

IBM Transformation: Becoming a Smarter Enterprise

Mr. Bret Greenstein
Vice President and CIO, IBM Growth Market Unit

A horizontal banner with a colorful background of overlapping circles in shades of purple, blue, green, yellow, and orange. The text "Partnering for Growth" is written in a white, serif font across the center. There are also some faint, stylized human silhouettes in the background.

Partnering for Growth

IBM's strategy

A decade ago we saw change coming and took decisive actions that have enabled IBM to turn today's disruption into opportunity.

Changes
in world
markets



Changes in
information
technology



Changes
in client
needs



IBMers Value



Dedication to every client's success.

Innovation that matters—for our company and for the world.

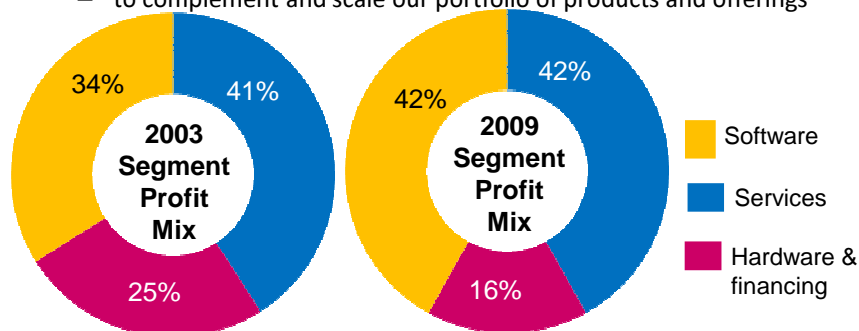
Trust and personal responsibility in all relationships.

In response, we changed our business mix and model

Business Model, Operating Model and Workforce Transformation

Remixed our portfolio toward services, software, and integrated solutions...

- Exited commoditized businesses:
 - PCs
 - Hard disk drives
 - Printing Systems
- Strengthened position in:
 - Business Consulting
 - Service-Oriented Architecture
 - Information on demand
 - Virtualization
 - Open, modular systems
- Acquired over 60 companies in last 5 years
 - to complement and scale our portfolio of products and offerings

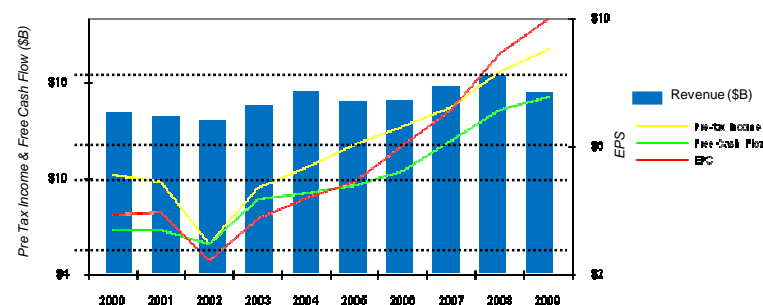


Shift in geographic mix...

- 2009 revenue:
 - 22% Asia Pacific
 - 35% Europe, Middle East, Africa
 - 43% Americas
- Growth markets share of geographic revenue:
 - Growth markets accounted for 19% of IBM's total geographic revenue in 2009

Strong Performance in 2009...

- \$18.1B pre-tax earnings, up 9%
- \$95.8B revenue, down 5%



- \$10.01 Earnings Per Share, up 13%
- Strong performance in services, software and growth markets

Improved performance has allowed us to invest in future sources of growth and provide record return to shareholders



Primary Uses of Cash From 2000 to 2009

\$96 billion

Returned to Shareholders
Share Repurchases & Dividends

\$65 billion

Reinvested
Acquisitions & Capital Expenditures

... while continuing to invest in R&D—
more than \$56 billion from 2000 to 2009.

