

AND SO OUR STORY BEGINS



CHAPTER I

# REPORTS OF OUR DEMISE

IN MARKETS WE ONCE LED  
(OR SHOULD HAVE) – HIGH-END STORAGE,  
UNIX SERVERS AND DATABASE  
SOFTWARE – WE'RE BATTLING BACK  
AND MAKING UP LOST GROUND.

## DATABASE SOFTWARE

When the world's information ran on IBM mainframes, IBM databases managed it all. But when the world shifted to smaller computers and the model known as client-server, we ceded major portions of that database leadership. The methodical comeback that has put us back within striking distance of the lead in

the data management marketplace started in the mid-'90s, with massive investments in the product itself; then we built marketing and mindshare; and finally we put in place a dedicated sales force. Through the course of 2000, DB2 grew three times faster than the industry on Windows NT and UNIX platforms.

IBM DB2 SOFTWARE REVENUE  
ON UNIX AND WINDOWS NT  
PLATFORMS GREW **73%** IN 2000.

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IN THE PAST 18 MONTHS, APPROXIMATELY 1,000  
*companies have either replaced or chosen*  
IBM'S DB2 DATABASE PRODUCTS OVER ORACLE.


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MAJOR SOFTWARE VENDORS LIKE  
SIEBEL, SAP AND PEOPLESFT  
HAVE SELECTED DB2 AS THEIR  
**PREFERRED DATABASE.**



“We’ve come all the way back. Now it’s time for each of us to look in the mirror and say, ‘**This is personal.** There’s no way I’m going to sit back and let any competitor encroach on my account.’”

**SHERRY YAZDI**  
Data Management Sales Team Leader

A man with light brown hair and blue eyes, wearing a black turtleneck sweater, is holding a large, curved shark's jawbone with sharp teeth. He is looking directly at the camera with a serious expression. The background is plain white.

“We penetrated half of our chief competitor’s key accounts even before we had all the advanced function for Shark. Okay, in December we shipped it. Now things are really going to get fun.”

JOHN POWER  
Worldwide Marketing Manager, Shark

## ENTERPRISE STORAGE

Take your eye off the ball in this industry, and the penalties are severe. In the marketplace for storage, we've patented more technology than any other company, and in 2000, IBM received the U.S. National Medal of Technology in recognition of decades of leadership in storage. But for most of the

1990s, we labored at a substantial disadvantage in the marketplace for storage subsystems. Enter the IBM Enterprise Storage Server code named "Shark." In 2000, the first year after its launch, we shipped nearly 4,000 Sharks, and revenue for high-end disk storage increased 21 percent for the year.

IN 2000, IBM SHIPPED 73% MORE TERABYTES OF STORAGE THAN THE PREVIOUS YEAR—INCREASING SHIPPED DISK STORAGE TO MORE THAN 11,000 TERABYTES IN 12 MONTHS.

60% OF GLOBAL 100 COMPANIES HAVE *already purchased and installed* A SHARK ENTERPRISE STORAGE SERVER.

COMBINED, ALL SHARK ENTERPRISE STORAGE SERVERS WORLDWIDE HOLD MORE THAN 7 PETABYTES OF DATA, *roughly equal to the printed text of* 700 U.S. LIBRARIES OF CONGRESS.



CINDY GALLO  
Shark Testing Manager

VINCENT HSU  
Microcode Development

BARRY RUDOLPH  
Vice President, Disk Storage  
Systems and Software

## UNIX SERVERS

The painful irony of our history in Web servers is that we invented the RISC chip—the basic building block of the UNIX marketplace. But rather than exploit that technical head start, we watched as a handful of competitors did—and built advantages so significant some considered them insurmountable. Some, but not us. We made the decision in the late '90s to stay in

the market, invest, mobilize and compete. Today, behind IBM-invented technologies like silicon-on-insulator and copper-based microprocessors, our pSeries eServer is the price/performance leader. The S80 is the fastest-selling UNIX server in history, and our overall UNIX server revenues were up 28 percent for the year, 49 percent in the last quarter.

IN 2000, IBM UNIX SERVERS HELD  
MORE INDUSTRY *performance benchmarks*  
THAN ANY OTHER VENDOR.

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NUMBER ONE  
IN  
SUPERCOMPUTING  
IBM LEADS THE TOP500 LIST OF SUPERCOMPUTERS,  
WITH 215 OF THE WORLD'S 500  
FASTEST, MOST *powerful supercomputers*.

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ACCORDING TO IDC, IBM IS THE  
**NUMBER ONE WORLDWIDE**  
SERVER VENDOR  
WHEN MEASURED BY REVENUE.

**DAVE TUREK**  
Vice President, Scientific  
and Technical Computing  
Offerings, Web Servers





“In the battle for Web server leadership, it’s a performance play. So name your benchmark. For the last two years, our performance has been second to none.”

