

Vendor Rating: IBM

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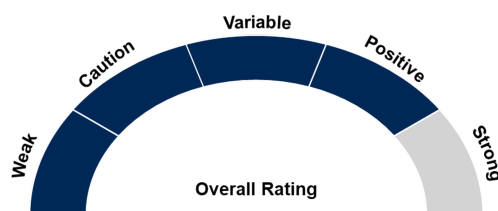
By Analyst(s): Arun Chandrasekaran, Sandra Notardonato, Jo Ann Rosenberger, Ed Anderson, Paul Vincent, Chris Saunderson, Robert Thanaraj, Craig Lowery

Initiatives: [IT Sourcing Strategy Development and Execution](#)

IBM's bets on AI and hybrid cloud are aligned with CIOs' priorities. The growing adoption of hybrid and multicloud and recent industry innovations in Generative AI present opportunities and challenges for IBM. This research provides insights to aid sourcing leaders in a rapidly evolving landscape.

Overall Rating

Figure 1: Vendor Rating for IBM



	Weak	Caution	Variable	Positive	Strong
Product/Service					
Support/Account Management					
Pricing Structure					
Technology/Methodology					
Strategy					
Corporate Viability					

Gartner

Overall Rating: Positive

IBM's overall rating is Positive (see Figure 1), with no changes to any of the ratings compared to the prior year. Despite a turbulent business climate in 2022 marked by high inflation, supply chain woes and a tight labor market, IBM managed to achieve revenue growth across its three business units. It has continued to stay focused on its two big strategic bets — hybrid cloud and AI — and has continued to expand its portfolio through acquisitions and enhance its go-to-market strategy through internal reorganizations and partnerships with key cloud providers.

IBM's rating is Positive based on the following key highlights:

- **Broadened ecosystem partnerships:** IBM's partner strategy is expansive and they are a key partner for large independent software vendors (ISVs), such as SAP, Oracle, Adobe and Salesforce. Setting aside the competition, IBM and Red Hat have forged closer partnerships with Amazon Web Services (AWS) and Microsoft Azure with joint engineering and GTM solutions. AWS, Microsoft and SAP each account for more than \$1 billion in run-rate revenues for IBM.
- **IBM Research prowess:** IBM research is an important pillar of innovation, enabling them to invest in future customer demands in key emerging priority areas such as AI, hybrid cloud, cybersecurity, semiconductors and quantum computing.

- **Autonomy of Red Hat:** Red Hat remains the largest open-source enterprise IT solution provider and is run independently within IBM. The autonomy and neutrality of Red Hat has been vital to its success in retaining its culture and talent pool as it continues to cement its partnerships with a wide ecosystem of providers.
- **Growth momentum:** Continuing on from 2021, IBM posted consecutive quarters of revenue growth in the 2022 financial year and extending into 2023. Red Hat maintained its robust growth on the back of strong market demand for its Linux OS, RHEL and hybrid cloud platform — Red Hat OpenShift (which crossed \$1 billion in annual recurring revenues exiting 2022) — and automation solutions such as Red Hat Ansible Automation Platform.

Areas to monitor include:

- **Generative AI:** The viral adoption of ChatGPT has demonstrated the potential of Generative AI. While IBM announced Watsonx — an offering through which it will bring to market more domain and use case-specific AI foundation models as well as toolchains to operationalize them — IBM currently has a low mind share in this space.
- **Public cloud:** IBM has focused on developing and delivering industry clouds — particularly targeting the financial services industry and the migration of core enterprise workloads. It has had some success in financial services, and in helping migrate on-premises IBM workloads to its public cloud, but the technical capabilities of IBM Cloud and its growth rate in public cloud services continue to lag behind the market.
- **IBM infrastructure:** The growth in IBM infrastructure remains uneven across the key technology segments. IBM has several programs in place to offer consumption-based infrastructure on-premises, but to date these are not cohesive, and it lacks an umbrella brand to unite them.
- **Red Hat OpenShift growth:** This remains a cornerstone of IBM's hybrid cloud strategy. It has high visibility as a Kubernetes-based application platform as a service with a large installed base of more than 5,000 clients across private and public clouds. Whether Red Hat can continue to grow aggressively — amid increasing competition from cloud providers and customer perception of high total cost of ownership (TCO) — remains to be seen.