IBM's ongoing transformation

The "Smarter" phase of our transformation is beginning

Journey

2003

Sharing & partnering



- Consistent set of processes worldwide
- Leverage best practices
- Standardize and reduce waste
- Governance and performance discipline

2006

Globally integrating

The Globally Integrated Enterprise

Samuel J. Palmisano

- Right skills, right place, right cost
- Rationalize support functions for greater efficiency
- Radically simplify processes

2010

Making things smarter



- Instrumented, interconnected, intelligent
- Enable growth and productivity
- Optimize the whole system

Enabling Productivity - IT Enablement

Why?

- **IT represents biggest spend** aside from workforce
- Unlocking new **IT efficiencies frees up resources** to fund investments for growth
- **Common IT platforms required** for global integration & growth
- Need for **faster collaboration** across global, mobile employee population



What we've done

- **Consolidated disparate systems, created common platforms and standards** worldwide
- **Centralized CIO role**
- Established enterprise-wide **governance model**
- Built a **flexible, responsive and open global infrastructure**
- Created **open model for application development** to accelerate time to value
- Embraced **open standards, Web 2.0 technologies & Cloud computing**

“Simplification of our infrastructure has remained a guiding principle of our transformation ...we’ve consolidated and virtualized our server environment ...we’ve greatly reduced our application portfolio, applying SOA, to sunset an average of 30 applications per month.” - Pat Tool, IBM CIO

Enabling Productivity - IT Enablement

How we did it

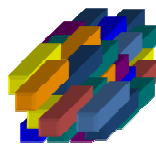
- Began with a **massive consolidation**:
 - 128 CIOs to one
 - 155 data centers to 5
 - 16,000 applications to 4500
- **Capitalized on open standards & virtualization**
 - 1500+ servers running Linux
- **Leveraged SOA** to enable integration & faster development
- **Developed intranet into robust social networking platform**

Impact

- **\$1.4B in IT savings** since 2005; IT E/R reduced by 1.6 pts
- Project Green initiative to **deliver 80% energy cost savings & 85% floor space reduction**
- SOA delivering **\$125M in business value based on \$35M investment**
- **GenO model** delivers cycle time reductions of 30%; 20% defect reduction; 50% components targeted for reuse
- **Web 2.0 fueling collaboration**:
 - 125,000 employees participate in Technology Adoption Program
 - 70K BlogCentral users
 - 150K in InnovationJam 2008



TAP: Driving Early Adoption



Application Portfolio Mgmt



SOA for Enterprise Flexibility



Bluelnsight Analytics Cloud



Security for Global Business



Project Big Green

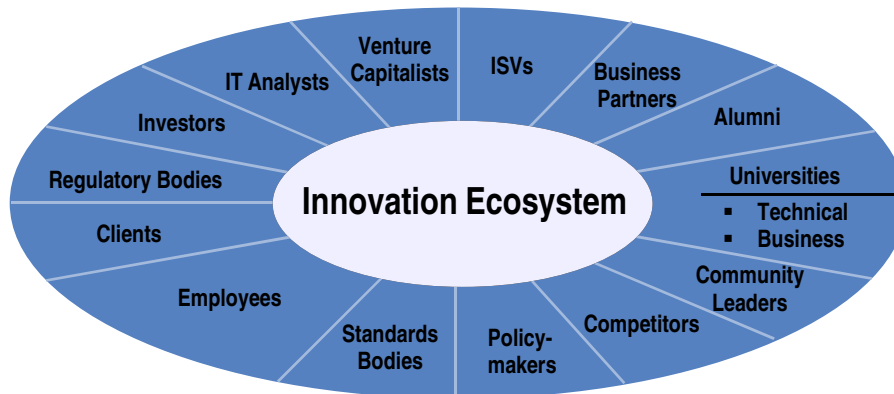
Enabling culture change - Collaborative Innovation

Why?

- Become our clients' **"innovation partner"**
 - Address client priorities
 - Build deeper client relationships
- **Respond to changing nature of innovation**
- **Organizations need each other to be successful**
 - Pace of innovation outstrips an organization's ability to "go it alone"
- **Changing workforce dynamics**
 - Globalization
 - "Millennials"

What we've done

- **Established an innovation agenda that spans multiple dimensions:**
 - Product
 - Services
 - Business process
 - Business model
 - Management and culture
 - Policy and society
- **Enabled global collaboration**
 - Culture of collaboration
 - Innovation ecosystem



"We opened up our labs, said to the world, 'Here are our crown jewels, have at them'. The Jam -- and programs like it -- are greatly accelerating our ability to innovate in meaningful ways for business and society."

