

The Road to a Smarter Enterprise

IBM's transformation journey



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The belief that we've entered a new era of global integration has shaped IBM's strategy of ongoing, aggressive reinvention over the past decade.

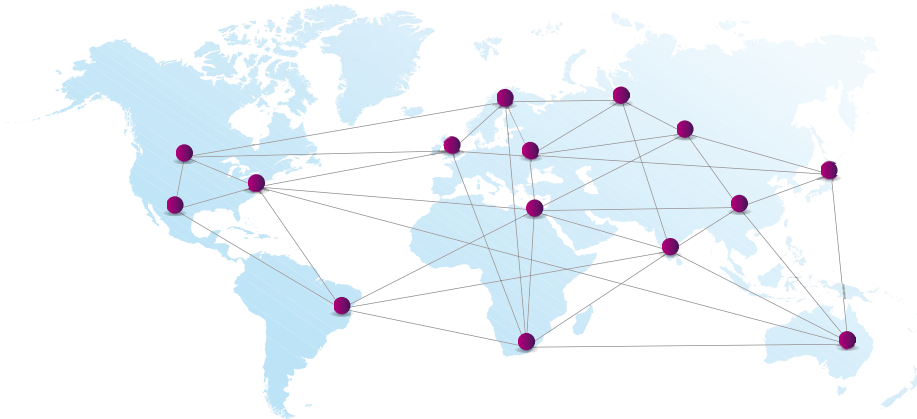
The imperatives for business success in the 21st century are shifting at an explosive pace. As the world gets smaller, a new landscape of increasingly interconnected enterprises, economies and consumers is giving rise to vast new challenges—and tremendous opportunities.

Globalization is not a trend, but, in fact, a condition of future success. Your ability to see the world, and the world of business, differently can spark significant change and possibility for your organization. Accordingly, savvy business leaders everywhere are seeing smarter approaches to develop and drive a successful transformation.

The belief that we've entered a new era of global integration—a profound historic shift not just a turn in the economic cycle—has shaped IBM's strategy of ongoing, aggressive reinvention over the past several years.

At the start of the last decade, we recognized three tectonic shifts that were reshaping our industry and the global economy

- First, the reality of global integration, leading to new business opportunities in developing nations, as well as a new form of the corporation itself—what we've come to call the globally integrated enterprise.



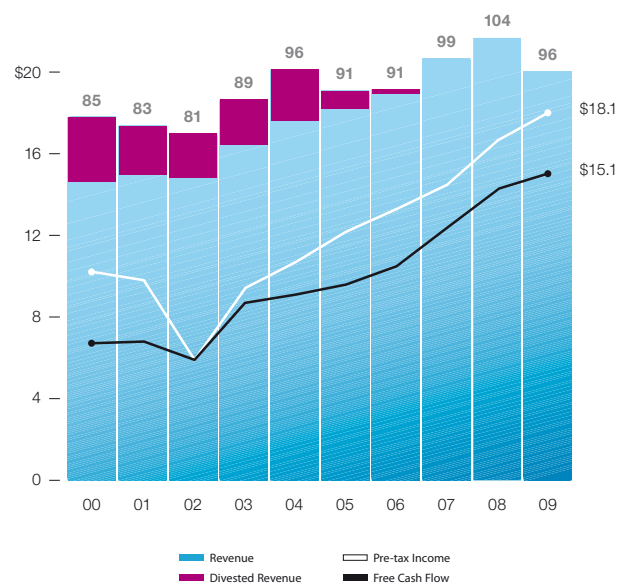
Globally integrated enterprise in the 21st century. Operations and functions are located anywhere in the world based on the right cost, skills and business environment.

- Second, a new model of computing, which was replacing the PC-based, client/server architecture. It was itself the result of three major technological developments.
 - Computational capability was being put into things no one thinks of as “computers”—phones, cameras, cars, appliances, even natural systems, such as rivers.
 - All of this was being connected through the Internet—soon to connect two billion users and trillions of objects—what some call the Internet of Things.
 - And we now had the processing power and advanced analytics to turn unprecedented volumes and velocities of data into insight.
- Third, changes in business requirements. Our clients were seeking not just efficiency, but innovation. So they needed to integrate advanced technology far deeper into their operations.
- We amassed substantial industry expertise and also reinvented the way we deploy it, shifting skills and decision making closer to the marketplace and the client.
- We accelerated the global integration of IBM’s operations. For example, we globalized our shared services—IT, human resources, finance, supply chain, marketing and communications, real estate, legal and sales operations. Over the past four years, we’ve realized \$4.2 billion in spending reductions in our shared services alone, capitalizing on skills around the world to provide the most efficient and effective support to our business units.