Detailed Rating

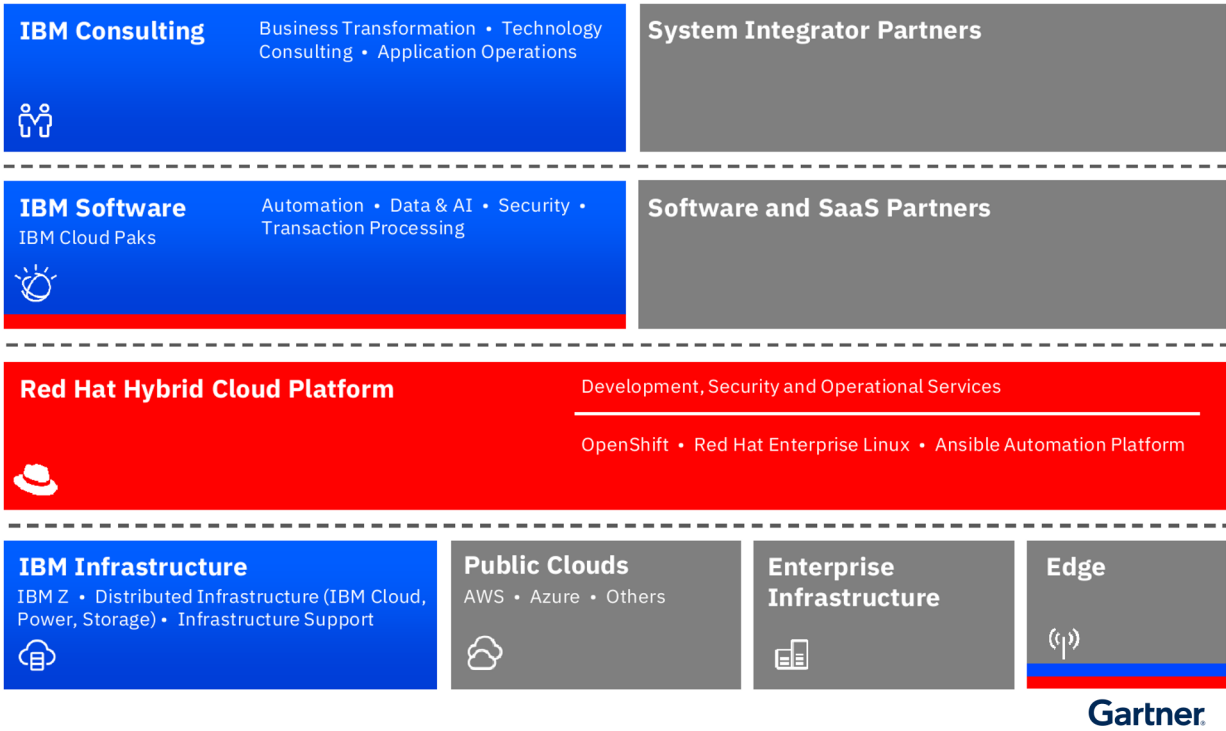
Product/Service: Positive

	Weak	Caution	Variable	Positive	Strong
Product/Service					

IBM’s products and services are rated as Positive. With the Kyndryl spinoff in 2021, IBM’s portfolio has been simplified into four key business units (see Figure 2):

- Consulting
- Software
- Infrastructure
- Red Hat, which is run autonomously

Figure 2: IBM Business Units



Source: IBM Annual Report, 2021

IBM Consulting

Now in its second year of operation under a new name, IBM Consulting (formerly IBM Global Business Services) is a driving force for IBM growth and has continued to redefine itself as more than just “the services arm of IBM,” generating roughly one-third of IBM’s total revenue. It divides its business into three core segments:

- **Business transformation:** With the help of its alliance partners, IBM Consulting helps customers exploit digital technologies and provides customers with supporting capabilities to create robust new digital business models.
- **Application operations:** Business transformation creates a deeper dependency on the seamless reliability of software systems. IBM Consulting helps customers ensure that their digital systems are up and operating with end-to-end monitoring, incident management and security services.
- **Hybrid cloud services:** IBM Consulting helps customers build and operate solutions that span multiple clouds and public and private deployments. Although it can help with many types of hybrid enablement solutions, it optimizes its services for Red Hat technologies.

IBM has made significant investments through acquisition and expanded partnerships to position itself as largely independent from those other parts of IBM when customers demand an agnostic view of the technology continuum. In October 2022, Gartner independently determined that IBM had become one of the most (in the top five) heavily invested partners in the AWS Partner Program, having made exceptional gains in competencies and certifications in just two years (see Note 1). Similarly, IBM’s partnership with Microsoft — specifically around Microsoft Azure services — shows strong commitment, with over 39,000 Azure certifications.

A key enabler to extracting value is IBM Garage, a methodology that leverages various IBM practices to help clients realize business value through the principles of iterative refinement of minimal viable implementations. Although IBM Consulting has made great strides in setting itself up to be a more generative provider, customers should still be aware that IBM products and services will be promoted as solution components in the absence of customer preferences.