- Sam Palmisano, IBM CEO

Enabling culture change - Collaborative Innovation

How we did it

- Provide platforms to foster open dialog
 - **Single Portal:** *On Demand Workplace*
 - **Innovation incubator:** *Technology Adoption Process*
 - **Information sharing:** *Cattail*
 - **Brainstorming, idea creation:** *Jams*
 - **Content creation:** *BluePedia*
 - **Dynamic interaction:** *Sametime*
- **Collaborate with everyone**
 - Collaboration with client
 - Societal Innovation
 - Social network participation

Impact

- IBM Research
 - **#1 on the US patent list for 17 years**
 - Collaboration with clients on real-world challenges and solutions
- On Demand Workplace
 - **One of the world's top 10 intranets**
- JAMs
 - **\$100M investment to bring 10 ideas to reality**
 - **35 Innovative solutions in 4 areas**
- Global Innovation Outlook
 - **Entire ecosystem to create new and unforeseen opportunities**



Enabling culture change - Social Software at IBM

Why?

- Need to connect 400,000 employees across 170 countries
- Enable employees to be more productive, more knowledgeable, faster
- Facilitate collaborative innovation
- Organize the flow of ad hoc collaboration
- Drive innovation into products faster
- Harness the knowledge of subject matter experts from across IBM quickly



What we've done

- Transformed intranet into robust social computing platform
- Created communities of enthusiasts to encourage grassroots adoption
- Used IBM as test-bed for collaborative tools we then commercialize
- Established IBM social computing policy and guidelines
- Created “reverse mentoring” program to pair social computing experts with IBM leaders

“Connecting with peers through virtual social media platforms helps employees understand the relevance of company goals, model behaviors, and share the resources they need to get their jobs done.” **Business Week, May 12, 2009**

BusinessWeek

Enabling culture change - Social Software at IBM

How we've done it

- Provided various social platforms in which IBMers could engage
 - Made it easy to get started
 - Shared tools, enablement materials, best practices
- Tapped key influencers: social media experts and enthusiasts
- Empowered the IBM community to construct its own social media protocol
- Formed BlueIQ
 - Furthered social media usage
 - Became a showcase for the business benefits of IBM social software

Proof Points

- High volume of social media users:
 - **BluePages:** 579,988 profiles
 - **Lotus Connections:** 71,500 users
 - **BlogCentral:** over 73,600 blog users
 - **File sharing:** 121,900 users
 - **Beehive:** over 63,800 users
 - **Dogear:** over 90,500 users
 - **Bluetwit:** over 3,000 users
- BlueIQ
 - 552+ BlueIQ Ambassadors in 40+ countries



