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Case 1 – IBM James Cook

Summery

IBM's dependence on mainframes and its conservative response to industry shifts left it vulnerable as the market shifted to client/server architecture and personal computers. Under Lou Gerstner's administration, the company restructured by centralizing operations, reducing costs through layoffs, and focusing on enterprise services. Withdrawal from the PC market allowed IBM to concentrate on high-margin segments like servers and IT services, but it reduced its consumer brand presence. IBM's exit from the PC market eliminated its consumer market influence, potentially missing out on broader growth opportunities.

Issues

The first issue with IBM appears to be that it heavily relies on the mainframe business. Even though the market trend showed a gradual shift from proprietary products to more open systems and PCs, IBM’s attitude was conservative. Their stance was quote “That’s a university thing; we’re doing serious business here” (Page 3). A tech company should be proactive or reactive to the changing environment to survive, but IBM was rather passive.

Another issue is their overall structure. IBM was way too large to be centrally managed. They had so many facilities across the world with unnecessarily many departments and CIOs. As a result of poor management, a lot of the departments were producing products that basically served the same feature but a different product. This led to incompatibility problems that further caused a negative influence on their products and customer dissatisfaction.

Industry/Competitive Analysis:

Regarding IBM’s mission, Gerstner changed the structure and made IBM into one, with the intention of becoming a global solution provider. At that time, no other companies were able to do what IBM could do. By utilizing its existing infrastructure, IBM was able to increase its level of market dominance.

Strategy-wise, the most significant move was reducing the cost. IBM went through large-scale layoffs indicating the end of permanent employment, followed by structural changes. IBM placed much effort into the customers as well, with plans such as “Bear Hug.” Instead of just selling products, they dedicated a senior executive to each customer and made them take care of them, even taking responsibility for sales. The establishment of IBM Global Services was yet another impactful decision. It was their attempt to enter the IT field which would allow them to not only sell the hardware but also the solution in combination with the software. Instead of focusing on personal computers that had small profit margins, IBM solidified its focus on mainframes and servers, which ultimately resulted in a withdrawal of the consumer market.

Five Forces Analysis

Competitive Rivals:

There is strong competition in the market due to many new companies rapidly growing in scale. Some examples from the text are Intel, Microsoft, Cisco, and Dell. Microsoft even directly won the competition in the operation systems. Dell is another good example of a large manufacturer like IBM, with many overlapping aspects of the business operations. The PC market was full of rivalry, and IBM gave up the competition.

Potential for New Entrants in an Industry:

While IBM had the advantage in the enterprise market, new companies emerged and quickly grew. IBM was the barrier in this case, preventing the entry of new competitors with IBM’s existing global-scaled infrastructure working as a differential factor. For the consumer and PC market, it was a bit different. The rise of client/server architectures quickly dropped the need for mainframes and allowed many small companies to join the market and have a competitive advantage in cost thanks to the low-profit margin. As a result, IBM exited from the PC market and remained in the enterprise market where they had the advantage and much fewer risks.

Supplier Power:

With the failure of IBM’s operating system OS/2, the only option for IBM was to use a Windows operating system which gave Microsoft more control and power. The same thing applies to chip suppliers, since IBM was heavily dependent on chip suppliers to produce the internal components, companies like Intel had more control in the area. Thankfully, IBM wasn’t just relying entirely on other companies for their core features. IBM managed to enter the IT field, making software solutions for their products.

Customer Power:

The power of customers was much stronger, due to the introduction of the client/server model and other alternative options. Large corporations and organizations no longer had to rely on IBM’s proprietary solutions that had high incompatibility. The rise of PC made it even worse for IBM because now many cost-effective options have become available. This forced IBM to increase its product value to remain competitive in the market.

Threat of Substitutes:

As previously stated, personal computers are a major threat to mainframes. There was no longer a need to spend money on expensive mainframes because most of the computation could be done on the server side and the customers would only have to access the servers through a client pc. Now only that, software giants, such as Microsoft and Netscape, emerged and took the lead from IBM. These threats are severe, causing direct risk to IBM’s business. IBM’s response was the middleware, moving towards a business environment technology solution provider.

Organizational Structure:

The structure of IBM can be distinguished before and after Gerstner. Before all the changes Gerstner made, IBM was on a heavily decentralized operation. There were many overlapping functions across departments that worsened the compatibility within IBM’s product line. After Gerstner took over, under “One IBM” marketing, the organizational structure shifted into centralized management. Upon such change, Gerstner introduced the Corporate Executive Committee and Worldwide Management Council to enable IBM a unified operation. Gerstner also changed the old IBM matrix which focused on geographies to a new matrix with emphasis on global processes. This allowed the sales departments to run as one, instead of scattered individual geographical units. A new system to evaluate the performance was made around this time to further enhance the structure. To finalize the transition, Gerstner renovated the board of directors, reducing the size and filling it with skilled personnel.