IBM Software

IBM's software portfolio is extensive and complex, and focused across four major customer business priorities — security, automation, data and AI, and sustainability. Cloud Paks embody IBM's future vision for software — a platform and solution-based approach built on the Red Hat OpenShift container platform, and incorporates a common set of foundational services for consistent management. In May 2022, IBM announced a partnership with AWS to run several of its products as SaaS in AWS, further reinforcing its commitment to as-a-service and support for non-IBM clouds. IBM offers six key Cloud Pak bundles in the areas of data and AI, business automation, AIOps, integration, network automation and security.

The following are highlights of IBM's software strategy:

- **Security:** IBM's security portfolio is focused on four key customer priorities — threat detection and response (QRadar suite and X-Force Exchange), data security (Guardium), identity and access management (Verify Access), and consulting services and managed security services (MSSs). IBM's products and services enable customers to maintain a standardized security posture across hybrid cloud environments and in emerging areas, such as AI.
- **Automation:** IBM delivers automation capabilities across a variety of use cases ranging from business process automation, business decision automation and IT automation through AIOps. IBM has now also assumed responsibility for the Red Hat automation portfolio (Process Automation Manager and Decision Manager), which retains separate roadmaps over IBM's automation offering.
- **Data and AI:** IBM offers a broad portfolio of products and services in support of its customers' operational and analytical use cases, and has made significant strides with its data fabric architecture with several augmented capabilities. IBM's Watson studio brings together open source machine learning frameworks along with an ecosystem of tools for code-based and visual data science. However, migration to Cloud Pak for Data has been slower with some customers reporting lack of clarity around best practices, license portability, and cite the lack of a well-structured migration and upgrade roadmap.
- **Sustainability:** IBM's sustainability software portfolio is aimed at addressing customer challenges around capturing, managing, operationalizing, reporting and analyzing siloed data sources for sustainability.

Infrastructure

IBM's infrastructure unit consists of its flagship mainframe products led by IBM zSystems, LinuxONE servers, its Power servers, storage products, Technology Support Services (TSS) and the IBM Cloud.

IBM zSystems: IBM introduced its latest generation of mainframes — the z16 — in April 2022 — with strong security and performance capabilities for AI workloads. IBM benefitted from a large upgrade cycle to z16 during Q2 & Q3 of the past financial year. The latest generation of its Linux server, IBM LinuxONE Emperor 4, was launched in September 2022.

IBM Power: IBM Power is its flagship RISC-based processor that powers its line of Power servers. Power servers have per-core performance and scaling advantages over x86 servers — although data center standardization onto x86 has reduced demand for Power servers. Apart from IBM's own applications, SAP HANA and Oracle Database are the key workloads where IBM Power servers have market traction.

Storage: IBM's broad storage product portfolio addresses enterprise use cases across block, file, object and data protection applications. IBM's has differentiated its storage products with better price/performance/density, data resiliency capabilities and IBM Storage Defender security features, relative to competition.

Technology Lifecycle Services (TLS): TLS brings together support and services to help clients manage their IT infrastructure efficiently. They offer a broad range of support services for IBM Infrastructure products and third-party OEMs.

IBM Cloud: IBM takes a hybrid and multicloud approach using a container-based architecture to support IBM Cloud services across different environments, including IBM Cloud and other public clouds. IBM has targeted offerings for regulated industries, such as financial services and retail with specific capabilities to support industry-specific requirements. IBM provides a distributed cloud option with IBM Cloud Satellite, which extends IBM Cloud services to other environments — including edge computing, on-premises data centers and other, non-IBM public cloud environments. IBM Consulting and partners, such as Kyndryl are among IBM Cloud's top SIs. However, IBM Cloud lags behind its competitors on some IaaS and PaaS features and capabilities.

Red Hat

Red Hat has one of the largest portfolios for an enterprise open-source vendor and spans infrastructure, IT automation, application development, application runtime, data and integration services. The following are the key products within the portfolio:

- **Red Hat Enterprise Linux (RHEL):** RHEL continues to be a foundational operating system platform on which almost all Red Hat products run. RHEL has a large ecosystem of certified ISVs and independent hardware vendors (IHVs). However, RHEL's expensive TCO continues to be a challenge for Red Hat.
- **Red Hat Ansible Automation Platform:** Ansible is an enterprisewide IT automation platform that builds on the success of its core platform and ecosystem built around automation capabilities. In 2022, Red Hat announced the availability of Ansible in the AWS marketplace and as a strategic managed services offering in the Azure Cloud. In addition, Ansible Lightspeed with IBM Watson Code Assistant – a joint effort with IBM research – brings the power of AI foundation models to DevOps and infrastructure automation executed through Ansible.
- **Red Hat OpenShift:** Red Hat OpenShift is a Kubernetes-based application platform that is well-integrated to serve the needs of product teams building cloud-native applications, and platform operations teams focused on ensuring service reliability and automation. OpenShift has strong support for building cloud-native applications with support for newer versions of Java. Net and other frameworks. It has built a unified product for managing VMs and Containers, has a multicloud management plan and strong security capabilities through the StackRox acquisition.

