



CLABBY ANALYTICS

Trip Report

The Globalization of IBM: IBM's Analyst Insights 08 Conference in Bucharest, Romania

Introduction

Every year, IBM hosts a European IT research analyst meeting in order to familiarize IT analysts with IBM's latest strategies, products and services. This year's meeting was held in off-the-beaten path Bucharest, Romania — and it was held in Bucharest for a distinct purpose: IBM wanted to demonstrate how it is using globalization to lower its labor costs while expanding into new “emerging economy” markets.

The key “take-away” at this conference is that through its globalization efforts over the past ten years, IBM is now extremely well positioned to expand its reach and penetration into evolving economies in Central Europe, the Middle East, Africa, South America and Asia. And if all goes according to plan, IBM will be able to expand the revenue contribution of these regions from its current 17% revenue rate to over 30% of the company's revenues over the next few years. To put this in perspective, IBM is a \$100 billion company — and through its globalization efforts, IBM is expecting emerging growth companies to contribute close to 1/3 of all its revenues (or close to \$33 billion in revenues).

If IBM is able to execute its globalization plan, it is reasonable to extrapolate that the projected revenue decreases in North America and Western Europe caused by banking/financial system woes could be easily replaced by revenue generated in emerging growth companies. And if this occurs, IBM could weather the current worldwide economic crisis relatively unscathed.

The remainder of this article describes what globalization is; why it is important; and how globalization may help IBM weather the world financial crisis. It also uses Bucharest as a mini-case study that illustrates how IBM applies globalization techniques to reduce labor costs while growing its revenue stream in emerging growth countries.

What Is “Globalization” — and Why Is It Important?

Look up “globalization” on Wikipedia and you'll find that globalization is “the process of transformation of local or regional phenomena into global ones”.

Now look at IBM's organizational behavior over the past decade. IBM has aggressively moved a lot of its software development off-shore to places such as India, China, and Eastern Europe. IBM has also moved administrative functions to various locations throughout the world including China and Southeast Asia. And IBM has set up advanced technology centers in South America, Europe, and even in small countries such as Korea and Vietnam. In short, IBM is no longer a centrally controlled multi-national company — it

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is a distributed yet cohesive, globalized company that is taking advantage of local or regional IT phenomenon to create and deliver IT solutions on a worldwide basis.

Why does this globalization of IBM matter? It matters because globalization creates distinct competitive and operational advantages over less nimble, more centrally managed competitors. By globally distributing its resources, IBM is able to reduce its development costs by using lower cost labor in emerging markets. Further, globalization helps IBM reduce its operational costs by outsourcing administrative functions to lower labor cost markets. And finally, globalization helps IBM bring local or regional expertise to its customers and/or prospects more efficiently (by locating resources regionally or locally close to prospective customers).

This final point is worth dwelling upon — especially in light of the worldwide financial crisis. Growth in established, but overcapitalized North American and Western Europe markets is predicted to slow. But growth in emerging growth economies (which have been marginally effected by the worldwide economic slowdown due to undercapitalization) is expected to rise as capital shifts to these low-labor cost, high intellectual value markets. IBM, through its globalization efforts, is very well positioned to take advantage of this projected growth in emerging growth nations — and the company has been realigned accordingly to take advantage of this projected growth.

IBM's globalization efforts have also hit *Clabby Analytics* close to home. To expand its reach into Central Europe, the Middle East, and Africa, IBM has chosen to locate sales/technical support services for the emerging growth block known as CEMEA in Dubai, UAE. And ironically, *Clabby Analytics* located to Dubai in August of this year. This move by IBM puts *Clabby Analytics* in an ideal position to closely cover the IBM's expansion into evolving markets in this region...

What Does Bucharest Have to Do with This?

Bucharest, Romania, was an ideal choice as a venue to demonstrate IBM's globalization strategy in action. Several years ago, IBM has identified Romania as a source of talented IT resources (well before IBM's competitors did so). And since then IBM has continually tapped Romania's talented IT resource pool to help IBM build its own products, as well as to help Romania build and deploy its own IT solutions. Romanians contribute heavily to building several IBM Tivoli management products – and Romanians have developed specialized expertise in helping test, qualify, and package software solutions for easy deployment (IBM software organizations and some independent software vendors take advantage of this specialized expertise to simplify the deployment of their software products on various hardware platforms). Further, as the pool of skilled IBM technical resources has grown in Romania, IBM has been able to expand more easily into commercial and government markets in the region, increasing IT market share in Romania while expanding product/service revenue for the company overall.

How Globalization Works in Emerging Markets: A Romanian Mini-Case Study

To show how IBM brings its products and services to market in Romania, IBM asked Agentia Nationala de Catastru S I Publicitate Imobiliara (ANCPI) to speak at its Analyst

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Insights 08 event. In a mini-case study, ANCPI described several of the technical and political challenges it faced when building an IT system that could manage land ownership. (This may sound a bit mundane, but bear with me).

Remember that Romania was under socialist control for several decades last century. Under this control land ownership was deemphasized as land and property was owned by the collective (or more precisely, the state). So imagine what happened when capitalism returned to this country. Ascertaining who owned what parcels of land – and trying to demarcate that land – became major challenges. Further, to help rebuild Romania's economy, these kinds of issues needed to be resolved – and be resolved quickly.

ANCPI described the myriad of challenges that his organization faced when structuring process flows, building IT skills, dealing with paper records, and a host of other people/process/technology hurdles that IBM and ANCPI faced when implementing a new real estate claim system. And, of course, ANCPI stated that IBM had performed admirably in helping build this solution. But what is important to note in this mini-case study is that IBM brought new technology solutions to Romania – helping to design and deploy an advanced global information system database and an advanced imaging system – replacing a people-based, paper-driven system had previously been in place. Now, think globally: there are tens-to-hundreds-of-thousands of similar human resource-heavy, manually driven processes in place in emerging economies around the world. By structuring its company to deliver services and solutions globally, IBM can now more easily pursue this burgeoning opportunities.

One final note on this Romanian land management solutions: this system is replicable – and could serve as a standard for other former socialist countries who are trying to resolve the same kinds of issues. Replicable business can be very profitable...

Summary Observations

At the conclusion of the conference, four reasons emerged that explained why the strategic global repositioning of IBM is important. Globalization:

1. Better positions IBM to weather-the-storm as countries and enterprises deal with the effects of worldwide recession;
2. Significantly reducing its costs to develop, deploy, and support products (leading to further competitive cost advantages as well as increased profitability); and,
3. Improves IBM's ability to differentiate itself from its immediate competitors (by offering global breadth, lower cost solutions, and in many cases deep localized or regional support); and,
4. Advantageously positions IBM to move into new markets for its products and services – especially in critically important “emerging economy” areas and potentially in small/medium business markets (markets where IBM has had limited success in the past).

If IBM is able to execute its emerging markets growth plan – which is a spin-off from having globalized its resources – IBM will assuredly be able to weather the worldwide

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financial crisis in good shape. And because IBM is already globalized while its competitors are still working to globalize, IBM may be able to establish distinct competitive advantage as a result of its early adoption of globalization principles.

Finally, as stated previously, *Clabby Analytics* is now located in Dubai, UAE, the heart of IBM's CEMEA organization. Expect local coverage on the effects of globalization on the CEMEA region from *Clabby Analytics* over the next several months.

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