Stakeholder Groups:

Customers are the ones largely being affected by the changes and the ones that IBM is trying to focus the most with their needs. Gaining their interest is the key to success when trying to sell the product. Since IBM’s focus of business is towards enterprise, these customers will consist of various organizations, corporations, and government agencies. They will require top of the line technology to assist their everyday business operations, as well as a technological support from IBM on their products. IBM losing competitive advantage in the market will make the customers turn around for alternative options.

Employees are also the ones being affected by the change, through structural changes. Some of them are laid off, and those managed to survive would go through a large-scaled restructuring. Due to the new systems that will evaluate their performance, there will be increased concerns regarding their work efficiency. Their need is to secure a solid job position and a growth opportunity after the series of layoffs.

Investors are most interested in the performance of the company, especially the profit that it makes. Since IBM was undergoing some financial crisis resulted from various factors, the investors’ priority was to see the company doing well with solid long-term plans. IBM’s poor performance and financial statements will raise concerns to the investors and will cause them to reconsider their future investments.

Suppliers have high control over the market due to their dominance and IBM’s dependency. IBM had minimal internal supply chain and relied operating system and internal chips on suppliers such as Microsoft and Intel. To reduce the dependence, IBM acquired other business like Lotus to achieve independence to some extent to have more control over the market.

Communities in this case will be geolocations and local economies where IBM’s business reaches. Their need is virtually the same as customers, but they get heavily affected by the change in IBM’s operation because it also includes current and ex-employees. Globalization of IBM’s sales will bring positive results to local communities, while its large-scaled lay offs brought negative impact to the surrounding areas.

Governments play a significant role by enforcing regulations and policies which IBM must follow. Their interest will be ensuring a fair competition among the firms in the market as well as seeking a business partner to fulfill their technology needs. Since IBM provided enterprise solutions across the globe, this will include governments from various nations.

Alternatives and the Impact of Alternatives on Stakeholders

1. Not withdrawing from the PC market

The first alternative decision would be not to withdraw from the PC market. The reason why IBM left the market was due to heavy competition and low-profit margins, and they wanted to focus more on what they were doing well. Even though this may seem like a reasonable idea, withdrawing from the consumer market resulted in a heavy loss in brand recognition. Take the example of Apple, Markowitz says how much Apple was making more in revenue with the release of its iconic models, while IBM suffered through the process of giving up the PC industry. IBM was once a recognized giant, but in modern days, it’s nowhere close to its competitors and business partners when it comes to brand awareness. When IBM was worried about the low-profit margin in the PC industry, Dell was able to reduce its costs by 10 to 15 percent through a zero-inventory strategy, mutually benefiting both the company and the customers (33, Jiang). Therefore, it was evident that there were ways to keep the PC business running through optimization and cost-saving techniques. This affects all stakeholders, but mostly the customers, because the PC market is apart from the enterprise, the entire consumer market could have been their new customers.

1. Focusing on Chip making

IBM relies on Intel for the processors that go inside their mainframes. While one of their attempts to reduce the dependency on the suppliers was by expanding to the IT field and supplying themselves with software, they could also have done something different. According to Tozzi, the first IBM processor was released in 1990. Which means, it falls within the same period when these changes were being made. According to Clabby Analytics, IBM’s POWER8 processor had better performance and efficiency than Intel. But a more recent processor, POWER10 seems to suffer from power efficiency with Intel being up to 3.78 times faster per watt, according to Prowess Consulting. This shows that IBM has the potential to win the competition, but periodically lacks competitive advantage compared to their competitors. If IBM had reinforced its chip-making department and unified processor, hardware, and software all into one optimized solution, it might have looked completely different from now. Given that, to this day there aren’t many contenders in processor manufacturing. Such low risks of new entrants may have played in the favor of IBM. The aftermath of this decision will affect the stakeholders in many ways. Now, there will be more customers willing to purchase a processor from IBM, as well as more investors willing to sponsor processor development. With market dominance, the ecosystem derived from their chips could potentially affect businesses and their workflow.

1. Continuing their operating system development

Even though IBM has failed OS/2 and lost competition against Windows, they could have continued to develop further iterations of the operating system. According to StatCounter, the predominant operating systems are Windows, MacOS, and Linux. Windows is taking the lead, with other options being limited and minor choices. With technology companies frequently creating a monopoly, resulting in antitrust lawsuits, customers may want to see more options in the market and less dominance. Although IBM couldn't win the fight against Windows, they could have been a great alternative option to the market for those seeking variety if they still existed. Again, this will affect all stakeholders by the influence of the operating systems' ecosystem.

Best Alternative

The best alternative to choose is retaining the PC market. Examples of Apple and Dell show how important is the consumer market. According to the Fortune 500 list, Dell is ranked higher at 48th place compared to IBM’s 63rd, despite IBM’s valuation being double the amount. With Dell slowly expanding its services to software from PC and server systems, the difference between Dell and IBM gradually closes. Given how massive the PC market is in the modern world, keeping it may have contributed to many growth opportunities for IBM to recover from its financial struggles while widely spreading its brand presence.

As for the other two options, the other contenders in the current market couldn’t take over the dominance of Microsoft and Intel. Therefore, realistically IBM wouldn’t have been able to take over the lead as well. Because IBM had the potential to secure a larger market share, the other two options still made the list.

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