Because we believed that these shifts would change the competitive landscape of our industry and the world, we took action.

We’re now moving into the “smarter” phase of our transformation. We are leveraging business analytics, cloud technology and employee self-service to design work and processes in new ways and to achieve new levels of efficiency and effectiveness.

- We transformed IBM’s mix of products, services, skills and technologies by exiting commoditizing businesses like PCs and hard disk drives and investing in strategic acquisitions in key areas such as cloud, analytics and service-oriented architecture.



Financial performance history. (\$ in billions)

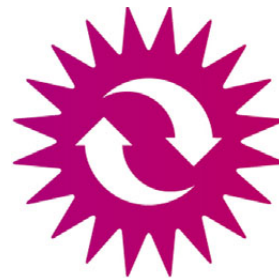
We've been able to offset the sluggish economies in mature markets in part by taking advantage of the swift growth in worldwide emerging markets. Our Growth Markets Unit, established in 2008 and based in Shanghai, brings a dedicated focus to IBM's presence in nearly 150 countries across Asia, Africa, Eastern Europe and Latin America. The growth markets contributed 19 percent of IBM's total revenue in 2009, as business there grew eight points faster than in major markets.

As a result of all these steps, IBM has achieved strong and sustained business performance. In 2009, we achieved our seventh consecutive year of double-digit earnings per share, record pretax earnings and record free cash flow, despite the challenging economic environment. We reached the target of our 2010 Earnings Per Share Roadmap of \$10 to \$11—one year ahead of schedule. Our gross profit margin and pretax income margin are at their highest in more than a decade. Our superior cash flow has enabled us to invest in the business—including more than \$56 billion in R&D from 2000 to 2009—and to generate substantial returns to investors.

We're now moving into the “smarter” phase of our transformation. We are leveraging business analytics, cloud technology and employee self-service to design work and processes in new ways and to achieve new levels of efficiency and effectiveness. Building on our proven track record of transformation success, we have committed to doubling our earnings per share over the next five years.

While every organization faces unique challenges, any business can be aided by the proven, smarter approach to organizational transformation we've developed for today's world. From our experience, and through working with clients around the world, we have framed a clear point of view on what it takes to transform an organization and make it smarter.

Successful transformation requires the active engagement of employees, for them to participate in the ideation and creation of what your organization truly wants to become.



1. Start a movement

Successful transformation requires the active engagement of employees, for them to participate in the creation of what your organization truly wants to become. To galvanize IBMers around a common set of beliefs, we held a worldwide online jam that engaged the entire company on the question of IBM's most basic values. The conversation was both passionate and honest, and, at the end of three days, we had set in motion a company-wide movement that's still alive today. The values have provided the foundation for all of the transformative work we've subsequently implemented to reinvent the company. And jams have become a big part of our cultural shift as we've moved to lower the decision-making center of gravity and extracting ideas from IBMers all over the world.



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.



2. Establish clear transformation governance

Transformation efforts usually begin with tremendous energy, but can fizzle if they are not overseen and structured for successful implementation. Governance not only helps to shape your strategy and prioritize investments, it is where the overarching metrics are debated and decided and where business value ultimately gets measured. In any size organization, driving meaningful initiatives across silos can be problematic. Building strong and effective governance models requires nimble organizational engineering—and considerable trial and error. Here are some practical tips:

- Establish needed councils to get the facts on the table.
- Make sure the people serving on the councils include business leaders as well as process and IT leaders. All must be capable of taking responsibility and driving action.

- Be wary of leaders “delegating down.” The key decision makers must have accountability and “skin in the game.”
- Take a fresh look at your councils every year, and ascertain that they’re still serving the right purposes. If they aren’t, be unafraid to change them. Nothing is static.

Analytics improve operational performance, glean better client understanding and support smarter, more rational, more predictive business decisions.



3. Transformation requires a data-driven discussion

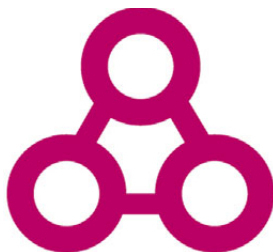
Within all organizations, the volume of data continues to compound at an incredible rate. The trick to building a smarter enterprise is to figure out how to turn this information into insight—that in turn leads to faster, smarter decisions.

Like many of our clients, IBM is applying leading-edge business analytics expertise and technologies in new ways to create value out of data. In HR, we are employing analytics to identify the best staff for open positions on projects using a matching engine, which reads unstructured information in job postings and resumes. This has reduced under-utilized resources and enabled us to more quickly provide client value.

Since its original implementation in 2006, Global Business Services has realized significant improvement in key performance metrics due to these capabilities. Our measure of unassigned resources, or bench, has dropped from eight percent to three percent. Our productivity as measured by billable utilization for each practitioner has improved 18 percent between year ends 2005 and 2009.

