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**Case 1 cis 410**

**Introduction**

In the early 1990s, IBM was struggling because the technology world was changing. People and businesses were moving from big mainframe computers to personal computers (PCs) and smaller systems. IBM was slow to change and had too many complicated processes, which led to big losses. By 1993, the company was close to failing and needed a major change to survive.

**Business Issue**

One of IBM’s biggest problems was its bureaucratic structure. There were too many layers of management, which made it slow to react to changes in the market. The company also had high costs, making it difficult to offer competitive prices. As a result, IBM started losing customers to companies that could provide better technology at lower prices. Shareholders were losing money as the stock price dropped, and employees were worried about job security as the company struggled to stay profitable.

**Industry and Competitive Analysis**

IBM had traditionally been a leader in the technology industry. Its mission was to provide businesses with advanced computer systems, software, and services. However, the company’s strategy of focusing on large mainframe computers was becoming outdated. With the rise of personal computers and distributed computing, businesses were looking for more affordable and flexible options. IBM’s rigid organizational structure and high costs made it difficult to compete with emerging tech companies like Microsoft, Dell, and HP. These competitors were gaining market share quickly by offering cheaper and more adaptable solutions.

IBM’s competitive position within the industry was also affected by Porter’s Five Forces. The threat of new entrants was high due to the rise of innovative tech companies. The bargaining power of customers increased as they had more alternatives. The bargaining power of suppliers remained moderate, while the threat of substitute products grew due to advancements in technology. Finally, industry rivalry intensified as companies like Microsoft and Dell continued to dominate the market.

**Stakeholder Groups**

IBM’s challenges affected many different groups of stakeholders. Shareholders saw their investments decline in value as IBM’s profits fell. Employees faced layoffs and restructuring, which created uncertainty and low morale. Customers needed better and more affordable technology solutions, but IBM was slow to meet their needs. Competitors took advantage of IBM’s weaknesses to grow their businesses, and suppliers and partners who relied on IBM’s success were also impacted by its decline.

**Alternatives and Impact on Stakeholders**

To address its problems, IBM had several options:

1. **Breaking Up the Company** - This could have made operations more efficient and allowed each unit to focus on specific business areas. However, breaking up IBM would have weakened its brand and made it harder to offer complete technology solutions to customers. Shareholders might have seen short-term gains, but customers and employees would have faced uncertainty and possible service disruptions.
2. **Continuing to Focus on Mainframes** - This was risky because demand for mainframes was falling, and businesses were looking for more modern solutions. While this might have kept some existing customers happy, it would not have allowed IBM to compete with newer, more agile companies. Shareholders would have continued to see losses, and employees might have faced more layoffs.
3. **Shifting Focus to Services and Software** - This approach allowed IBM to adapt to industry changes and regain its competitive edge. It helped IBM provide comprehensive IT solutions to businesses, ensuring long-term growth. Customers would benefit from better services, employees would have new opportunities, and shareholders would see improved profitability over time.

**Best Alternative and Justification**

The best choice for IBM was to move away from just selling hardware and focus more on services and software. Lou Gerstner, IBM’s new CEO, played a key role in this transformation. Instead of trying to compete directly with PC manufacturers, he repositioned IBM as a provider of IT solutions and consulting services. This customer-centric approach helped IBM rebuild its reputation and create long-term relationships with businesses. Gerstner also implemented cost-cutting measures and restructured the company to make it more efficient. By eliminating unnecessary expenses and streamlining operations, IBM was able to become more competitive.

Another important part of IBM’s turnaround was its investment in software and cloud computing. The company began focusing on middleware, enterprise solutions, and emerging technologies that could help businesses manage their IT infrastructure more effectively. This shift allowed IBM to stay relevant in a rapidly changing industry. By offering a combination of hardware, software, and services, IBM was able to differentiate itself from competitors and provide unique value to customers.

The other alternatives were not as effective in addressing IBM’s long-term challenges. Breaking up the company would have weakened its ability to provide integrated solutions. Sticking with mainframes would have resulted in further losses as businesses moved toward more flexible computing options. By focusing on services and software, IBM was able to adapt to the new technology landscape and remain a major player in the industry.

**Conclusion**

Lou Gerstner’s leadership played a crucial role in saving IBM from collapse. His strategic decisions helped the company move away from outdated business models and embrace a more modern approach. By listening to customers, cutting costs, and investing in new technologies, Gerstner positioned IBM for long-term success. As a result, IBM was able to recover from its financial struggles and become a leader in IT services and enterprise solutions.

IBM’s turnaround in the 1990s was a result of bold leadership and strategic changes. The company faced serious challenges due to shifts in the technology industry and internal inefficiencies. However, by focusing on services and software, IBM was able to regain its competitive edge. The decision to transform IBM into a solutions provider rather than a hardware company helped it survive and thrive in a rapidly evolving market. This case study highlights the importance of adaptability, strong leadership, and customer-focused strategies in the success of a business.

**References:**

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