**IBM Corporation Turnaround Case Study**

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**History of IBM Corporation**

In the 1990’s IBM was one of the most profitable companies the world, and the corporation along with many people expected the world leader in this industry to stay on that path as they continued to innovate and grow.

The view the world had on IBM was much different than how some senior managers saw the company, one these managers being Bill Etherington. The General Manager for IBM-Canada issued a statement of caution to other senior managers “I don’t think any of us felt that we had it figured out. In 1990, we were feeling pretty good because things seemed to be getting better, but we weren’t feeling great because we knew there were deep structural problems.” Even though the company had been on the forefront of the technology world, the company struggled to get there. Before the 1990’s they also had some had some serious issues to fix and not a lot of time do so. The number of issues there were, and the time constraint led to the downfall of what was considered to be a world leader in technology, but what exactly were the issues that they were experiencing?

**Key Issues**

To start, the company had switched from a leasing-oriented business to a sales-oriented company. At first this significantly improved their sales revenue, they were able to record sales from shipments and one-time gains from selling individual computers, along with renting out their machines to a variety of companies. Once people had their machines, they would also sell support to help with any issues that would arise with the machines. This new business model seemed to be a great success and was in fact making a lot of money for the company. Unfortunately, as time passed other companies were able to figure out how to create their own machines. This is expected in business, but the other companies were able to create an advantage over IBM by being able to get their products to market quicker and being able to sell them at a more than competitive price. Not only were other companies quicker and cheaper, but they were also a better alternative than IBM. This is in large part due because of IBM’s newer products flopping on the market. Many of their new products saw a new mainframe in their systems that were incompatible with their legacy ones and other emerging technologies. These incompatibilities caused many problems for the companies and customers who bought their products. This eventually led to customer relation issues as clients started to switch to more trusted companies that did not have these compatibility issues.

Another problem that IBM faced was a rapid decrease in demand for their mainframes. To help combat this they released the 9370 platform, a mainframe designed to be in the mid-range market. This new mainframe bombed, and they were facing a major drop in revenue and costs kept increasing. To help combat this, the company raised the warranty cost, which ended up making customers become more vocal about the problems they were facing with their products. As time went on the customer relations got worse and worse due to the decision making of the company. Not only that but IBM was also internally struggling with data processing costs. Their costs to process data ended up being around 3 times more than the industry average. In all, the struggles of IBM were mainly caused by the model switch, product failures, compatibility issues, new competition, bad customer relations, expensive warranties, and their super expensive data processing costs.

**Alternatives**

With the Amount of issues IBM was facing it is no surprise that changes needed to be made, but which actions would actually help the company in a positive way.The first thing IBM did in order to help turn the company along was new leadership. In their search for a new leadership, they found Louis V. Gerstner, a very experienced leader who they had hope to turn the company around. Gerstner was the first CEO of IBM to not come within the ranks of the company, breaking a tradition of hiring within the company. A statement that says there are going to be some changes made in the company, that they were taking this seriously. He was a different CEO than what many of the other senior managers were used to, he “sided with the customers” and was firm on what changes were going to happen. This new leadership was the hope of the company.

The first step Gerstner took was to market as one IBM. As a former customer Gerstner new some of the struggles on the customer side, one being to implement a big change the customer would have to talk to multiple companies to actually get the change made. He believed that IBM being able to perform a significant change for a company would increase customer satisfaction and make things easier for both sides. One IBM became a staple in the turnaround and is what everybody believed should be what they focus on. This was a change from the past as the company typically focused on specific goals instead of a saying, yet another effect of the new leadership.

Another new hire named Jerry York, was named the CFO of the company. His main goal would be to find ways to cut costs within the company, keeping in mind their data analysis was three times more than the industry average. York’s hiring turned into the company approving 40,000 to 50,000 employees in 1993, and later another 35,000 employees would be asked to leave the company. Another thing York did was sell non-core companies within the corporation; the goal was to sell everything non-essential to the main business while simultaneously cutting operating expenses. While this may seem extreme it gave other senior executives hope that they could actually turn the company around.

While the company was making changes to their operations to make more profit, the bad customer relations was still a problem that needed to be solved. To help with customer relations IBM hired Abby Kohnstamm to start a new advertising campaign that would potentially repair customer relations. IBM reallocated nearly $500 million into this advertising campaign that eventually led to the “Solutions for a Small Planet” campaign. There was also an issue with individual product brands that lead to the hiring of Rick Thoman, who was tasked with leading the PC division. Thoman decided the best plan of action was to focus on one individual PC brand, so he killed nearly all of the companies PC brands other than ThinkPad. Thoman helped gain public perspective by focusing on bettering one PC and issuing a recall on parts that didn’t work, something that cost the corporation a lot of money, as well as customer trust.

The company also decided that a new product strategy would also help the corporation grow. To do this IBM decided that the “desktop war over” and that they should focus on server-level computing and network centric computing instead. They continued to keep going with the mainframes but kept a heavy focus on the new computing. This was all in effort to adapt to evolving technology market and gain a competitive edge over its competitors.

**Best Alternative**

I think that the best alternative that took place was hiring the CEO Louis V. Gerstner. He single-handedly changed the focus of the company. He made IBM focus on the saying “One IBM” which effectively united the company into saving itself. He was also the one helped hire all of the other outside managers that played a pivotal role in turning the company around.

**Data Analysis**

Once Gerstner took the position of CEO, he realized that many changes needed to be made in order for the corporation to succeed. The hiring of Jerry York as CFO was one of the changes he made. York took the position knowing that he needed to cut costs by nearly $7 billion. The layoffs that he got approved and the companies he sold led the company to make a small gain of $382 million in the fourth quarter of 1993, causing the stock price to nearly double from its low point. Hiring Abby Kohnstamm to lead the new “Solutions for a Small Planet Campaign” lead to a much more positive public perspective as well as Thoman creating a focus on customer satisfaction for the PC brand. In 1994 IBM earned $3 billion, effectively proving that IBM was recovering and going strong. In 1995 IBM switched their focus to server-level computing and network centric computing, a decision that led to $4.2 billion in profit. Establishing that IBM was here to stay and that they are still growing.

**Conclusion**

In order to help save their corporation, IBM recognized that there were flaws in their system, not only products and services, but internally as well. Once they recognized these flaws IBM decided that change needed to happen and broke a long-standing tradition of only hiring within the company to hire Louis Gerstner as the CEO, Jerry York as the CFO, Abby Kohnstamm to help with marketing and public perspective, and Rick Thoman to lead the PC division. These changes helped boost the corporations’ profits and led them to become a profitable and trustworthy company.

**Works Cited**

Austin, R. D., & Nolan, R. L. (n.d.). *IBM Corp. Turnaround*. Harvard Business Publishing.