**ROD ADKINS**  
General Manager, Web Servers



CHAPTER 2

# THE LEADER'S DILEMMA

OUR STORY CONTINUES WITH A VICTORY  
AND A LESSON: THAT BEING TOP OF THE CHARTS  
MAY BEGET ITS OWN KIND OF CHALLENGE,  
AS WHEN MARKET DEMAND RACES AHEAD  
OF SUPPLY, OR WHEN SUCCESS SERVES  
TO DAMPEN THE COMPETITIVE FIRE.

If they were running self-standing enterprises, John Kelly, Doug Elix and Steve Mills would be Fortune 150 CEOs. They're not. Instead, they run IBM's technology, services and software businesses, respectively—businesses that generated more than 60 percent of


IBM's revenue last year. They plan competitive strategy, lead vast workforces, make decisions about where to invest and when to divest—and stand accountable for their results. And in 2000, they all had to adjust on the fly to changing market conditions.



JOHN KELLY, III  
Senior Vice President, IBM Technology Group



DOUG ELIX  
Senior Vice President, IBM Global Services



In the early days of 2001, **JOHN KELLY, DOUG ELIX AND STEVE MILLS** sat down to talk about the wild ride of the year past and the opportunities of the year ahead.

#### LESSONS LEARNED

*Kelly:* For us, the big lesson of 2000 was that if you have leadership technology, “build it and they will come.” In the first quarter, I’m sitting near 70 percent utilization—which is death in my business—but we knew what was coming, and just kept building. In the third quarter, it popped. We thought we were in a high-growth business; what we didn’t realize was we were in a hypergrowth business. Even that’s an understatement.

*Elix:* Tell me about it. In services, we worked through a transition that spanned three quarters. We’d had great business in systems integration and even doing Y2K work, and then suddenly we had to transition all of those services completely to e-business-oriented services, hire thousands of people and retrain thousands of our own people. It wasn’t until the fourth quarter that we saw the momentum return to the business.

*Kelly:* But in any one of our cases, we’ve got to continue to have confidence that the business is going to grow.



STEVE MILLS  
Senior Vice President, IBM Software Group

*Mills:* The thing I like about what you've been doing in the OEM business is getting more utilization, more customers, across more industry segments, and that gives you some cushion against the ups and downs. It's the single-customer phenomenon that can kill you.

*Kelly:* Right. Customers and segments. But we came from a background of doing too many things. And we've finally focused on the top segments and key customers. The trick now is to keep the team focused, because there's always the temptation to go for the high-volume opportunity in lower-margin products. We've made the decision that's not our game.

*Mills:* I think this was a year that taught many people that no tree is going to grow straight to heaven. In software, we'd had a number of very good years, and a lot of growth, and in retrospect, I don't think the reasons for that success were as well understood as they have become this year.



## MAKING THE CALL

*Mills:* You can't study things to death. There are development opportunities where you don't have a lot of time to do long, complicated business cases. You have to incubate a number of them, pilot them and see whether they're successful. The ones that aren't, you've got to be prepared to terminate quickly and efficiently, and the ones that do take off, you nurture them and grow them.

*Kelly:* A vendor in Japan built a packaging plant to support our growth, on a handshake. We shook hands, and they literally started digging the hole in August. By the end of the year, the plant was online.

*Elix:* In almost every one of our big growth businesses, we've started based as much on management judgment as on business cases. I mean, conversion to the customer relationship management services, to e-procurement, to supply chain: we didn't spend a lot of time doing complicated business cases to get those off the ground.

Having said that, we do still have to make the case for capital investment. To build the Web hosting business required a tremendous commitment of capital—\$4 billion so far. And we also have huge investments in bringing people on board to meet the increasing demand in the professional services business. We're hiring more than 19,000 people a year. That's a tremendous investment, as well, which we now do almost as a matter of course.

*Kelly:* For me, well, there aren't a lot of companies in the semiconductor business prepared to put \$5 billion on the table for big fabricators. We can. We did. Somebody asked me what you feel like when the company says, "Okay, here's \$5 billion. Don't let us down!"

*Mills:* And I bet you said, "I didn't blink an eye!"

*Kelly:* Actually, I said I felt relieved, because I'd already started the project. In fact, I had Lou Gerstner up in Fishkill a few weeks after I got the approvals. We're driving in, and a lot of progress is already visible. The cranes were there, and there must have been several hundred construction workers at the site. And Lou looked at me and he said, "John, you started this before I approved it." So, back to the question: The day I got the funding, I was relieved.

## THE ADVANTAGE OF SCALE

*Kelly:* There are challenges built into being one company with a portfolio of businesses, as opposed to being a pure play, self-standing, single-minded operation. The challenges are dwarfed by the advantages, but they're still there to be managed.