Lotus. Connections

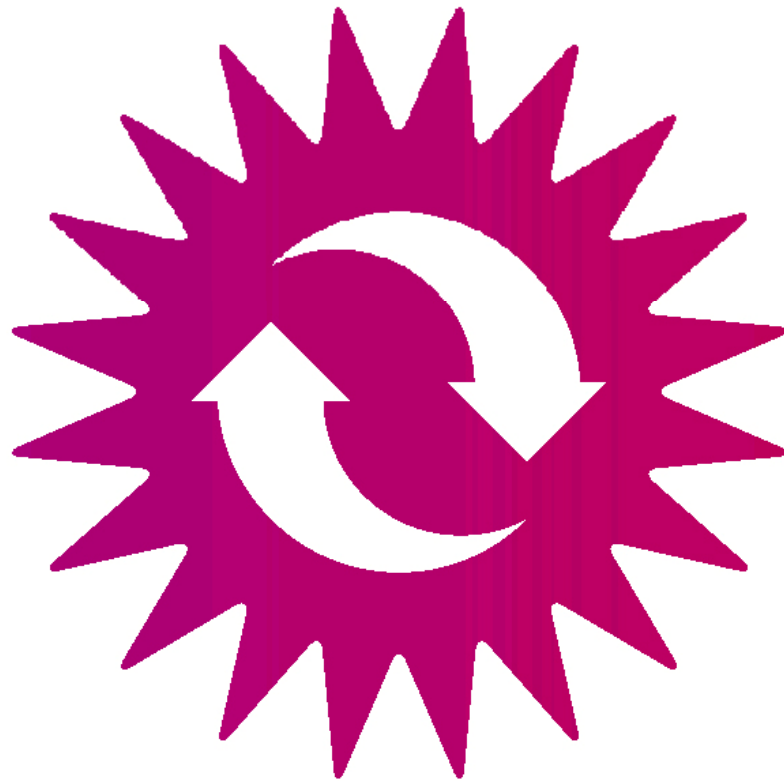


w3 IBM BlueTwit



BLUEPEDIA





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Start a
movement

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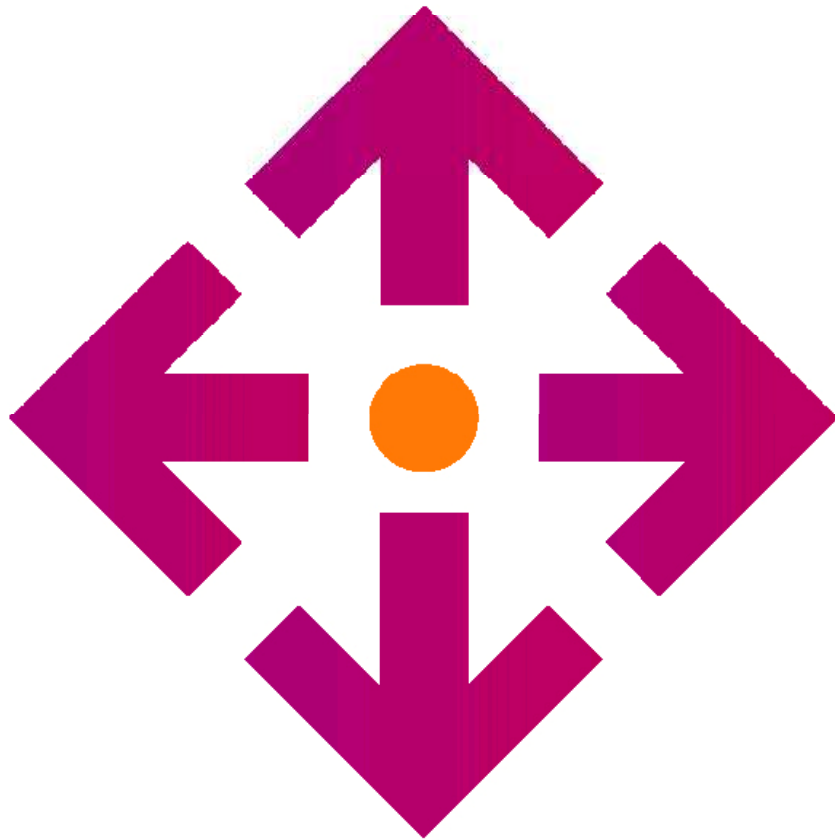
Start a movement

- IBM engages workforce through “jams” and social media
 - Exchanging ideas
 - Moving the culture
 - Capturing the imagination
- ValuesJam reestablished IBM’s culture and brand for the 21st century
- WorldJam generated 35 ideas leading to \$500M in savings
- InnovationJam established 10 new businesses within IBM, forming basis of the Smarter Planet agenda



“Jams have helped change our culture and the fundamental way we collaborate across our business.”

