



CLABBY ANALYTICS

## Trip Report

### IBM's Software Group Analyst Connect 2011

#### *Introduction*

IBM's Analyst Connect is a two day information sharing event sponsored by the company's Software Group (SWG) where IBM focuses on explaining its software and related product strategies — and where research analysts share their views on market trends and critique IBM's presentations.

This year's Connect (the 10<sup>th</sup> such event) was held in Stamford, Connecticut, and was attended by about 100 information technology (IT) research analysts, and about the same number of IBM executives and managers.

In years gone by, I found this event to be largely software *product* focused. You could attend sessions on Tivoli, or WebSphere, or DB2, or Rational, and so on — and dive deeply into product features, functions, strategies, and future directions. There was little mention of software integration with other IBM products — it was as if each software business unit was driving its own agenda. Further, IBM's hardware platforms were rarely mentioned — again emphasizing the insular nature of SWG.

*Don't get me wrong — these sessions were highly informative, but they seemed to lack cross-organizational unity.*

#### *The Impact of Steve Mills on Hardware/Software Unity*

In 2010, however, things changed. Steve Mills, SVP of IBM SWG was given control of all software and the company Systems and Technology Group (STG). Mills is a no-nonsense, brilliant senior executive with deep knowledge of software and hardware capabilities, markets, organizational dynamics, and customer requirements — and his mission was, from the outset, to unify hardware and software messaging and focus both organizations on building *integrated solutions* for IBM customers.

Last year I saw the first manifestation of Mills influence as I attended both IBM software and systems meetings. What I noticed was the members of STG were in attendance at Connect — and vice versa, SWG members were in attendance at IBM's STG event. In fact, I remember one session where a senior member of IBM SWG was working extremely closely with a senior member of IBM's STG on methods to highly-tune IBM software products (databases, middleware, etc.) to perform exponentially better on IBM hardware as compared with competitor's software/hardware implementations. (IBM called these new, highly tuned software/hardware combos "smarter systems" — and has introduced several other similar designs since last year). These smarter systems were, to me, the first big indication that Mill's software group/hardware group integration effort was working.

*As I headed down to this year's Connect, I expected to see a little bit more progress in terms of SWG/STG integration — but I was not prepared to see a quantum leap in cooperation between SWG and STG, nor was I prepared to see tremendous progress in the integration of software across IBM's former software fiefdoms.*

What I heard and saw was this:

1. IBM is now focused on selling *integrated hardware/software solutions* — rather than on promoting individual products and technologies. To this end, IBM talked a lot about “*smarter software*” — combinations of IBM software products (including hardware, middleware, databases, and applications) that, when integrated, help customers achieve greater business value.
2. These IBM's solutions are enabling IBM to open new markets and reach new customers. I was most fascinated by how IBM is using various turnkey, integrated solutions to pursue opportunities in emerging growth countries (more about this later on in this article).
3. IBM is using its smarter software combos to create new go-to-market and business models which enable the company and its customers to new ways to streamline operations and business process flows.

The remainder of this report explores these three points in greater detail.

### ***IBM's New Approach to Selling Solutions***

It can be argued that IBM has been selling solutions for years — or even decades. Seven years ago, for instance, IBM was creating turnkey computational, data, collaboration, and utility grid computing environments for a variety of industries — and these were, in fact, tuned solutions for specific applications and processes. But back then, IBM would approach an engagement with a slew of technologies of its own and from 3<sup>rd</sup> party providers that were integrated to build a specific type of solution. The company would do some initial quality assurance on its product combinations, and some rudimentary tuning — and then leave it to the customer to further optimize their systems and software environments.

But as I look at IBM's solution selling approach today, I note that it is distinctly different from past efforts. Here's why:

1. IBM SWG is more strongly focused on building integrated solutions that exploit other IBM software in order to maximize performance or to take advantage of software synergies;
2. SWG is working more closely with IBM STG to exploit the company's three hardware platforms (Power Systems, System x, and System z) — even tuning software all the way down to the processor instruction set level to increase performance;
3. IBM takes its smarter software and smarter systems to market in a new way. As stated above, IBM's previous approach was technology driven, so the company would take its solutions to prospects and try to “wow” them with features and

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functions, and advanced technologies. But IBM's new approach is to focus on the customer's business problem. Once the problem is understood, IBM discusses its solutions in terms of the *business value* an IBM system can deliver — rather than technological elegance.

The way I see it, points #1 and #2 are extreme tuning/workload optimization exercises. Because IBM builds its own software stacks and because it offers three distinct hardware platforms it has the ability to build very unique solutions that competitors simply can't match.

As for point #3, when IBM talks about business value, it refers to things like exponentially better performance that enables customers to get results faster and greater ROI (return on investment); or using software combinations to open new markets; or using business analytics software to obtain better information leading to more informed decision making; and more...).