One of them is this balance you have to strike: Make sure you capitalize on the assets of the rest of the company, be an asset yourself, and balance that with the focus you need to succeed within your market segment.

*Elix:* Exactly. We're the biggest, most capable services organization in the world, but we can't and won't go in front of a customer without the right alignment across the corporation. When we start to put together a solution, being hardwired to colleagues who have great customer relationships at one end and who are actually building the products and technologies at the other end is a trump card we play again and again and again.

## COMPETE? COOPERATE? YES.

*Kelly:* A lot of my best customers are some of IBM's biggest competitors in the server and box business, and no one has ever constrained me from selling our great technology to them. So I just keep driving.

*Mills:* Yeah, us too. It's a diverse world. We have to coexist with, support and sell to companies that other parts of the product or services organization compete with. But we certainly jump on opportunities where we can leverage another part of IBM, because we know software can pull hardware and services into a sale.

*Elix:* Right. We made this decision many years ago. We are a multi-faceted company that is in many product areas, as well as many service areas.

*Kelly:* I mean, some parts of the business have tough challenges in this—some of the product houses. But there are lots of areas where it's positive synergy. One of my biggest customers is somebody that Doug calls on, so the better Doug does, the more components I sell.

## MANAGING THE FUTURE

*Mills:* Thinking customers today understand that you can't implement a transformed e-business enterprise unless you get the infrastructure underneath it running. They also know they need a partner that can look across all these processes and see how to put them together. Infrastructure is going to be a winning play for us this year.

*Elix:* For us, outsourcing is back strong. We cracked the market in Asia—in a way, we *created* the market in Asia. Then there's e-sourcing (see page 33), and the business transformation that underpins all of the infrastructure and hardware and software changes. That holds tremendous opportunities for growth.

*Kelly:* We've planted ourselves in an incredibly fast-growing segment. So whether it's chips for servers, chips for infrastructure for the Internet, or chips for pervasive devices, we're parked in the sweet spot. And we have a broad spectrum of customers in each segment. We're ready to go wherever this thing is going to go.

You can't live through a year like 2000 and not learn a lot. One of the advantages that the three of us have had is that we grew up in our businesses. We have a gut instinct for it, so we can make decisions—even big ones—faster.



## services



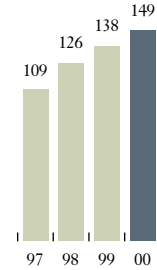
market opportunity *IDC projects spending on I/T to grow 11 percent over the next five years, with the fastest growth coming in services, microelectronics and software—the areas on which IBM has been focusing.*

# \$470

**BILLION MARKET  
FOR INFORMATION  
TECHNOLOGY SERVICES**

Estimates show the market for I/T services will grow 14 percent annually to \$470 billion by 2003.

## investments



**EMPLOYEES AT IBM  
GLOBAL SERVICES**  
*(in thousands)*

In 2000, IBM Global Services hired more than 19,000 people. It invested \$400 million in professional development and knowledge tools, and \$50 million in e-business training.

## semiconductors



## market opportunity

# \$69

**BILLION MARKET  
FOR NON-PC CHIPS**

Analysts estimate a \$69 billion market for chips used in networking infrastructure, pervasive computing devices and enterprise information technology—three of the fastest growing segments of this industry.

## investments

# \$5

**BILLION  
INVESTED**

IBM is investing \$5 billion over the next four years to expand chip manufacturing and packaging capacity. This includes a \$2.5 billion facility in East Fishkill, N.Y.—the first to integrate IBM's leading chip-making technologies into larger, 300mm wafers.

## software



## market opportunity

# \$77

**BILLION  
OPPORTUNITY FOR  
MIDDLEWARE**

Analysts estimate that today's \$77 billion market for middleware is growing 14 percent annually.

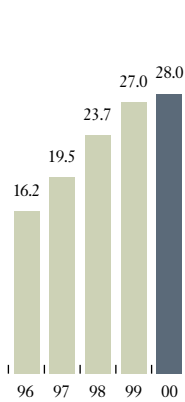
## investments

# 50

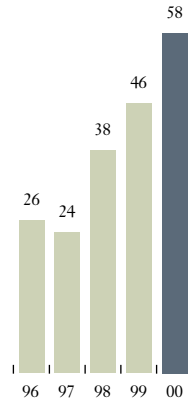
**MAJOR  
ALLIANCES**

IBM forged 50 strategic alliances with business software specialists to increase sales of hardware, services, database software and other middleware. IBM is investing heavily in WebSphere—including a \$1 billion investment in 2000 for marketing, partner development and sales programs.

