

# Business Model Development through Corporate Strategy Design: IBM SWOT Analysis

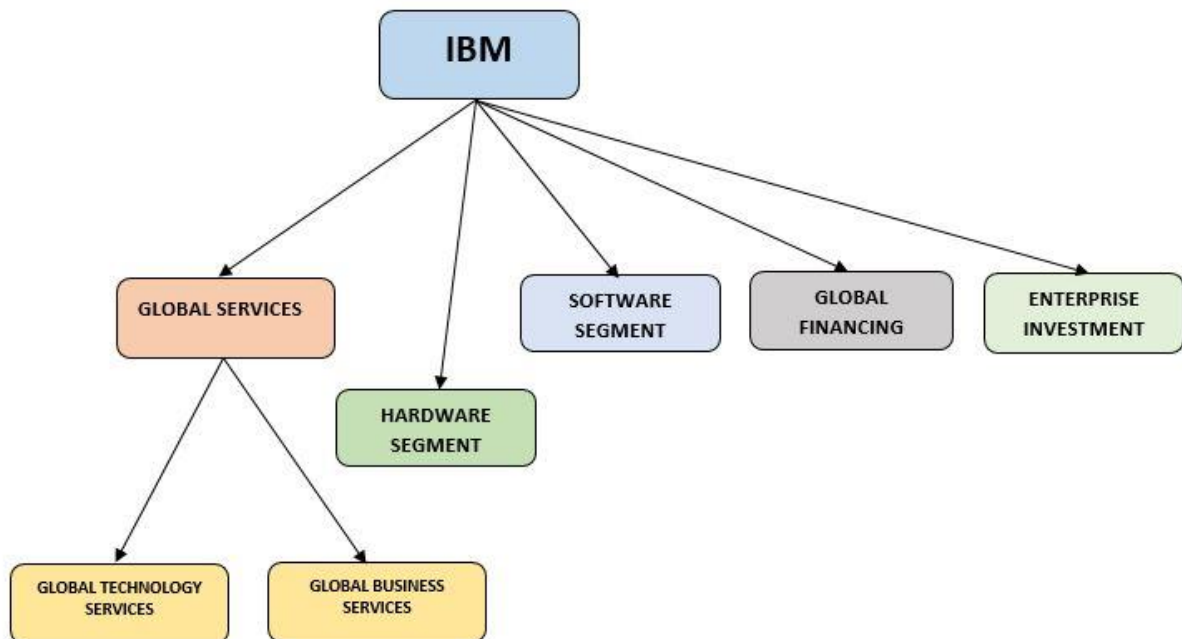
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## Abstract

The research tries to understand the ongoing process in products and services offered by technology giant IBM. Using extensive secondary research and text mining as a primary approach to collect information to the current portfolio of IBM, multiple corporate strategies are designed. SWOT analysis is used as an extensive tool to take step by step approach in understanding the opportunities that exists in the general environment. At the same time SWOT also helps to understand the strengths that IBM can exploit through value chain analysis and how the internal core competencies produce a fit in IBM's operational activities. Overall the study is strongly qualitative in nature and explores multiple avenues that a techno-functional company can implement to penetrate and gain greater market share.

**Keywords:** SWOT analysis, Value chain analysis, core competencies, Porter's five forces, VRIN analysis.

## Introduction



- ✓ IBM was founded in 1911 as CTR initially with the aim of developing hardware and software components for computers.
- ✓ IBM's mission is to develop technology in efficient way and deliver it to the customer for greater satisfaction. Overall IBM tries to create value through its product.
- ✓ IBM's main domain is IT and its business varies from hardware to software development.
- ✓ As shown in figure IBM has many functions through which it delivers and creates value.

- ✓ In 2012 IBM was ranked no 2 in terms of employee, no 4 in market capitalization<sup>1</sup>, and no 9 most profitable<sup>2</sup>.

