its businesses. Balancing shareholder needs of higher margins with customer needs of lower margin open system products. Gerstner brought with him a customer-oriented sensibility and the strategic-thinking. He tried to rebuild IBM’s product line, to reduce the workforce and to make significant cost reductions. Despite mounting pressure to split IBM into separate, independent companies, Gerstner decided to keep the company together. He recognized that one of IBM’s enduring strengths was its ability to provide integrated solutions for customers — someone to represent more than piece parts or components. Splitting the company would have destroyed a unique IBM advantage.

II. SWOT analysis:

¬ External environment:

1.OPPORTUNITIES:

1.1. E-business: the use of the Internet is rapidly becoming an important distribution method for multinational companies, and a source of products for businesses and consumers. it is a way of doing business electronically using new concepts. By emphasizing on marketing this kind of operations, IBM will increase its presence in world operations, by making easier for a company to trade with another one, without any physical contact.

1.2. Strategic alliances: three days ago, IBM announced its alliance with a huge IT company, DELL. This constitutes an opportunity for IBM to become stronger and acquire new knowledge. This part will be discussed later in the presentation.

1.3.As a third point, it seems that IBM should change its image among customers: when you think of IBM, the first image that comes to you is that of a computer, whereas IBM manufactures much more products: servers, mainframes, supercomputers, Internet services, and so on. Therefore, a good opportunity for the Big Blue would be to change this conception and make its diversified range of products better known. There must be more advertising made about the other products in order to make people aware of IBM diversity.

2. Threats:

2.1.IBM most important competition is not within the mainframe market, but outside it, in the increasing range of other machines that can do much of what a mainframe does.

◊ Indeed, throughout the first half of the 1990s, the apparition of very small PCs attacked and reduced demand for mainframes, and this drove IBM almost to bankruptcy. However, the company responded by slashing prices and developing new mainframes that shared many of their components (such as memory) with PCs, thus benefiting from the PC industry’s economies of scale.

2.2.It seems that customers are beginning to buy products from different companies, due to a decrease in the confidence put in one single company. Their belief is that if their hardware come from different manufacturers, they will have a more open system, and diversified configurations. However, this trend leads to problems of compatibility among the different products. IBM is now trying to discourage customers from switching to other suppliers, by striving to improve the connectability of its computers.

2.3.Y2K: the Y2K issue arises because many computer hardware and software systems use only two digits to represent the year. As a result, these systems may not process dates beyond 1999, which may cause errors in information or system failures. According to its CEO, IBM is considered to be Y2K ready. However, the Y2K readiness of the company’s customers varies, and the company continues actively to encourage its customers to prepare their own systems. While this behavior may increase demand for certain of IBM products, it could also soften demand for other offerings or change customer buying practices from past trends.

◊ while IBM continues to believe that the Y2K matters discussed above will not have a material impact on its business, financial condition or results of operations, it remains uncertain whether or to what extent the company may be affected.

¬ Internal environment:

1. Strengths

1.1 IBM is the largest IT company in the world:

¬ It has 240,600 employees

¬ It has commercial activities in 164 countries

¬ It is the 6th company ranked in Fortune magazine

1.2. Education and training are key factors in providing IBM partners with the necessary skills to sell and support IBM software products. The delivery of this education can be done through many formats, from traditional classroom settings to seminars and satellite broadcasts. IBM provides education and certifications on both IBM software products and other software technologies.

1.3 Industry knowledge: before launching any product, IBM managers completely understand the industry organization, key contacts, strategies and offerings, in order to be fully integrated in the organization.

1.4 IBM marketing approach consists of analyzing market and competition, performing segmentation and developing plans and solutions that respond to End User/market needs and competitive trends, and finally differentiating IBM/Business Partner solutions in the marketplace.

1.5 IBM have at its customers? disposal consultants that will advise them if they want to buy new material or change their equipment. IBM employees do their best to satisfy the client and to understand his/her needs.

1.6 Helping businesses optimize their IT infrastructure

A Total Systems Management (TSM) solution leverages IBM skills, services and systems expertise to help customers increase the business value of their IT solutions.

◊ TSM brings IBM Global Services systems management experts together with a customer’s IT executives to assess the customer’s information technology environment against its business goals and identify the key IT areas that are critical to achieving those objectives.

IBM develops a customized services solution to enhance the customer’s system-wide operations and enable its IT infrastructure to better support its business goals, such as e-business.

1.7 All IBM interfaces, going from PC servers to supercomputers can be connected to Internet.

1.8 Teamwork: watch the video cassette.

2. Weaknesses:

2.1 Gerstner, the new IBM CEO, focused on forming both a decentralized and interlinked company. Therefore, it was difficult to counter the strong competition IBM divisions are facing from meaner rivals.