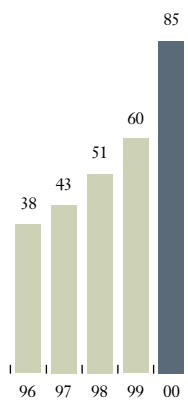




**SERVICES REVENUE**  
(\$ in billions)



**OUTSOURCING**  
Total number of signed strategic outsourcing contracts valued at more than \$100 million



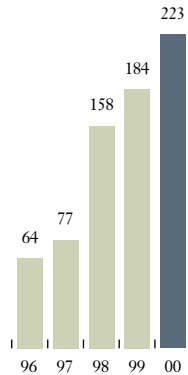
**BACKLOG**  
(\$ in billions)  
Backlog represents the total amount of revenue remaining on signed contracts

REVENUE from e-business services—which include e-commerce consulting, e-business enablement and e-hosting services—grew more than 70 percent in 2000.

IBM SIGNED \$10 billion in outsourcing contracts in the Asia Pacific region in 2000—more than twice the value of contracts signed there in 1999.

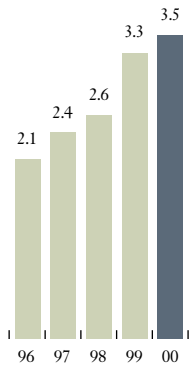
28%

**MICROELECTRONICS  
OEM REVENUE  
GROWTH IN 2000**

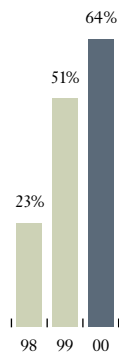


**NUMBER OF NEW CUSTOM  
MICROCHIP DESIGNS  
FOR CUSTOMERS**

REVENUE from logic chips grew 50 percent in 2000. ASICs, the most prevalent form of custom logic chip, are used in all types of electronic products where functions and performance requirements can't be met by off-the-shelf processors. In 1999, IBM became the number-one supplier of ASICs, and continued this leadership in 2000.



**DISTRIBUTED  
SOFTWARE REVENUE**  
(\$ in billions)



**DB2 DISTRIBUTED SOFTWARE  
REVENUE GROWTH**  
(year over year)

221%

**WEBSHERE  
REVENUE GROWTH  
IN 2000 ON UNIX  
AND WINDOWS NT**

Nearly 35,000 customers are using IBM WebSphere as e-infrastructure software, including most of the world's top commercial banks, telecommunications, health care and Wall Street brokerage companies.



CHAPTER 3

THE PLOT  
THICKENS

WHOLE NEW FRONTS OPEN THAT PROMISE  
TO DWARF TODAY'S MARKET BATTLES.  
INTRODUCING LINUX AND E-SOURCING.  
VICTORY WILL GO TO THE FIRST ONE  
WITH THE RESOURCES, VISION AND COMMITMENT  
TO SEIZE THE MOMENT.

# Why I BELIEVE Linux WILL FUNDAMENTALLY change THE INFORMATION TECHNOLOGY industry.

AN OPINION

by

IRVING WLADAWSKY-BERGER, Vice President, Technology and Strategy, IBM Server Group

If Linux were just another operating system, we wouldn't be all that high on it. But that's what's so interesting. Linux is an operating system, but it's also radically different from anything that has come before it. It changes the way software is created and delivered.

Linux is like the Internet itself—it's unowned, and unownable. Anyone can propose software changes, as long as those changes are returned to a loose-knit network of developers known as the Open Source community. It's a highly selective, disciplined process that serves two purposes: It throws technical innovation into perpetual fast-forward; and it guarantees the world that Linux will always remain beyond the control of any single vendor.

In my mind, then, Linux is a phenomenon that holds the potential to change the game along two important dimensions.

1. *It fulfills a big promise: all hardware, software and applications working together.* Linux is a wonderful thing because it is the first operating system to run on any hardware platform. That means it can do for business applications what the Internet did for networking and communications—deliver on the promise of truly open, interoperable, any-to-any computing.

In a world where a billion people using a trillion devices are all interconnected, can you imagine that software and hardware that hasn't even been invented yet will have to coexist? Of course! Linux will make that possible, and that's one reason it's going to grow a lot faster than any other operating system over the next several years.

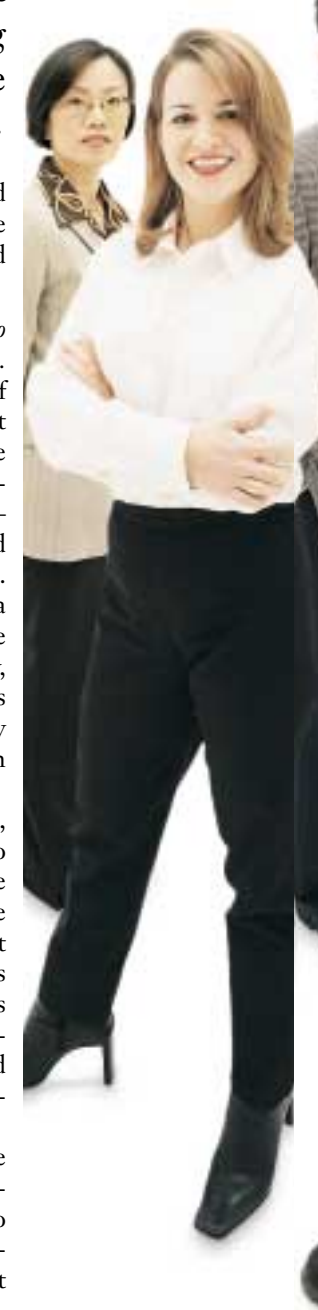
It's interesting to me that some people are surprised that IBM is embracing Linux, while other large technology companies are trying to act as though Linux weren't happening. This shouldn't be a surprise. Linux is bringing the game back into our zone, precisely because we saw the world moving to open