### General Environment

- ✓ **Trade-** New open markets and new trade regulations have opened market for consumer electronic goods all over the globe. This initiative has helped many overseas companies to launch and sale products to different countries.
- ✓ **Exchange rate/ Pricing-** Pricing flexibility with the exchange rate fluctuations has helped many companies to launch their products in different countries with a reasonable price tag.
- ✓ **Outsourcing-** In recent times outsourcing has become a big source to cost cutting. Outsourcing has opened opportunities for IT consulting companies. Many companies prefer to outsource their in house software development project to other companies to save money on tax, benefits, and employee insurance.
- ✓ **Economies of scale-** With outsourcing the concept of reducing the costs using economies of scale have grown up. Fixed capital is eliminated using contract staffing and increasing the amount of production.
- ✓ **Labor laws-** Stagnation in labor law has resulted in more leniency in work culture. Work culture has become friendly as companies try to find out more ways of getting employees involved in various forms of work. Leadership and managerial skills are assorted from these programs.
- ✓ **Immigration-** New immigrations have made it easy to recruit talent from other parts of the globe. Many engineers and managers are recruited with different backgrounds this increases their skill set.
- ✓ **Political support-** Boom in IT industry has brought into the notice of the government the increasing revenue and employment in this sector. Many governments of different countries have opened their hands for new ventures in IT. Tax perks and infrastructure support have been the important agenda of such support.
- ✓ **Patent-** Patents for new technology in recent years has been a strong supporter for increasing investment in research and development of technology. Patents safe guard a company's interest in developing new technology.
- ✓ **Technology-** Cost saving and increasing dependency of automation has given rise of new technology. More and more sophisticated software are required to run on such automation.
- ✓ **Sustainability-** Energy conservation and saving trees through less consumption of paper has become a big motto in today's corporate culture. Use of simplified software to save and store data has become a string priority today. This has opened up market for many new companies to launch many new applications.
- ✓ **Diversity-** Diversified work culture with multinational candidates have proved to increase the efficiency of the operations and services provided by any company. With changes in immigration reform it is easy to recruit more talent from outside with required skillset.
- ✓ **Education-** Increase in the education standards and increase in number of enrollments in STEM group has increased the availability of people with expert skill set. This has provided companies with enough amount of man power to achieve complicated targets.
- ✓ **Aging population-** With the increase in retirements the requirement of personal computers and laptops have increased which is increasing the market size of personal computers.
- ✓ **Work from home-** Work from home has also increased the use of personal computers as well as the use of software applications. Home grown business have proved to be a new opening for the IT industry.

- ✓ **International/ Global-** The global market has opened up its gate for new technology and hardware components. Many IT consulting as well as software development companies have launched new products in many other languages, which has opened up the new opportunities for companies to launch their products in complex areas.

### **Porter's Five Forces**

#### ➤ **Threat of Buyers**

- ✓ The power of buyers are high as the switching costs are low for buyers. In the global technology services segment buyers have many other options and most of the other firms work with the same technology to produce the same outcome so switch between companies sometimes becomes cost cutting agenda.
- ✓ In global financing segment buyers can control their own credit by refinancing it through different agencies.
- ✓ In global business services buyers control over the strategies produced by the companies. Thus in business services management consulting becomes a stringent process to implement.
- ✓ In hardware segment buyers have strong options and most of them come from different segments including different devices and brands offering products in a range of prices.

#### ➤ **Threat of Suppliers**

- ✓ Suppliers are big threat in hardware and software segment, where they have multiple customers to feed. Every customer is feed on open end basis and not on contract. For example Intel provides microprocessor chips to Dell, HP etc. Any high sales contract with any company stands out to be threat to any other.
- ✓ Suppliers also possess big threat when it comes to pricing their sales, mainly for hardware segment bulk buyers are given preference over other buyers. Possibility of contracts also gives rise to the concern about reduced supply and price hikes.
- ✓ In software segment threats comes from suppliers who themselves provide services for software configuration and implementation. Companies like SAP, Oracle, and Microsoft have themselves started IT consulting services which in returns helps them to make their own customer base of their product loyal customers.
- ✓ In global business services suppliers control the flow of data, for management consulting access to client company insights is a must and it can thus help to form a strategy to achieve the objective. Such data can accessed through third party vendors like AC Nielsen, Thomson Reuters etc.
- ✓ In US and international market many small scale IT firms have started their own regional consulting services, which are not only inexpensive but also are reliable to a certain extent.