Support/Account Management: Positive

	Weak	Caution	Variable	Positive	Strong
Support/Account Management					

IBM's support/account management is rated as Positive. Notable highlights in IBM's customer engagement model in 2022 include:

- IBM set up a dedicated product-led growth (PLG) team to apply the PLG principles across strategic areas within software to address changes to B2B buying processes.
- An expansion of client engineering teams designed to improve pre-sales with a focus on solution design, hybrid architectures and DevOps processes.
- Creation of technical account leader roles to spearhead technical advisory across a range of roles in IBM's most strategic accounts.

- Red Hat has been evolving its customer success programs to deliver an end-to-end web, social and mobile digital experience. The transition to digital helps Red Hat’s customer-facing roles to share a single common view of all customer-facing metrics.

Areas to monitor include:

- Gartner clients continue to express concern regarding IBM’s pattern of conducting costly software audits, although IBM has continued to improve in this area with its IBM Authorized SAM Provider (IASP) offering. There are over 400 IBM customers that have moved to this IASP option, and many Gartner clients have shared how beneficial this program is to manage compliance, and also reduce the internal resource time and cost it previously took for managing IBM software for compliance and audit-readiness.
- IBM’s future success is based on adopting more cloud-centric customer engagement models and digitizing the end-to-end customer success workflows. The top-down approach to sales is giving way to more customer-value-centric, technology-oriented and product-led growth approaches. IBM’s ability to succeed with these business models is critical for its continued relevance as a strategic supplier to IT leaders.

Pricing Structure: Variable

	Weak	Caution	Variable	Positive	Strong
Pricing Structure					

IBM’s pricing structure is rated as Variable. IBM continues to focus on offering different types of hybrid cloud offerings using consumption-based pricing models on top of traditional perpetual license models. By offering a variety of licensing options, IBM provides clients the flexibility to meet financial and budgeting requirements – depending on the accounting requirements for the particular organization – and in response to the impacts of inflation and the changing and uncertain economic conditions.

The pricing structure rating remained as Variable based on the following highlights:

- **IBM Passport Advantage:** Clients often report that they aren't able to understand the discount being offered or analyze the total cost of acquisition (TCA)/TCO of new and renewal offerings because proposals are often bundled and/or missing the necessary part numbers and itemized pricing. This applies for both license and S&S part numbers for the current year and future years. For example, IBM's Cloud Pak Trade-Ups under the perpetual license model need to be proposed, showing the trade-up license fee and the ongoing S&S itemized by part number, so clients see the three to five year TCA/TCO of the deal.
- **IBM zSystems:** IBM continues to focus on improving engagements with mainframe customers by proactively meeting with them to introduce and propose conversions from the traditional Rolling 4 Hour Average (R4HA) model to the strategic Tailored Fit Pricing (TFP) option. These engagements frequently happen ahead of an ELA renewal, as well as other times, such as hardware capacity planning and refresh, imminent growth and in response to customer requests to run mainframe environments more optimally.
- **Red Hat:** New and subscription renewals from Red Hat and its business partners and resellers have focused on RHEL, Red Hat Ansible Automation Platform and Red Hat OpenShift. Red Hat has announced a new Hybrid Committed Spend (HCS) offering, which is a multiyear commitment at deeper discounts based on forecast usage and spend of all Red Hat products that will be deployed across all environments (on-premises, public cloud, private cloud, hybrid cloud). IBM and Red Hat Enterprise Agreements continue to be contracted separately, although many clients continue to request that both IBM and Red Hat products be combined within one IBM ELA.
- **Storage:** IBM FlashSystems' aggressive discounting and competitive pricing strategy is a reflection of its use of QLC media, and its ability to directly source raw NAND flash directly from the fab provider for integration and assembly.

Areas to monitor include:

- **Software Price Increases:** In Q3 and Q4, 2022, IBM announced price increases for Passport Advantage, SaaS, zMLC and zOTC for 2023. Clients question why such a disparity exists across regions (e.g., U.S. increase 8% and Europe at 24% for PA and zOTC) and are concerned when such disparities cannot be explained by the local sales teams.

- **Compliance:** IBM announced an International Passport Advantage Agreement (IPAA) version 11, which has important changes that clients must be aware of for managing compliance and costs. IBM has added container requirements in this new IPAA that require the configuration and use of a different tool than ILMT, called IBM License Service (ILS) to manage and report VPCs. In addition, the new IPAA stipulates that customers requesting a reduction in S&S quantities on renewals must produce a report to IBM 30 days before the renewal date, showing the usage and installation quantities. Failure to provide this report to IBM obligates customers to renew the entire expiring quantity on the renewal date.