standards and fundamentally reconfigured our products, our strategy and our culture toward open systems, common standards and collaborative business practices.

2. *It alters the way our industry delivers value to its customers (which is very good news for IBM).* A lot of people who have played by one set of rules in this industry are going to find out they're now playing a different game. The widespread adoption of Linux is going to neutralize any vendor's ability to exercise control—over customers or software developers—based on that vendor's proprietary operating system. When applications are no longer lashed to a specific operating platform, control and choice shift away from the technology company, and into the hands of customers. This makes possible an equally seismic shift in the way value is delivered—through services, through middleware, through servers.

So, we're going to invest \$1 billion in Linux, and we've dedicated 1,500 programmers to enable every IBM hardware and software product for Linux. Our strategy is to accelerate its adoption as a platform that can support heavy-duty, enterprise workloads—such as those already in production with customers like weather.com, Shell International Exploration and Production in the Netherlands, and Telia, Scandinavia's largest telecommunications company.

We think that, at the end of the day, the operating system that provides the most flexibility to customers is the one that is going to end up winning. We're voting with our customers on this one. We're betting a big part of IBM's future on Linux.





IBM IS A  
**FOUNDING MEMBER**  
AND CONTRIBUTOR TO THE  
OPEN SOURCE DEVELOPMENT LAB.

OVER THE NEXT THREE YEARS,  
IBM WILL INVEST MORE THAN  
**\$300 MILLION** TO DEVELOP  
LINUX CONSULTING, IMPLEMENTATION  
AND SUPPORT SERVICES.



IBM IS INVESTING  
**\$4 BILLION**

OVER THE NEXT 3 YEARS TO  
BUILD OUT ITS E-BUSINESS  
HOSTING INFRASTRUCTURE.

WITH  
**230 DATA CENTERS**

WORLDWIDE, IBM IS WORKING WITH PARTNERS  
SUCH AS AT&T, QWEST, TELECOM ITALIA AND  
NTT TO OPEN NEW IBM E-BUSINESS HOSTING  
CENTERS AROUND THE WORLD IN 2001.

# Why I BELIEVE e-sourcing WILL FUNDAMENTALLY change THE INFORMATION TECHNOLOGY industry.

AN OPINION

by

GINNI ROMETTY, General Manager, Strategy and Marketing, IBM Global Services

The initial idea of outsourcing is simple enough. An enterprise decides to turn over its information technology department—both equipment and staff—to an I/T partner. The physical assets switch owners, and the people running the systems switch ID badges.

The logic is compelling: an improved balance sheet; relief from the headaches of technology ownership and maintenance; and much greater flexibility in meeting the infrastructure demands of doing real e-business.

Now, take that idea and surround it with the networked world. Very soon, it won't be necessary for an enterprise physically to own, install, manage—or even house—any aspect of a traditional computing environment. The processing, the storage, the applications, the systems management, the security, the load balancing—all of it can be provided over the Internet as a service. Customers don't have to own it. They can rent it, and pay as they need it, as they use it.

This is the trend we call “e-sourcing.” At one level, this extends the benefits of outsourcing. It allows enterprises to concentrate even more on their essential business priorities. But that's only the beginning. Because, by giving up *ownership*, a company is vastly increasing its *access* to computing power, and expertise, and innovation.

We see the beginnings of this in Web hosting. By 2003, Web hosting is expected to be a \$34 billion industry. Yet hosting is a very primitive version of the sophisticated computing services that customers will be able to rent in the future.

For IBM and the rest of our industry, this has profound implications. It changes who our customers are and what we will sell to them. Individual businesses may no longer be the primary decision makers when it comes to I/T purchases. Instead, those decisions may eventually be aggregated to a small number of mammoth computing “service providers,” like telecommunications companies and today's hosting companies.

We intend to provide the infrastructure technologies that all of these service providers will require. And we'll provide many of these services ourselves. We're already one of the world's largest hosting businesses, and we're investing \$4 billion to build out this capability.