*In other words, IBM focuses on what its hardware/software combos can actually do for a customer — and describes this in business rather than technology terms.*

As an example of business value, consider that a mainframe and an x86 server can both run the same banking application. But if that application needs to access a very large database, and if it uses a ton of input/output calls, that banking application could execute far, far faster on a mainframe. Though these systems require far higher upfront investment than x86 servers, for enterprises that need to process high volumes of transactions, that need speedy performance, and that also have strong requirements for security and availability, the mainframe would clearly offer the most business value. Notice that, in this example, the mainframe is being sold on the benefits of what it can do to address a customer's problem, not simply on its technical merits.

### ***Opening New Markets: The Emerging Growth Approach***

As the world continues to recover from the economic downturn of 2008, one bright spot in the IT industry has been revenue growth in “emerging economies” such as Brazil, Russia, India and China (the so-called “BRIC” countries). Clabby Analytics has been to all of these locales and has witnessed first-hand how technology adoption is taking place. We have seen businesses whose need for reliable and secure servers, such as fast-growing banks in China, can drive hundreds of thousands of transactions daily result in the adoption of mainframes. We are aware that the city of Rio de Janeiro is using IBM's “smarter cities” software (a large database integrated with business analytics software and a city government-oriented dashboard that allows various departments to perform analysis [such as traffic analysis or public health and safety analysis] that results in better services for citizens). And, we are fascinated to watch how IBM is approaching fast-growing markets in Africa.

First, be aware that a lot of these countries have traditionally purchased x86 servers based on low price — and have attempted to build solutions only on that platform. Intel's x86 processor is a good processor — but no single processor does all jobs optimally. So, as IBM enters new geographies in emerging growth countries, its first task is to overcome the

client tendency to buy and build on the cheapest hardware solution. This is where solutions selling and focusing on business value come into play.

Now, back to Africa. African nations have come to realize that they have the people resources and labor pool needed to build products and/or to deliver services. But instability and corruption have been major impediments to progress in technology on the world stage. IBM sees Africa as a huge growth opportunity — and has a stable of solutions that can move Africa into the 21<sup>st</sup> century. IBM can offer water control systems, banking systems, telecommunications systems (in cooperation with India's Bharti), smarter cities environments — and so on. And, as their company claimed at Connect, it is succeeding in selling these types of solutions to various African countries.

There are, however, several hurdles that IBM must overcome as it sells to emerging growth markets — the biggest of which is corruption. IBM is extremely careful about hiring individuals with impeccable backgrounds and rigidly enforces its ethical guidelines. Bribery and unethical business practices are not allowed — and unscrupulous activities are quickly identified and dealt with. In fact, if IBM discovers potential customers or partners expect it to act unethically; the company will withdraw from an engagement rather than bid for the business.

*Clabby Analytics* has had a major commitment in terms of consulting in the Middle East for almost two decades. And, while covering the Middle East, we've also made side trips to Africa (Egypt, Kenya, and South Africa). We think it will be fascinating to watch technology adoption in Africa (especially after the Arab Spring activities), and we intend to increase Africa coverage in the coming years.

### ***New Business Models***

At Connect, IBM had several top sales and marketing executives describe how they were using various IBM solutions and new business models to identify and find new prospects — and to drive new outcomes for those customers. IBM sales/market executives showed how they were making use of various company products to analyze the effectiveness of their marketing campaigns — and how they were using these solutions to attract potential buyers to IBM shows all around the world. Talk about the benefits of “eating your own groceries”!

My favorite discussion on this topic took place at an early breakfast meeting with Sandy Carter, IBM's President, Social Business Evangelism and Sales. In short, IBM is a big believer in the use of social media to gather business intelligence and Sandy's presentation showed how the company is using social media such as Facebook and Twitter to look for trends as well as to find new prospects. According to Sandy, social media is raising awareness about IBM solutions, both in its traditional markets (North America, Europe, and Japan) as well as in emerging growth companies. So, as I see it, social media presents IBM with a new business model for reaching potential customers around the world.

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### *Summary Observations*

Listening to IBM's presentations on selling solutions and business value took me back almost 34 years to when I started in IT. Back in the late 1970s, I sold word processors (expensive proprietary systems — this was before the arrival of PCs which commoditized the office productivity marketplace). Back in those days, we were taught to focus on the client's needs and what our word processors could do to address those needs (in other words, what business value our word processors could deliver).

At the time I was selling in Cambridge — and I ran into a lot of Massachusetts Institute of Technology (MIT) types who wanted to focus on how much memory my word processor had, or its processor characteristics, or its communications capabilities, and so on. I would never win an engagement when MIT-types were involved — but I almost always won when I was dealing with a business manager who had a problem to solve.

*As I look at IBM today, it looks to me like they've gotten this message: "sell the solution and sell the business value".*

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