- Sam Palmisano, Chairman & CEO, IBM



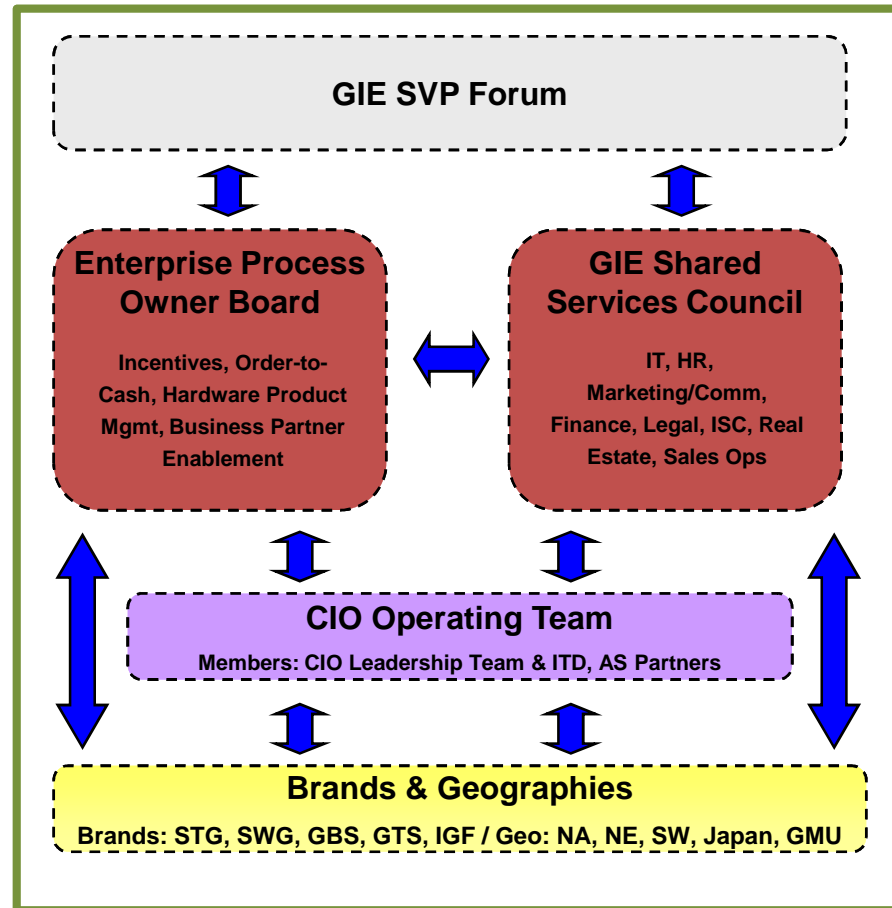
Establish clear
transformation
governance