Technology/Methodology: Strong

	Weak	Caution	Variable	Positive	Strong
Technology/Methodology					

IBM’s technology/methodology is rated as Strong. Organic innovation is a core foundational pillar of IBM’s strategy and spearheaded by IBM’s research labs across the globe. IBM’s research centers employ more than 3,000 researchers worldwide. While IBM’s research is broad and expansive, its key focus is in these five key areas: AI, Hybrid Cloud, Quantum Computing, Security and Semiconductors.

Key highlights from 2022 include:

- **AI:** IBM’s research work is expansive in the field of AI include:
 - **Generative AI** — The launch of Watsonx in May 2023 — a platform through which IBM will offer a variety of AI foundation models for domains, such as natural language processing, coding, computer vision and deep sciences. The platform also includes a pipeline of toolchains and workflows for data engineering and governance of foundation models.
 - **Launch of Watson Code Assistant** — A joint research effort from IBM and Red Hat leveraging generative AI to automate the generation of Ansible code through a natural-language interface to automate DevOps workflow.

- **Hybrid cloud:**

- Building on its Foundation Model and Generative AI work, IBM has built an AI supercomputer called project Vela. Project Vela will enable customers to train, fine-tune and deploy AI models quickly. Furthermore, Vela is based on its cloud-native AI training stack running on Red Hat OpenShift Container Platform serving as the foundation for Watsonx Generative AI initiative.
- Announcement of a multicloud Kubernetes based control plane, along with Red Hat, for orchestrating the deployment of multicloud applications.
- Introduction of Red Hat Device Edge, an open source project, which is a smaller form factor of OpenShift aimed at edge computing environments.

- **Quantum computing:**

- IBM continues to be a leader in quantum computing. In 2022, it introduced the 433 qubit processor Osprey, and has plans for a 1,000-qubit processor by the end of 2023. It continues to expand its ecosystem of partners, including startups, research hubs and academic institutions.
- In 2022, IBM released an alpha version of quantum serverless, which is a software architecture and tooling that abstracts away the operational complexities to allow developers to focus on code.

- **Security:**

- The use of AI across the threat management life cycle while protecting AI services from adversarial AI attacks, the use of confidential computing and fully homomorphic encryption for full-stack, zero trust security and joint efforts with Red Hat on software supply chain security.
- IBM launched Quantum Safe Cryptography technology and a roadmap to help customers throughout their journey to be quantum safe. IBM Quantum Safe technology is an end-to-solution to discover cryptography inventory, observe compliance posture and transform cryptography to secure enterprises for the quantum era.

- **Semiconductors:**
 - In 2022, IBM launched its z16 with Telum, an integrated AI chip capable of 3.5 million inferences per second, with 1 millisecond latency. This performance was achieved through a combination of hardware innovations, along with reinventing the deep learning compiler and accelerating open-source AI libraries.
 - In 2022, IBM enabled Flash Core Modules for IBM FlashSystem, which resulted in 50% higher effective capacity with the same physical capacity.

IBM Research is also directly engaging IBM and Red Hat’s Office of CTO for joint development in the areas of edge computing, serverless computing and DevSecOps. This gives IBM a unique advantage to accelerate cumulative innovation and provides a strong standing within the open-source communities, which are hotbeds of innovation in the digital world.

Strategy: Positive

	Weak	Caution	Variable	Positive	Strong
Strategy					

IBM’s strategy is rated as Positive. IBM’s top priorities of hybrid cloud and AI, along with cybersecurity and sustainability directly align with the key digital transformation priorities of technology leaders.

Its strategy is rated as Positive based on the following highlights:

- **Partnerships and acquisitions:** A core part of IBM’s strategy has been to expand its ecosystem of partnerships to align with growing heterogeneity in customer environments, which has been spearheaded by IBM Consulting. To meet customer needs, IBM had made 11 acquisitions in 2022 and 2023 at the time of publication (see Table 1).

Table 1: IBM Acquisitions: January 2022 Through This Publication

(Enlarged table in Appendix)

<i>Acquired Company</i> ↓	<i>Announcement Date</i> ↓	<i>Description</i> ↓
Envizi	January 2022	SaaS provider for energy sustainability
Sentaca	February 2022	Consulting and professional services for automation and cloud transformation in telcos
Neudesic	February 2022	Microsoft Azure consulting services
Randori	June 2022	Software provider in the Cybersecurity attack surface management space
Databand AI	July 2022	Data observability software provider
Dialexa	September 2022	Digital product engineering service provider
Octo	November 2022	IT modernization and digital transformation services provider, focused on the U.S. federal government
StepZen	February, 2023	GraphQL software provider that helps developers build APIs using a low code approach
NS1	February, 2023	Network automation SaaS provider
Ahana	April, 2023	Commercial OSS provider of Presto database
Polar Security	May, 2023	SaaS data security provider

Source: Gartner (May 2023)