2.2. There is a slow pace of product introductions due to slow market researches: one of the most difficult challenges of IT markets is that products must be updated in a regular and very frequent basis. As you may have already noticed, a brand new computer will lead the market for only 5 to 6 months. That’s why researchers must continually look for new technologies to apply to their products. However, the research process at IBM takes too much time, and this costs huge amounts of money, leading to a higher price than that of competitors, and finally to decrease in sales.

2.3.IBM uses a shotgun approach, meaning that products are launched in the market without any previous information. This can be perceived as a weakness since it would be preferable to make people know about the evolution of IBM technology. Customers need to know what is to be expected from IBM.

3. Marketing:

3.1.One of the main characteristics and weakness of IBM marketing approach is that it is based on updating and recycling older systems architectures. Instead of creating a 100% new product, the company chooses some obsolete products and try to upgrade them. This shows that there is a lack of communication and understanding between IBM and its customers, since there is no or little interest in what are the real needs. It is just with the arrival of Gerstner that this marketing approach changed, when he ordered 25 executives to meet customers.

4.Management:

4.1.IBM maintains an effective internal control structure that consists of:

¬ Organizational arrangements with clearly defined lines of responsibility and delegation of authority

¬ Comprehensive systems and control procedures.

◊ the objective of this structure is to provide reasonable assurance that transactions are executed in accordance with management authorization, and that they are appropriately recorded, in order to permit preparation of financial statements in conformity with generally accepted accounting principles and to adequately safeguard, verify and maintain accountability of assets.

5.HRM:

5.1. To assure the effective administration of internal control, IBM carefully selects and train its employees, develops and disseminates written policies and procedures, and provides appropriate communication channels.

5.2.To compete and win the global marketplace, IBM needs to attract and retain talented and motivated professionals from practically every country, community and background. IBM provides a cash compensation opportunity that will attract, retain and motivate high performing employees. Their pay will be strongly influenced by the results obtained by each one of them.

5.3 Among other benefits: medical, dental and vision benefits; income protection; work and personal life balancing; stock purchase; IBM club, etc..

6.Accounting:

6.1.The Audit Committee of the Board of Directors is composed solely of outside directors. It recommends to the Board the independent firm that will conduct the company’s auditing. The Audit Committee meets periodically and privately with the independent accountants, as well as with IBM managers to review accounting, auditing, internal control structure and financial reporting matters. Usually, IBM is helped by PricewaterhouseCoopers LLP to review the whole internal structure of the company and to test its accounting procedures.

6.2.With this approach, neutrality and objectivity are respected, so IBM managers are sure that the results obtained are not influenced by inside auditors.

7.Porter?s competition model

1. The computer industry is still young and expanding, so there is a big threat from potential new entrants.

2. The industry is competitive, so IBM has to satisfy both industrial buyers and consumers.

3. IBM faces high threats from substitute products because computer products have a short lifecycle. PC networks are replacing mainframes.

4. There are increasing numbers of competitors in the industry spurring both price competition, and product innovation.

III. Strategic Alternatives

1. Outsourcing can be one good solution for IBM to cut its costs so that it can sell at a competitive price. The hardware can be manufactured where there is cheap labor and equipment for instance.

2. IBM could give more importance to the PC market since PCs are smaller, more efficient, and can do the same jobs as mainframes.

3. The company has to look for a new marketing strategy to enter its products at the right place and time and better meet its customers? needs. Use heavy and direct marketing.

4. One important way of reducing costs and be better prepared for the future is to make strategic alliances, thus, building sustainable competitive advantages.

5. The internal culture should be changed. Give more importance to team work.

IV. Strategic Recommendations

1. Even if it is currently one of the leaders in the computer industry, IBM should prepare itself for the future especially for the high competitiveness that engulfs the industry. For instance, very known competitors, such as Compaq, are increasingly doing well and can easily surpass IBM if it defaults on meeting customers? demands and being innovative by having a truly sophisticated R&D. In fact, IBM should try to provide integrated system solutions to customers not only to ease the way of using them but also to ease the life of its customers.

2. One of IBM?s problems is the operational conflict between its units, especially between the Personal Systems Unit, which produces PCs and workstations for one market, and the other units that provide integrated package solutions for a different market. The conflict in this case is due to the Personal Systems unit?s two functions:

¬ Selling products to the individuals market

¬ Providing other units with products that are to be used as components in integrated package solutions to be sold to organizations.