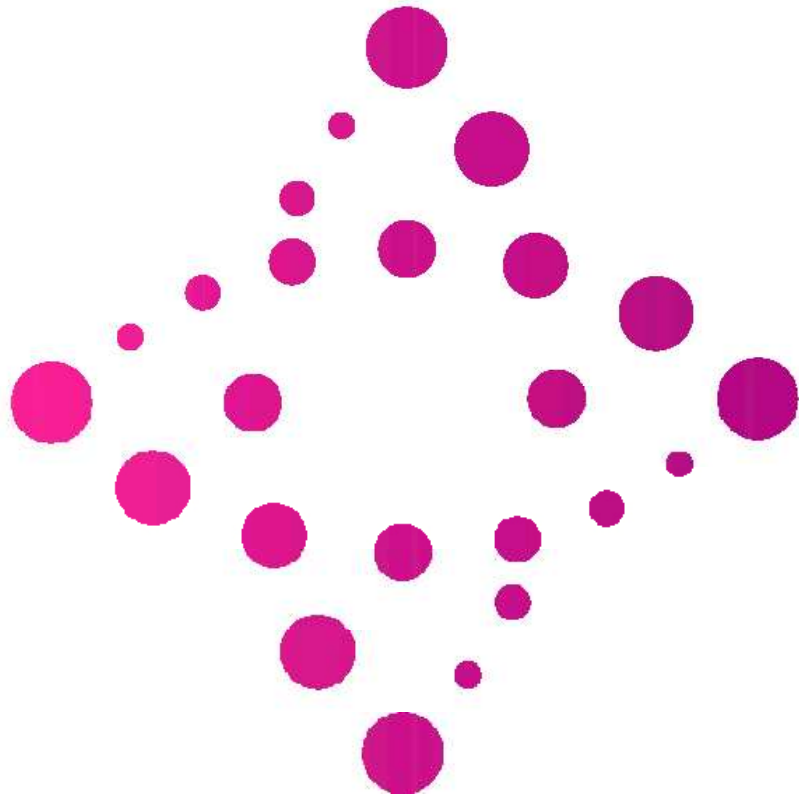


Establish clear transformation governance

- IBM establishes high-level governance councils to guide key process and IT transformation initiatives
 - Cross-unit representation
 - Aligns business and transformation strategy
 - Consistent metrics

- Good governance ensures the business value of transformation investments gets measured and delivered





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Transformation
requires a data-
driven
discussion
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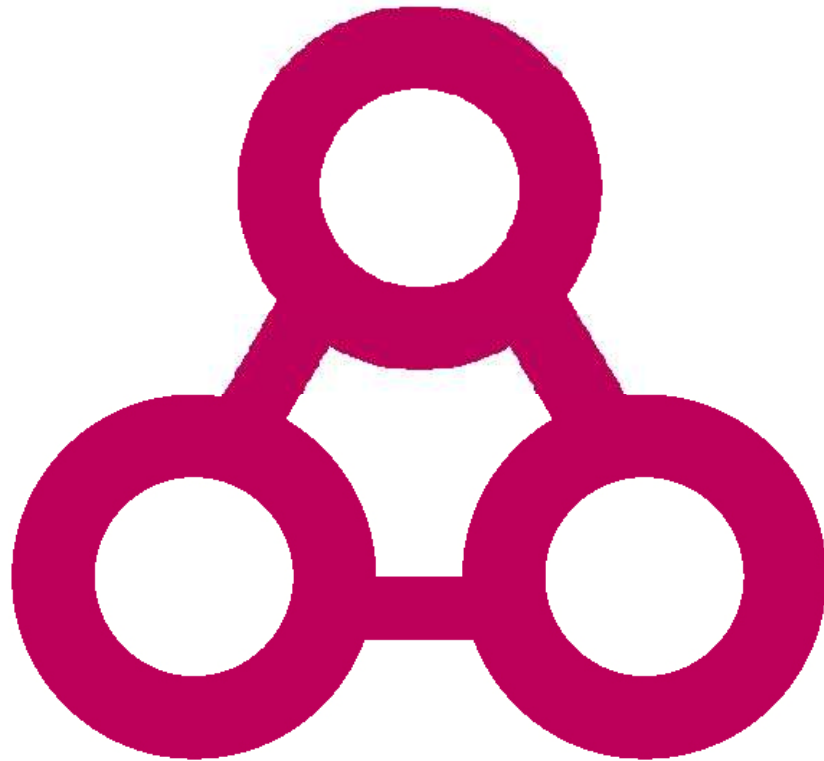


Transformation is data-driven

- IBM applies leading-edge business analytics to turn raw data into operational advantage
 - Territory optimization analysis puts sellers over the best opportunities
 - Real-time data analysis improves manufacturing yields
 - Matching engine aligns services staff to open positions



- Over the past four years, the Market Alignment Program has contributed over \$1 billion in revenue, applying analytics to sales management
- With the Resource Analytics Hub, Global Business Services has improved productivity of consultants by 18 percent and reduced unassigned resources from 8 percent to 3 percent



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Radically
simplify
business
processes

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Radically simplify business processes