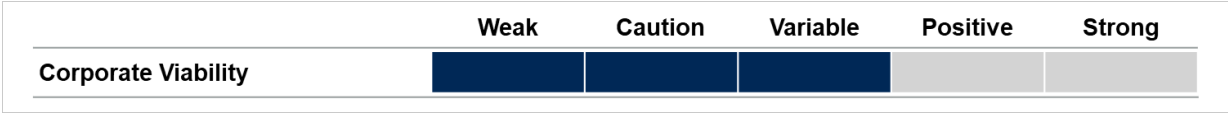
- **IBM and Red Hat's Open Source pedigree and transition to as a Service (aaS):** Both IBM and Red Hat have huge mind share as enterprise class open source vendors, which is critical to win over emerging buyers, such as data science and platform engineering teams. As customers transition workloads to the cloud, IBM and Red Hat have recognized the need to transition to being services-centric providers that can deliver cloud services across cloud providers and to the edge. Red Hat's partnerships with AWS and Microsoft are aiding in its transition to being a cloud services company, while IBM has deployed more software products in AWS with a long-term goal of being a multicloud SaaS provider. Customer needs around data sovereignty, industry cloud platforms, as well as multicloud automation and governance solutions are on the rise – which presents an opportunity for IBM to deliver compelling solutions.

- **AI Everywhere:** IBM has an expansive strategy to infuse AI across the portfolio in areas such as customer service, sales and marketing, supply chain, finance and IT. This presents a great opportunity for differentiation to bring depth and standardization across a broad set of enterprise use cases.

Areas to monitor include:

- **Synergies between business units:** IBM’s future success is based on close synergies between its business units (Infrastructure, Software, Consulting and Red Hat) and integration of core products into hybrid platform as-a-service offerings. The Consulting division works closely with the others, but the synergies between the other business units need a cross-business platform vision and significant improvement for IBM to realize its true potential.
- **Generative AI:** Generative AI ecosystem is seeing tremendous innovation and momentum, primarily led by OpenAI and Microsoft. IBM research is focused on bringing efficient operations, trustworthy AI and domain-specific foundation models. It needs to accelerate its innovation and go-to-market, given the speed at which its peers are advancing.

Corporate Viability: Variable



IBM’s corporate viability is rated as Variable.

Its rating is Variable based on the following highlights:

- The company delivered on its mid-single-digit model after the critical pivot in 2021, where it returned to growth, with Red Hat, Z Systems and consulting being the key drivers. In the 2022 financial year, total revenue grew by 5.5% (12% in constant currency) versus the prior year. Growth was relatively even across the regions in which IBM operates (North America, EMEA and Asia/Pacific).

- IBM's strategic changes (including simplification of its portfolio, platform-centric approach and flexible pricing models) are helping it to gain more customer traction. These changes cumulatively are contributing to the improved execution. However, its infrastructure and public cloud lines of business continue to face significant challenges.

Areas to monitor include:

- **Macroeconomic climate:** It remains to be seen whether the tough macroeconomic climate in 2023 and beyond will aid or hinder IBM.
- **Hybrid cloud and AI investments:** While IBM is investing in key growth segments of cloud and AI, translating them into solid growth across its business units is still a work in progress.
- **Working relationship with Red Hat:** While the autonomy of Red Hat is a commendable business decision, building cohesive go-to-market synergies with Red Hat across different business units of IBM hasn't yet fully materialized.
- **Red Hat and hybrid cloud:** Red Hat's challenge is to become successful as a hybrid cloud supplier, while continuing to compete and partner with hyperscale cloud providers that have their own ambitions for enabling hybrid cloud services.
- **IBM Consulting:** IBM is making progress in positioning itself as a digital transformation agent and an independent provider of consulting services — however, pricing pressures are a growing challenge, which may negatively impact the current growth trajectory.

Financial: Variable

We have maintained IBM's financial rating as Variable. This rating is based on Gartner's Financial Statement Scorecard methodology — a quantitative score measuring IBM's growth, profitability, balance sheet strength and financial risk (see Note 2 and Figure 3). The rating is based on IBM's financial results for the year ending 31 December 2022.

As Figure 3 shows, IBM had a quantitative score of 20, compared with 22 in our previous Vendor Rating, just within the Variable range.