E-sourcing will enable enterprises of all kinds—both in the private and public sectors—to tap into the full power of the Net. But in the end, the greatest benefit of e-sourcing will be in the freedom it unlocks. Sure, it will create enormous efficiencies. But the game-changing impact will be freeing up all companies—whether just starting out or well established—to focus on their core competencies, and to experiment and be more creative, with minimal commitment and risk. To help our customers explore their most exciting possibilities—that's why IBM is committed to e-sourcing.

IBM'S E-BUSINESS

**HOSTING REVENUE**

DOUBLED IN 2000.





CHAPTER 4

INTO THE  
WILD

ON THE HORIZON, NEW WORLDS  
SHIMMER IN THE MORNING LIGHT.  
WHO WILL GET THERE FIRST AND  
DEVELOP THEIR POTENTIAL? AT NIGHT, WE DREAM OF  
NEW TECHNOLOGIES. AT DAYBREAK,  
WE CONCEIVE NEW BUSINESS MODELS.



GERD BINNIG  
Nobel Laureate and IBM Fellow,  
Micromechanics and Nanomechanics

REAL JOB: *Finding the atomic tipping po*





ETTE BURTON  
Senior Consultant, Knowledge  
and Content Management Solutions

*AL JOB: Understanding the  
dynamic life of ideas and conversations*

SAY THE WORD “innovation” in the context of the information technology industry, and it’s easy to make the mental connection to the world of R&D, physical sciences, algorithms and invention.

And for a lot of people, all that makes for a very natural connection to IBM. But for us, that kind of innovation is only half the story.

There’s another kind of innovation—requiring its own special kind of ingenuity. It’s equally demanding and every bit as important to our customers. This is about the invention of new business models and market structures, in every industry—from retail and financial services to education, governance and the delivery of health care.

Tucked inside IBM Global Services is the world’s largest business and information technology consultancy. IBM Business Innovation Services is populated by 50,000 consultants, each of them specialized by industry, or in such disciplines as customer relationship management, supply chain, business intelligence, digital branding, and security and privacy practices.

Of course, technological innovation *is* the genetic code of IBM. The record of achievement here reaches from prototypes of quantum computers

and holographic storage to technologies for specialized chips—including chips that consume very little energy—that will power the next generation of Net-access devices. Our research stretches from the most powerful supercomputer technology on the planet to the software and servers that power the most heavily trafficked sites on the Web.

For the eighth straight year, IBM earned more patents than any other company (more, in fact, than our eight closest competitors combined). By year end, fully one third of those patents had made their way from the lab to the marketplace—and were at work powering our own products or licensed to others. IBM’s total intellectual property portfolio generated more than \$1.5 billion in income in 2000.

There are some companies that excel at technical innovation. There are others that specialize in consulting. Our ability to do both is a unique combination and strength, because customers who commit to make a real transformation require both—the new idea, and the technologies to implement it.

So what mental image should come to mind when you apply the word “innovation” to IBM? It has two closely related, but exceptionally distinct faces. And thousands of names.

*Meet just a few of them.*

MARK DEAN  
IBM Fellow and Vice  
President, Systems Research  
**REAL JOB:** *Taking computing  
beyond the computer*



SHOUHENG SUN  
Researcher, Materials Chemist  
**REAL JOB:** *Self-assembling  
magnetic materials*



J. LEPPANEN  
Director, Mobile Internet Solutions  
**REAL JOB:** *Obsoleting the office*



GREG CONLEY  
General Manager, e-Markets  
**REAL JOB:** *Decimating silos,  
intracompany and intercompany*



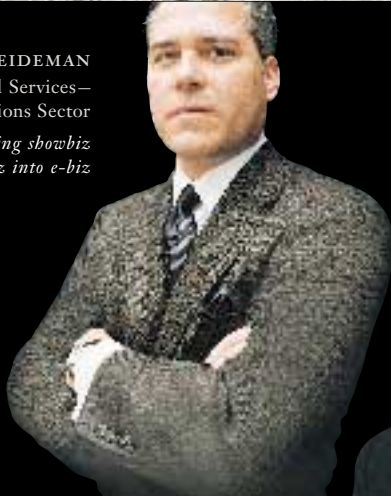
AJAY ROYYURU  
Manager, Structural Biology  
**REAL JOB:** *Protein origami*



CHERIE KAGAN  
Researcher, Electronic and Optical  
Organic Materials and Devices  
**REAL JOB:** *Free-range components*



MICHAEL HEIDEMAN  
Vice President, Global Services—  
Communications Sector  
**REAL JOB:** *Turning showbiz  
and phone biz into e-biz*



JANET CALDOW  
Director, Institute for  
Electronic Government  
**REAL JOB:** *Government  
at the speed of business*



RUSSELL LANGE  
IBM Fellow and Chief  
Technologist, Microelectronics  
**REAL JOB:** *Semiconductor seismology*



GIAN-LUCA BONA  
Manager, Photonic Networks  
**REAL JOB:** *Data at light speed*