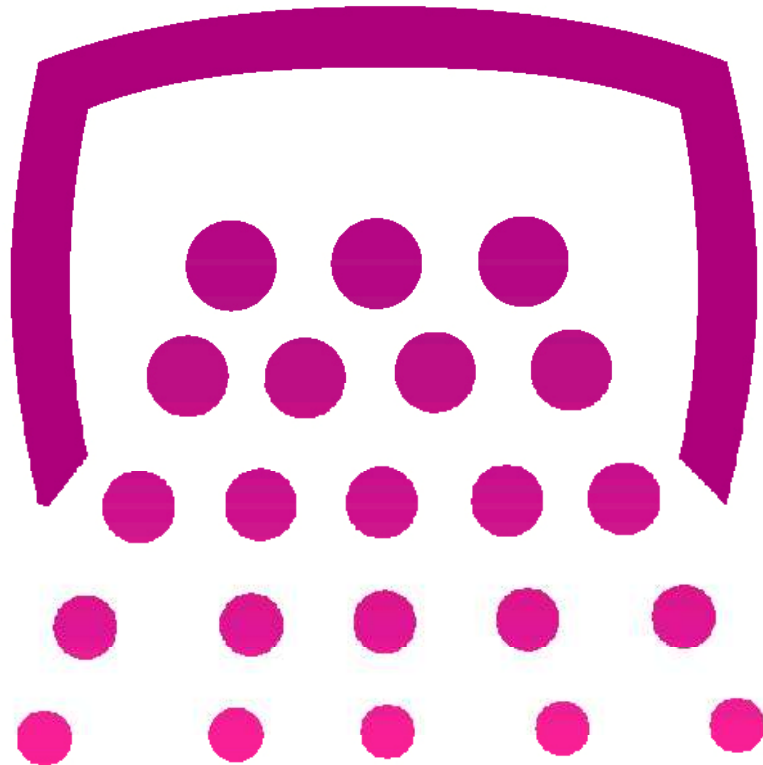


- Created end-to-end process improvements to smooth global integration
 - Simplified, standardized process across business units and geos
 - Developed hundreds of Lean Sigma process experts
 - Assigned senior leaders to critical processes
- Process transformation improvements yielded \$500M in productivity gains in 2009



“With processes, our mantra is radical simplification -- eliminating, standardizing and automating work that adds to complexity and hinders integration.”

- Linda Sanford, Senior Vice President,
Enterprise Transformation



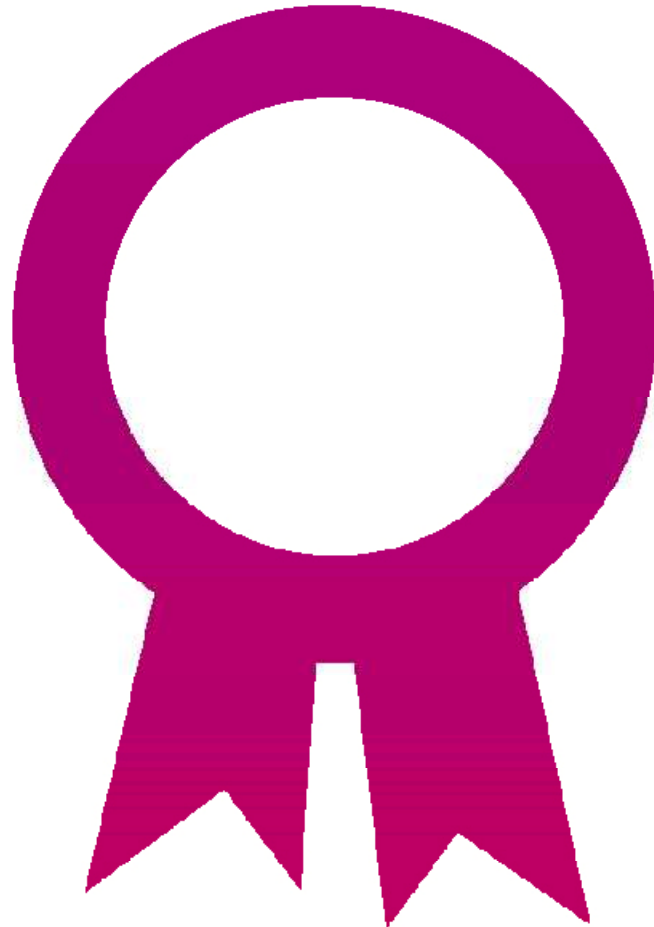
Invest in
transformative
innovation



Invest in transformative innovation

- IBM applies collaborative technologies to accelerate transformation and engage employees
 - Converted intranet into robust social computing
 - Broad social media portfolio connects global, mobile, multi-generational workforce
 - Clouds for research, development, analytics and storage
- More than 100K IBMers tap into BlueInsight, the world's largest analytics cloud