The Personal Systems market is very competitive with many PC producers getting their product on the market fast. An autonomy strategy would benefit the Personal Systems unit, which would be able to focus on its sales without losing time in coordinating with the other units. On the other hand, the other units would suffer under this strategy because they would lose a supplier of made to specification components.

Our strategic recommendation is that the units should operate as separate businesses, coordinating only when the performance of the individual units will not suffer. The Personal Systems unit produces standard products for an enormous market, so they should not waste time in adapting to the other units. When the other units require components they should buy them from Personal Systems. If these components are incompatible, they should adapt their package system or outsource (out of IBM) the components. The personal systems industry is very competitive because it is simple compared to integrated solutions, services, and products, with lower and decreasing margins. IBM will outsource low margin products and keep high margin integrated products in house.

3. IBM should further integrate the separate systems of its different vendors in order to have satisfied customers

4. IBM employees are experts in products, so they should strengthen ties with firms specialized in applications.

V. IBM vision and strategy of growth today:

1. Today?s mission statement:

?We create, develop and manufacture the industry’s most advanced information technologies, including computer systems, software, networking systems, storage devices and microelectronics.? It has two fundamental missions:

¬ Strive to lead in the creation, development and manufacture of the most advanced information technologies.

¬ Translate advanced technologies into value for its customers as the world’s largest information services company. IBM professionals worldwide provide expertise within specific industries, consulting services, systems integration and solution development and technical support.

2. Today?s objectives:

1) Build marketing for IBM middleware on NT with its channel partners.

2) Be the leader in market share by 1998 on the NT platform.

3. Today?s strategy:

¬ Continue to deliver solutions

-Cross industry

-IBM and partners

¬ Continue to deliver best of breed product

-IBM and partners

¬ Maniacal focus on customer satisfaction

3.1) IBM?s strategy of acquisitions. In 1995, IBM acquired Lotus Development Corp., and the next year acquired Tivoli Systems Inc. Services became the fastest growing segment of the company, with growth at more than 20 percent per year.

3.2) IBM Technologies, whose role is supplying advanced technologies, is currently looking for computer producers with whom it can form alliances. IBM and Dell were in discussions since June 1998 and the result is a strategic agreement worth $16.6 billion over 7 years for IBM. Under this deal they will share their competencies and technologies, and cooperate in developing future technologies. Dell will acquire IBM components for its computers, and database, network, and microelectronic technologies, and they will exchange a large array of licenses. Further areas of cooperation will follow. Dell?s general director says that a company can?t do everything alone. Dell?s share of the US market for servers jumped 95% in 1998 to 5.6%, making it the 5th. IBM is 1st with 30.5%.

3.3) In May 1997, IBM dramatically demonstrated computing potential with Deep Blue, a 32-node IBM RS/6000 SP computer programmed to play chess on a world class level. Deep Blue defeated Garry Kasparov.

World Chess champion.

3.4) In October 1998, IBM has created a division that could take advantage of opportunities for growth in the sale and service of guiding technologies, and would develop its relations with computer producers.

4. Today?s vision:

Nowadays, IBM?s CEO states it clear that the net is the future. The net has changed the way business is done and provides a great network of communication. According to Gerstner the net is ?a vocational medium-a place where real work gets done, real competitive advantage is gained, and real growth is generated. ? Indeed, with the Internet a company can increase its sales and profits. It can enhance communication between employees and thus provide a better internal environment. More than that, it can strengthen employees-customers relationships and better meet customers? needs. It also provides a fast and efficient way of doing business between partners in a supply chain. E-business can also provide an environment of customizable communications through which you better serve customer needs and reflect a good product image. That?s why IBM is getting more involved in e-business. For 1996 the top computer companies in the world were ranked:

1.IBM

2.Fujitsu

3.Hewlett-Packard

4.NEC,

5.Compaq.

VI. IBM in Morocco:

In 1939, IBM France launched in Morocco the first agency in Africa. Morocco was chosen because it represents an open door to Africa. IBM MAROC employs 85 employees and has almost 500 clients (ministries, banks, insurance companies, Al Akhawayn University, etc..). The main activities of IBM MAROC are to meet all customers’ needs, to provide high quality tools, and to create a structure that will guarantee high quality maintenance services.

IBM has two important strategies, which are:

◊ direct marketing: it means selling directly to the consumer through the mail, by telephone, or door-to-door. By having direct contact with the customer, the company knows what are the needs, the preferences, and then can effectively choose the kind of products it will sell in the Moroccan market.

◊ Commercial partnership: IBM has 22 commercial partners that sell its products in many different regions in Morocco. Thus, IBM MAROC is not obliged to create agencies in many cities, rather, its products are sold with other firms’ articles, which increases the competition.

31d