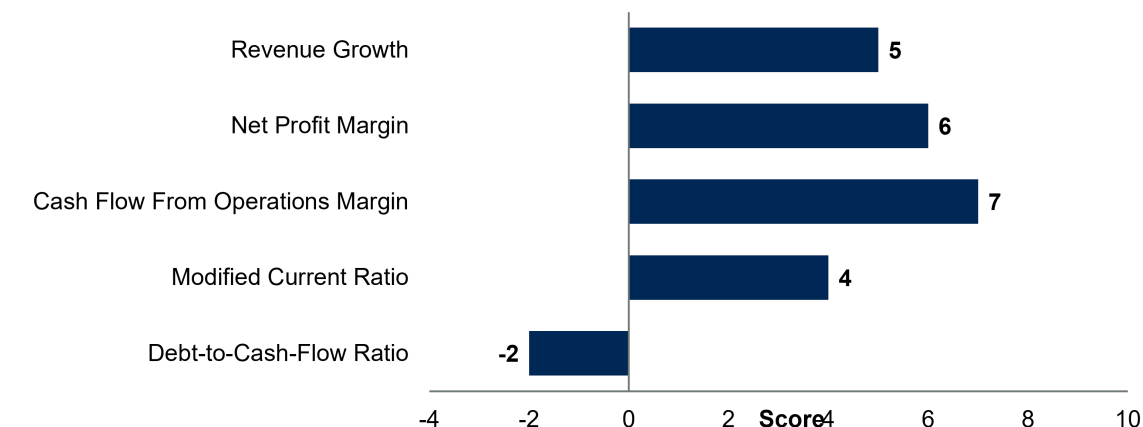
The changes in IBM's financial score reflect a modest acceleration in revenue growth, steady cash flows, offset by some compression in profit margins. Specifically, IBM's full year 2022 revenue increased 5.5% to \$60.5 billion. Gross margins declined 90 basis points to 54%, and net margins ended the year at 2.7%, down from 10.0% in 2021. The decline in margins was mostly due to a one-time pre-tax pension settlement charge and acquisition-related expenses.

By segment, IBM's 2022 performance by segment was as follows:

- Software (includes Hybrid Platform and Solutions, and Transaction Processing; and represents 41% of consolidated revenue): Up 7% from the previous year, with the Red Hat segment increasing 11%
- Consulting (includes Business Transformation, Technology Consulting and Application Operations; 32%): Up 7%
- Infrastructure (includes Hybrid Infrastructure/Hardware, Infrastructure Support; 25%): Up 8%
- Financing and other (2%): Down 42%

IBM had cash and marketable securities of \$8.8 billion as of 31 December 2022 and total debt of \$50.9 billion (comprising \$38.0 billion of core and \$12.9 billion global financing). Paying down the debt related to the Red Hat acquisition has improved the company's balance sheet, which has had a positive impact on the company's financial score over time.

In terms of its outlook for 2023, IBM expects to grow revenue in constant currency terms at a mid-single-digit rate, consistent with last year. For free cash flow, IBM expects to generate \$10.5 billion, an increase of more than 10%, compared with 2022.

Figure 3. Financial Statement Scorecard: IBM**Financial Statement Scorecard: IBM**

Source: Gartner (May 2023)
ID: 773948

Gartner**Evidence**

[IBM Annual Report, 2022](#)

[IBM Annual Research Letter, 2022](#)

Note 1: Gartner Public Cloud Partner Ecosystem Demographic Survey, 2022

To produce valid comparisons across the partner program of AWS, Microsoft Azure, and Google Cloud, we collected data from the online partner program directories in October 2022:

- [Amazon Web Services partners](#)
- [Google Cloud partners](#)
- [Microsoft Cloud partners](#)

We normalized and mapped partner names across all three CSP programs, folding acquisitions into the parent organizations where possible. In this way, we can see a partner's footprint across the combined ecosystem of the top three CSPs. By repeating the observation gathering process with variations in each query, our results eventually converged to a nonchanging set. We believe we captured more than 95% of the relevant data from the publicly exposed partner datasets, though the process does not guarantee that all partners were discovered, or that all subsidiaries were folded or mapped with complete accuracy.

Note 2: Gartner's Financial Statement Scorecard for Public Companies

Gartner's Vendor Financial Statement Scorecard methodology measures a combination of growth, profitability and liquidity based on a company's financial results from public financial statements according to generally accepted accounting principles (GAAP). Gartner uses a standard methodology to derive its Vendor Financial Statement Scorecard to provide a like-for-like view among a pool of more than 750 vendors using publicly available financial information.

The four basic criteria are:

1. Revenue growth (trailing 12-month year-over-year revenue growth)
2. Profitability (trailing 12-month GAAP net profit margin) with net income as a percentage of revenue
3. Balance sheet liquidity (current ratio) as current assets divided by modified current liabilities (which adjusts for the presence of deferred revenue)
4. Cash flow based on the trailing 12 months of cash flow from operations as a percentage of the trailing 12 months of revenue

For companies with large amounts of net debt, a fifth criterion, net debt divided by trailing 12-month cash flow from operations, is incorporated.

Gartner's policy is to use financials based on GAAP in calculating the ratios needed for the Vendor Financial Statement Scorecard (see [Understanding the Methodology Behind Gartner's Financial Statement Scorecard for Public Companies](#)).