HARRIET PEARSON  
Chief Privacy Officer  
**REAL JOB:** *That is her real job*

MICHAEL V. LITTLEJOHN  
General Manager, IBM  
Learning Services, Americas  
**REAL JOB:** *Raising organizational IQ*



STEVE WHITE  
Senior Manager, Massively  
Distributed Systems Group  
**REAL JOB:** *Discovering the  
physics of market ecosystems*

STUART PARKIN  
IBM Fellow, Project Leader,  
Magneto-electronics  
**REAL JOB:** *Instant-on  
computing*



DR. RUSSELL RICCI  
General Manager,  
Healthcare Industry  
**REAL JOB:**  
*Tender loving e-care*



CAROLINE KOVAC  
Vice President,  
Life Science Solutions  
**REAL JOB:** *What makes us tick*



The Wizard of Oz ©1939 Turner Entertainment Co.

CHAPTER 5

# COMING HOME

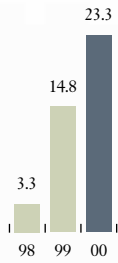
HOW THE **WORLD'S LARGEST** PROPONENT  
OF E-BUSINESS IS TRANSFORMING  
ITS PROCESSES AND CULTURE TO BECOME  
THE **WORLD'S LARGEST E-BUSINESS**.  
AND SO IT BEGINS.

When does a business become an e-business? Until recently, the answer seemed to be: when you can buy something over its Web site. Today, we know better. It's when you work with your customers, take and fulfill orders, provide services, procure billions of dollars

in goods and services, interlock with your suppliers—and support thousands of employees in scores of countries around the world to learn, collaborate and work in real time...on the Web. That's how we're helping our customers become e-businesses. And it all starts at home.

*“Customers need fast and easy ways to do business with IBM. Our integrated Web-and-call-center channel, ibm.com—providing direct sales, service and support—does that. Today, customers can access more than 14,000 IBM products and solutions. And at \$47,000 in sales per minute on an average business day, we’re IBM’s lowest-cost channel. IBM’s PC business now does about a third of its business direct, one of the reasons it’s returned to profitability.”*

**DOUG MAINE**  
General Manager, ibm.com



**TOTAL E-COMMERCE REVENUE  
GENERATED WITH BUSINESS  
PARTNERS, OEM PARTNERS AND  
THROUGH IBM.COM**  
(\$ in billions)

IBM e-commerce revenue grew sevenfold over the last three years to \$23.3 billion.

In 2000, e-commerce revenue through ibm.com grew 143 percent. And revenue generated by e-commerce with business partners and OEM partners each grew 50 percent.

e-commerce

e-learning





*"We saved a lot of money last year by moving 36 percent of our employee training to an online environment. But that's not the best reason to make the shift. With a mobile workforce like IBM's, and the increasing complexity of our customers' businesses, we're able to provide just-in-time learning for people who need to be with their clients and not sitting in a classroom. And we are providing these same types of e-learning solutions to customers around the world."*

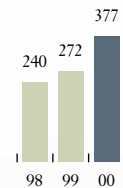
**NANCY DEVINEY**  
General Manager, Learning Services

More than 200,000 employees have received education and training online.

New IBM managers are trained through an award-winning program that blends 75 percent e-learning with 25 percent classroom training.

*"IBM's global purchasing activity is enormous and, therefore, complicated. To improve efficiency and effectiveness, we've applied e-business across the entire buying process, including the ability to select suppliers, place orders and handle payments online. What once took 30 days now takes one."*

**PATRICE KNIGHT**  
Vice President, Procurement Strategy and Transformation



**COST AVOIDANCE FROM E-PROCUREMENT**  
(\$ in millions)

In 2000, IBM "e-procured" more than \$43 billion in goods and services—up 60 percent from 1999—with 24,000 suppliers worldwide.

**94%**

OF GOODS AND SERVICES ARE NOW PURCHASED ELECTRONICALLY

e-procurement

MORE THAN  
**\$350** MILLION  
IN ANNUAL COST AVOIDANCE THROUGH THE USE OF DISTRIBUTED E-LEARNING



*"Let's talk innovation. Today, U.S. health care enrollment is available via the intranet. Now, employees have access to personalized decision-making tools, such as a plan finder that helps them make health care choices; nearly 42,000 employees used the tool in 2000. Now, let's talk convenience and control. More information is available than ever before, and transactions can be conducted at any time. Employees are tracking the value of their HR programs and making charitable contributions online, all without the use of paper forms."*

**BARBARA BRICKMEIER**  
Director, Global Benefits

## e-workforce

Since 1998, IBM Human Resources has been a leader in the creation of Web-based tools and information to transform its employee relationships.