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Embody
creative
leadership

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Embody creative leadership



- Leaders must create the climate and culture that fosters successful transformation
 - Created a collective leadership group of 300 executives to integrate the company and lead by IBM's values
 - Refreshed core set of competencies for all IBMers,
 - Assigned senior leaders to growth markets to develop new leaders
- IBM's Corporate Service Corps has deployed hundreds of high-potential employees to short-term assignments in emerging markets to work on economic development projects

IBMers at our Best: Our Competencies

Embrace challenge

Partner for clients' success

Collaborate globally

Act with a systemic perspective

Build mutual trust

Influence through expertise

Continuously transform

Communicate for impact

Help IBMers succeed

BusinessWeek

Twenty Best Companies
for Leadership



The Road to a Smarter Enterprise

Six Principles to Consider



- Start a movement
 - Engage the workforce
 - Jams and social software are great enablers



- Establish clear transformation governance
 - Appoint business, process and IT leaders to councils
 - Key decision-makers must have accountability for results



- Transformation requires a data-driven discussion
 - Analytics can improve operational performance
 - Enable fact-based decisions



- Radically simplify business processes
 - Design processes from viewpoint of users, not process owners
 - Establish standards & eliminate process steps that don't add value



- Invest in transformative innovation
 - IT doesn't create transformation, but can be great accelerator
 - Experiment with new ways to stimulate work environment & fuel new thinking



- Embody creative leadership
 - Takes new approach to lead global, multi-generational workforce
 - Leadership competencies must evolve for new realities

IBM Transformation Journey: Key Lessons Learned

Strategy

- CEO sponsorship is critical
- Create a “sense of urgency” that the organization can rally around
- Think, act and optimize globally
- Implement governance, performance goals and reporting discipline

Enabling Growth

- Focus on high growth customer segments and new markets
- Leverage business analytics to better align resources with opportunities and inform fact-based decisions
- Consider both organic and non-organic sources for revenue growth
- Enhance end-to-end client experience

Enabling Productivity

- Business transformation and IT should be closely aligned
- Don’t automate a mess – fix processes first, then apply IT
- Sunset legacy systems and tools as new ones are deployed
- Take an end-to-end, outside-in view of processes
- Build process skills and methodologies
- Need cross-unit leadership and clear accountability

Enabling Culture Change

- Engage leaders at all levels
- Address the underlying drivers of behavior
- Engage employees broadly
- Make culture tangible
- Recognize that changing culture is a journey

How to get started? Key questions for consideration...

Clarity of Strategy

- Who are our target client /customer segments?
- What is our value proposition to our client/customer segments?
- How do we differentiate ourselves?
- Are we clear on what we do versus where to partner externally?

Enabling Growth

- What percent of our business is coming from outside our home market? Are we well positioned?
- Do we have the right data and analytical tools to understand our changing clients/customers and market?
- Do we understand our clients'/customers' needs? How well are we positioned to meet them?
- Do we have a clear M&A strategy and process? Are we well positioned to effectively capture share and build future capabilities?

Enabling Productivity

- Are we leveraging scale, global talent and resources across our organization?
- Do we have the capabilities to quickly cut low-value spending and redeploy to activities, products, markets that generate growth/productivity?
- How effective and efficient are our support functions (e.g., supply chain)?
- Do we have the tools and support to make our people as effective as possible?

Enabling Culture Change

- Do we have senior executives engaged and accountable to be change leaders?
- Are our people aligned with and committed to our strategy/direction?
- Does our culture support the strategy and its execution?
- Are we effectively collaborating and innovating?

Thank You!



Partnering for Growth



IBM Executive Summit 2011

Partnering for Growth