Company Overview

IBM

Headquarters: Armonk, New York

www.ibm.com

IBM is a cognitive solutions and cloud platform company. It is one of the largest technology and consulting employers in the world, serving clients in more than 170 countries.

Overall Rating Definitions

Strong	<p>Is viewed as a provider of strategic products, services or solutions:</p> <ul style="list-style-type: none"> ■ Customers: Continue with planned investments. ■ Potential customers: Consider this vendor a strong choice for strategic investments.
Positive	<p>Demonstrates strength in specific areas, but execution in one or more areas may still be developing or inconsistent with other areas of performance:</p> <ul style="list-style-type: none"> ■ Customers: Continue planned investments. ■ Potential customers: Consider this vendor a viable choice for strategic or tactical investments, while planning for known limitations.
Variable	<p>Shows potential in specific areas though still variable in more than one of the required categories:</p> <ul style="list-style-type: none"> ■ Customers: Consider the short- and long-term impact of possible changes in status. ■ Potential customers: Plan for and be aware of issues and opportunities related to the evolution and maturity of this vendor.
Caution	<p>Faces challenges in multiple required categories and execution is inconsistent:</p> <ul style="list-style-type: none"> ■ Customers: Understand challenges in relevant areas, and develop contingency plans based on risk tolerance and possible business impact. ■ Potential customers: Account for the vendor's challenges as part of due diligence.
Weak	<p>Has difficulty responding to problems in multiple areas:</p> <ul style="list-style-type: none"> ■ Customers: Execute risk mitigation plans and contingency options. ■ Potential customers: Consider this vendor only for tactical investment with short-term, rapid payback.

Document Revision History

[Vendor Rating: IBM - 31 May 2022](#)

[Vendor Rating: IBM - 31 May 2021](#)

[Vendor Rating: IBM - 15 April 2020](#)

[Vendor Rating: IBM - 30 December 2016](#)

[Vendor Rating: IBM - 14 July 2015](#)

[Vendor Rating: IBM - 27 September 2013](#)

[Vendor Rating: IBM - 29 June 2012](#)

[Vendor Rating: IBM - 25 August 2010](#)

[Vendor Rating: IBM - 26 May 2009](#)

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[Magic Quadrant for Cloud Infrastructure and Platform Services](#)

[Magic Quadrant for Security Information and Event Management](#)

[Magic Quadrant for Robotic Process Automation](#)

[Magic Quadrant for Primary Storage](#)

[Magic Quadrant for Cloud AI Developer Services](#)

[Magic Quadrant for Analytics and Business Intelligence Platforms](#)

[3 Steps to Strategic IBM Software and SaaS Negotiations](#)

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Table 1: IBM Acquisitions: January 2022 Through This Publication

Acquired Company ↓	Announcement Date ↓	Description ↓
Envizi	January 2022	SaaS provider for energy sustainability
Sentaca	February 2022	Consulting and professional services for automation and cloud transformation in telcos
Neudesic	February 2022	Microsoft Azure consulting services
Randori	June 2022	Software provider in the Cybersecurity attack surface management space
Databand AI	July 2022	Data observability software provider
Dialexa	September 2022	Digital product engineering service provider
Octo	November 2022	IT modernization and digital transformation services provider, focused on the U.S. federal government
StepZen	February, 2023	GraphQL software provider that helps developers build APIs using a low code approach
NS1	February, 2023	Network automation SaaS provider
Ahana	April, 2023	Commercial OSS provider of Presto database
Polar Security	May, 2023	SaaS data security provider

Source: Gartner (May 2023)

Strong	<p>Is viewed as a provider of strategic products, services or solutions:</p> <ul style="list-style-type: none"> ■ Customers: Continue with planned investments. ■ Potential customers: Consider this vendor a strong choice for strategic investments.
Positive	<p>Demonstrates strength in specific areas, but execution in one or more areas may still be developing or inconsistent with other areas of performance:</p> <ul style="list-style-type: none"> ■ Customers: Continue planned investments. ■ Potential customers: Consider this vendor a viable choice for strategic or tactical investments, while planning for known limitations.
Variable	<p>Shows potential in specific areas though still variable in more than one of the required categories:</p> <ul style="list-style-type: none"> ■ Customers: Consider the short- and long-term impact of possible changes in status. ■ Potential customers: Plan for and be aware of issues and opportunities related to the evolution and maturity of this vendor.
Caution	<p>Faces challenges in multiple required categories and execution is inconsistent:</p> <ul style="list-style-type: none"> ■ Customers: Understand challenges in relevant areas, and develop contingency plans based on risk tolerance and possible business impact.

- Potential customers: Account for the vendor's challenges as part of due diligence.

Weak

Has difficulty responding to problems in multiple areas:

- Customers: Execute risk mitigation plans and contingency options.
- Potential customers: Consider this vendor only for tactical investment with short-term, rapid payback.