#### ➤ **Threat of Rivals**

- ✓ Many large scale firms have entered the market with a global emphasis, and the market share is getting evenly distributed among firms. Companies like Deloitte, Accenture, and Cap Gemini etc. are the strong players in the market with increasing market shares in IT operations consulting, while as companies like Ernst & Young, KPMG, and Oliver Wyman etc. have strong hold over market shares in IT strategy consulting.
- ✓ Looking at the boom in the hardware segment, many companies like Dell, HP, Apple, and Toshiba have come up with attractive combination of hardware with different pricing.

#### ➤ **Threat of Substitutes**

- ✓ Project outsourcing to other countries and in house direct employment are two big substitutes today for any global technology services. Many IT in house projects are outsourced today to firms in countries like India and China.
- ✓ Also looking at the frequency with which new technology and enhancements and modification are developed many companies have started recruiting full time skilled labor to carry out the in house projects which eliminates the needs of external implementation partner.
- ✓ Many new hardware devices are be used to substitute the use of personal computers something a tablet, which has largely reduced the sales of computers.
- **Threat of new entrants**
- ✓ Many local firms have started providing IT operations consulting services to their regional clients. They are inexpensive and reliable but not efficient source of operation. These new entrants pose a stronger threat to current big name firms in the industry.
- **Exit Barriers**
- ✓ The exit barrier for any company in software and hardware segment are high costs. Large capital is involved in production plants/ units, also large number of employees require infrastructure to in house them. It becomes hard to pull out all the capital invested in the infrastructure and technology.

### Inferences

- ✓ **Opportunities-** Trade, outsourcing, and immigration are three interrelated objects which help technology companies to achieve economies of scale by reducing capital cost by either getting skilled people from outside the nation or by outsourcing job to skilled people. Patent, technology, and education are also interrelated, without education research cannot be conducted and new technology cannot be produced. Patent act to boost up the moral of research by preserving the interest.
- ✓ **Threats-** Large number of substitutes and new entrants are strongly affecting IBM's business in IT consulting services. Many software licensing companies prefer bulk sales and some make corporate alliance with other sell their product better, they became a price rise threat to IBM. Outsourcing also acts a substitute to IBM, many companies directly approach software development companies in other countries and that helps them to develop software in a cost effective way. Regional small scale firms have stood up as new entrants which try to eat a big chunk of work at lower rates from IBM.

### Internal Environment

- **Resources and capabilities**
- ✓ **Patents-** Most of the software technology that IBM produces has been patented in US to prevent it from copied by other business. This business model helps IBM to preserve its market share.
- ✓ **Brand name-** IBM as a brand name has a strong value in it. They have a strong client base who prefer IBM because of its brand value and stick with throughout long time. In the last decade IBM has grown as a brand in IT operations and strategy consulting and it customer base has increased drastically.
- ✓ **Skilled Employees-** IBM has one of the best set of skilled employees. Employees are found to have very high qualification and have a length of experience on their resume.
- ✓ **Innovations-** IBM is very innovative company, their hardware segment is known to produce first tablet- laptop model with rotating screen technology. They are also known for their

innovative business and strategy models in their global business service division. IT operations consulting department is known for producing efficient logistics model to carry out effective operations.