Today, IBM employees use the intranet to access information, enroll and manage:

- 401K Plans • Career Planning
- Employee Stock Purchase Plans
- Health Care Options • Pension Plans
- Stock Options • Sales Commissions

IBM has also launched a Web resource for retired employees.

83%

of U.S. employees reviewed and enrolled in their annual health care options via the intranet in 2000.

*"We're using some of the best solutions from our alliance partners to transform and integrate our own systems and operations. The payoffs: stronger customer relationships, greater marketplace agility to reach new customers, and a wealth of experience we can put to work helping customers who are transforming themselves. To be CIO of one of the world's largest e-businesses, you need to see the complementary relationship between external business strategy and internal technology strategy."*

**PHIL THOMPSON**  
Vice President, Business Transformation and CIO

IBM has avoided \$4 billion in cost since 1998 through business process transformation of procurement, customer support and employee education.

Today, IBM is working with its software alliance partners to implement "best-of-class" e-business capabilities inside the company to reduce cost in areas such as enterprise resource planning, customer relationship management and supply chain management.





*“Don’t think of intranets as one-way communication channels. They’re much more—productivity tools, workflow managers, places to collaborate, virtual workspaces. We’re adding all that functionality to make IBM’s intranet a platform for some key e-business goals: to integrate IBM’s processes; redefine our culture and our brand; and empower individual employees, so they can access the company’s collective knowledge—and contribute their own. The payoff is a smarter collective organism.”*

**MIKE WING**  
Director, Worldwide Intranet  
Strategy and Programs

In 2000, IBM’s intranet surpassed nearly all channels—internal or external—as the most credible, preferred and useful source of information about the company in the IBM Global Employee Survey. All but one...it was tied by the grapevine.

2.5

MILLION VISITS BY  
EMPLOYEES PER WEEK

e-corporate culture

e-transformation



**REINVENTING EDUCATION**  
Scoil Mhuire Senior Primary School,  
Blakestown, Ireland; and Tran Quoc  
Toan Primary School, Hanoi, Vietnam

## what DOES IT mean TO lead?

In our business, there's technical leadership, thought leadership, financial leadership, marketplace leadership—all the things documented in this report. But any company that aspires to make a lasting contribution to the world must lead in ways that spread far beyond the confines of the marketplace, and winning, and profit.

It's leadership by serving; leadership by caring; leadership in the community. It's the kind of leadership we think about when we think about the world our work will leave for our children. At IBM, it's how we apply our financial strength, resources and minds—more than 300,000 of the most talented people in any industry, and one of the most storied and aspirational of business enterprises—to change things, to make our planet a better place.

That's true now more than ever. The arrival of a networked world brings with it the requirement for enterprises, governments and entire societies to establish new frameworks on virtually every vital public policy issue—not simply to foster the development of an important new platform for our economy, but to take responsibility for how its consequences will affect people and the planet.

Of special urgency with the rise of the Net are protections of the individual's right to privacy. In 2000, we appointed IBM's first chief privacy officer—a senior executive charged with guiding all our policies and practices in this area, and with working across the public and private sectors to advance workable protections of consumer and citizen privacy.

Our largest ongoing corporate commitment remains the \$45 million grant program Reinventing Education—which has the potential to touch one in five children in U.S. public schools, as well as children in seven other countries, including Singapore, site of our latest grant.

Independent evaluations tell us that our Reinventing Education efforts are doing what we set out to do—drive higher student achievement. In West Virginia, high school students using standards-based math lessons,

created via online technology developed through the grant partnership, scored significantly higher on statewide exams. And in Houston, first-graders using an innovative speech-recognition technology called Watch-me!-Read scored significantly higher on comprehension and word recognition.

Underlying it all, IBM is perennially among the world's most generous corporations. In 2000, we contributed more than \$126 million to programs around the world that help people in need. Individual employees added another \$49 million through matching grants and donations to nonprofit organizations and educational institutions. And of incalculable value was the more than 4 million hours of their time and expertise IBMers volunteered to a broad range of local causes.

IBM continued its longstanding commitment to environmental leadership last year, ensuring that its operations and products provide ever greater value to society while minimizing their potential impact on the environment. Our participation in voluntary initiatives to address global climate change and our latest offering to facilitate the reuse and recycling of PCs are just two examples of environmental efforts that contributed to the significant recognition the company received in 2000 for environmental excellence.

We do all this because we know that people have high expectations of leaders. High, but appropriate. We understand that if we aspire to lead in the creation of the networked world, we have to demonstrate the courage and wisdom to step up to the grand societal challenges it raises—both those as new as today's headlines, and those as timeless as human society.

*Because that's what it really means to lead.*

#### COMPANY MISSION

At IBM, we strive to lead in the creation, development and manufacture of the industry's most advanced information technologies, including computer systems, software, networking systems, storage devices and microelectronics.

We translate these advanced technologies into value for our customers through our professional solutions and services businesses worldwide.