- ✓ **Customer Loyalty-** Following the brand name IBM has a strong customer base, their corporate customers are some of those who are very loyal. Irrespective of economy and inflation the IBM's customer is found to be very loyal to IBM's services.
- ✓ **Customer service-** IBM has a very good customer service base, they maintain strong relationship with their customers. Prompt on time call back and technology support are some of their features.
- ✓ **Sustainability-** IBM is a strong believer in energy conservation, they try to achieve this by bringing in more sophisticated technology which consume less and give more efficient output. They also try to design and develop software which reduces the consumption of paper.
- ✓ **Cloud enabled business model-** This model enables small scale users to use cloud technology to store the data in a more efficient way rather than expensive server technologies. This a cost effective and easy to maintain way to achieve effectiveness in operations.
- ✓ **Global financing model-** Also called finance and risk model is used to provide financial assistance to clients seeking long term IT projects which include software development as well as deployment services.
- ✓ **Technology model-** Also called as development and deployment services is a business that works in SDLC (software development lifecycle) methodology to produce the intended product for the client.
- ✓ **Operations & supply chain model-** Management consulting service helps clients to organize transform their workforce with help of analytics.
- ✓ **Project financing model-** Project financing model helps clients to finance their projects through financing schemes. These schemes are approved through third party financing but are issued through IBM services.
- ✓ **Customer service contract model-** This model is applicable both for hardware as well as software segment. Once the initial implementation is done customer support is required throughout the lifecycle of the software.

### Evaluating the four criteria's using VRIN

Capability	Valuable	Rare	Costly to Imitate	Non Substitutable	Inference
Patents	Yes	Yes	Yes	Yes	Above average return
Brand Name	Yes	Yes	Yes	Yes	Above average return
Skilled Employee	Yes	Yes	Yes	Yes	Above average return
Innovations	Yes	Yes	Yes	Yes	Above average return
Customer Loyalty	Yes	Yes	Yes	Yes	Above average return
Customer Service	Yes	Yes	Yes	Yes	Above average return
Sustainability	Yes	No	No	No	Average returns
Cloud enabled business model	Yes	No	No	No	Average returns
Global Financing model	Yes	No	No	No	Average returns
Technology Model	Yes	No	No	No	Average returns
Operations and supply chain model	Yes	No	No	No	Average returns
Project Financing model	Yes	No	No	No	Average returns

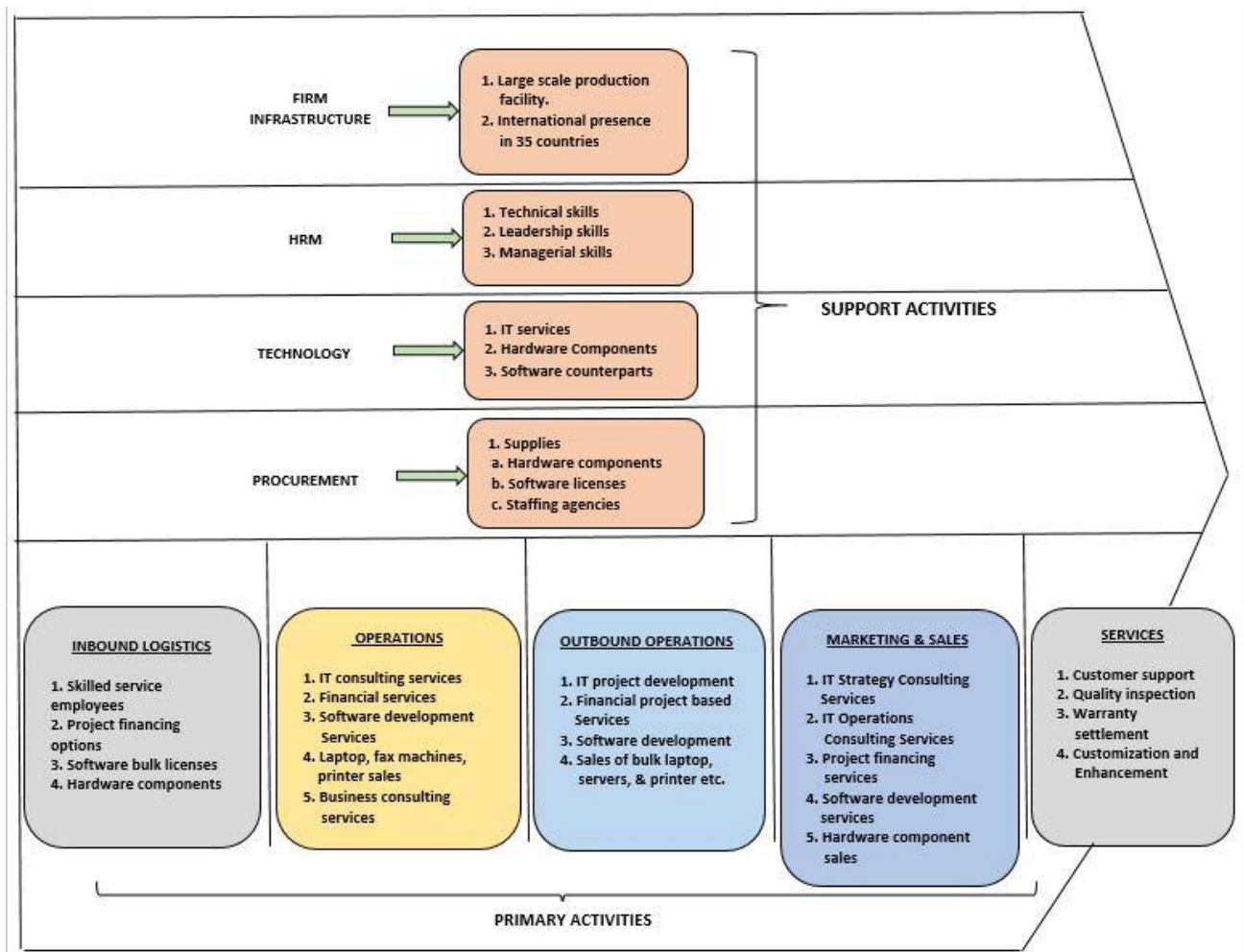
Customer contract model	Service	Yes	Yes	Yes	Yes	Above average return
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### ➤ VRIN Evaluation

#### ✓ Core Competencies

- **Patents-** They fit the VRIN criteria very well and give above average return. They preserve IBM's interest in research and development of new technology.
- **Brand name-** Very unique and very well known among others stand out to be in VRIN criteria.
- **Skilled employees-** Hard to find and match skill set of the employees. Fits VRIN very well.
- **Innovations-** Supported very well by patents, innovations stand out to be a strong fit in VRIN.
- **Customer loyalty-** Hard to find, replicate, and build, this timeless quality is one which fits easily in the VRIN.
- **Customer service-** Hard to replicate and strongly dependent on the perspective of relationships. This quality is hard to imitate.
- **Customer service contract model-** Being a model that strongly depends upon what product the company delivers. This model apart from other fits the VRIN very well.

### Value chain analysis



- As seen in the diagram the support activities of HRM and procurement go hand in hand with primary activities of inbound logistics and operations. Infrastructure is required to house employees as well as products, while as skill sets are required to manage projects.
  - Procurement is also a strong support to inbound logistics where purchase of both hardware and software components play an important role for smooth operations.
  - In the primary activities the flow between inbound logistics, operations, and outbound logistics share common activities which are supported by HRM, infrastructure, and procurement.
  - Marketing and sales play crucial role to the operations, IBM being an IT consulting service and hardware component selling company requires marketing to coordinate strongly with sales and thus to produce effective sales program.
  - Also Marketing and sales go hand in hand with services, as service being one more product that IBM delivers, therefore service contract sales is of top priority.
  - Looking at the chain every element is valuable and non-substitutable for IBM, the most important aspect is the flow of the elements where each is connected to another in a particular way.
  - Overall from this we can conclude that the IBM value chain is a strong fit for company's goal.
- **Business Level Strategy**
    - **Cost Leadership Strategy**
      - ✓ **Finance-** IBM's strategy is to manage positive cash flows and low debt costs. This can be achieved through efficient operations and services.
      - ✓ **HRM-** Efficient hiring of technically skilled staff and retaining them through attractive incentives is the motto of IBM.
      - ✓ **Management information system-** Developing and maintaining a cost effective data system.
      - ✓ **Inbound Logistics-** Good relationship with suppliers and vendors is the key to maintain effective cost controlled purchasing.
      - ✓ **Operations-** Efficient operations and effective way of completing projects in a given time slot help improves the way work is carried out in a cost effective way.
      - ✓ **Outbound Logistics-** Use of efficient ways to deliver products like personal computers, laptops, and also IT services which include design and development of different software's.
      - ✓ **Marketing-** Targeted advertising to the niche market and low price advertising with high volume sales to the markets of personal computer buyers.
      - ✓ **Services-** Follow up services through external outsourced channels and cost effective use of spare hardware.

### **Corporate Level Strategy**

- **Non-Equity Strategic Alliance**
  - ✓ IBM follows a non-equity strategic alliance, where it has made alliance with other software companies to make its operations more effective.
  - ✓ IBM has a strategic alliance with oil companies like Exxon Mobile and Chevron, where IBM uses there infrastructure to develop software for them.
  - ✓ IBM also has strategic alliance with other software developing companies like SAP and Oracle, where IBM helps implement these software at SAP and Oracle client locations.
  - ✓ IBM has also made strategic alliance with many non-profit firms where IBM provides its support to their IT needs while as in return those companies advertise IBM logo on their banner as a partner.

### ➤ **Cross Border Strategic Alliance**

- ✓ IBM has made alliance with companies from other countries to increase their presence and work in those region. This strategic step has taken into to increase the market across borders.
- ✓ IBM shares others companies infrastructure, manpower, and technology to deliver I those regions.
- ✓ These companies share revenues with IBM.

### **Inference**

- ✓ **Strength-** Brand name and skilled employee are two in tangible and not substitutable sets of strengths of IBM. Also innovations, patents and customer service stand out to be the distinct features of the company. Customer service and customer service contract model stand out to be two inter correlated features which depend on each other for a certain extent. The value chain model has strong fit for IBM where all the aspects are strongly correlated with each other. Business level strategy of cost leadership is a strong fit for them as they prefer outsourcing as one of the means to reduce costs. Their corporate level strategy is also a strong fit as corporate alliance nationally and internationally benefit them.
- ✓ **Weakness-** Financing, technology, and operations and supply chain models are the weakness of the IBM. They are easy to imitate and substitute by other companies. Many other companies have the same models. Functional structure for corporate structure is one their weakness, in spite IT being their main domain they lose expertise over centralization of power.

### **SWOT Analysis**

- ✓ Strengths like brand name and customer loyalty help IBM eliminate threats of substitute and new entrants.
- ✓ Strengths like outsourcing and talent acquisition reduces the impact of loop holes in technology model.
- ✓ Skilled employees and ethical professionals strengthen their skilled labor team reducing the redundancy of skills in functional structure of cost leadership strategy.
- ✓ Business level strategy helps IBM to increase efficiency in their work reducing costs pertinent to gaps in the each individual process.
- ✓ Corporate level strategy helps IBM to have alliance to expand business and overcome constraints of cultural differences between businesses.

### **Conclusion**

#### **Three Viable Strategies**

- **Strategy 1:** Strategy 1 would be a developing structured business model for domain of expertise ex. For AT&T expertise would be a software development for customer interaction. Follow this up a mix of outsourced and in house expertise. Development can be outsourced for cost savings while as design and architecture can be kept in house. Add cost effective service and support to the development with service contracts for specific components and not the whole product, thus reducing costs for expertise ex. Database structures are a bigger concern for service rather than front end webpage.
- **Strategy 2:** Strategy 2 would be to bundle together a package of hardware and software. Many companies use laptops, and a package containing both laptop and their required software can help them achieve things in a more effective way.



- **Strategy 3:** Strategy 3 would be to include external financing sources for financing projects with multiple interest rates, this way IBM can reduce financing burden on it and thus can include some flexibility with lending issues. Also operations and supply chain model can be altered by making customized solutions for clients.

### **Strategy**

- Strategy 1 stands out to be a strong option as it suits their main domain of IT consulting services. They are currently the leading IT consulting service providers and this model help them to expand their business globally in different regions.

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1. "Fortune 500: IBM employees". Fortune. 2012.
2. "Fortune 20 most profitable companies: IBM". Fortune. 2012.