Working with math experts in IBM Research as well as IBM sales leaders, we developed analytical tools to help sales managers better deploy sales resources against growth opportunities and sellers to be more effective at uncovering new clients. Over the past four years, the Market Alignment Program boosted new revenue by \$1 billion. Another analytics tool, which aids sellers in prospecting for new customers and improving cross-sell at existing clients, added \$1 billion in new revenue over its first three years of deployment. The insight delivered through analytics possesses enormous potential to improve operational performance, glean better client understanding and support smarter, more rational and more predictive business decisions.

No organization can drive transformation without the smart plumbing of processes that better enable the smooth flow of work. At IBM, we call it radical simplification.



4. Radically simplify business processes

No organization can drive transformation without the smart plumbing of processes that better enable the smooth flow of work. At IBM, we call it radical simplification—eliminating, standardizing and automating the work that adds complexity and impedes integration.

Our sellers, for example, told us they spent nearly 20 percent of their time on the “opportunity to order” process: designing a solution, preparing a proposal, pricing it, drafting a contract and closing the sale. We responded by consolidating this process in a transaction hub dedicated to sales support, which saves each seller five hours a week—time they can better devote to delivering higher value to clients.

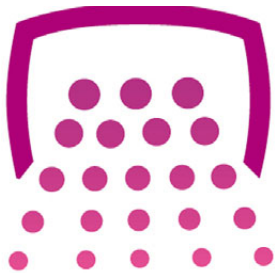
We’re also amid a multiyear effort to establish common procedures in finance, opportunity to order, and order to cash—core processes that touch every corner of IBM. Rather than remain business unit and region specific, the goal is horizontal integration across the entire enterprise on a common platform: the SAP Business Suite. In addition to streamlining operations, this deployment is allowing us to sunset 900 legacy applications, a major cost savings.

Remember that it takes time and effort to realign core processes, especially those entrenched in your business units and regions. While everyone advocates for simplicity in theory, when it comes time for individuals to let go of the little buttons and switches they use to customize their specific processes, buy-in is a challenge. Simplicity, after all, isn’t simple. But business processes must be.

Key lessons we’ve learned:

- Simplify from the point of view of your user, not the process owner.
- Understand the process as currently conducted before trying to simplify it.
- Eliminate process steps that don’t add identifiable value; in 2009, \$500 million in our productivity improvement was driven from process redesign initiatives.

The key is to tackle reinvention first—then to apply technology to enable and accelerate initiatives.



5. Invest in transformative innovation

New technology alone doesn't create transformation or fix a flawed process. But it can accelerate your progress and enable your people.

New platforms are emerging that are not only more cost-effective, but stimulate the work environment and facilitate collaboration. Blue Insight Cloud, the world's largest private cloud computing environment for business analytics, consolidates information from nearly 100 different information warehouses and data stores, providing IBM teams with analytics that rapidly deliver solutions to clients. We expect to realize tens of millions in savings over five years through this cloud deployment. Available to clients, this internal cloud provides faster time to market and more rapid response to changing business needs.

IBM developers are now using a cloud platform for a self-service, dynamic computing capacity domain that can provision a server or group of servers, a process that used to take five days, in one to two hours. By the end of 2010, 80 percent of IBM's internal development test activity will be supported in the cloud environment.

The key is to tackle reinvention first—then apply technology to enable and accelerate initiatives. Optimized IT also delivers substantial cost savings that can be reinvested to further the transformation process. Indeed, IBM's transformation efforts have been funded in part by the more than \$1 billion in IT savings we've driven over the past four years.

It's a commitment to ongoing reinvention, by leaders at all levels. That is at the heart of IBM's transformation journey—and must be at the core of yours, too.



6. Embody creative leadership

Finally, it takes a new form of leadership to be a successful transformation leader in a 21st century global enterprise. In IBM's most recent CEO survey, conducted through face-to-face interviews with 1,500 business and public sector leaders across 33 industries and 60 countries, creativity was pinpointed as the number-one leadership quality needed today.

IBM has long focused on the art and science of developing the world's best business and technical leaders. During the past decade, we've made an even deeper commitment to building leadership among employees at all levels, creating a significant

competitive advantage. And we've taken a disciplined approach to building our change management capabilities, an essential skill set for leading transformation initiatives effectively from strategy setting through adoption.

Consistent with the findings of the CEO study, we've learned it takes new approaches to lead a highly networked global workforce spanning multiple generations. Social computing skills can sustain relationships that are hard to foster when leading remote teams. We recently launched an advocacy program to encourage and enable IBM's executives at the highest levels to embrace the changes that social networking brings. The program recruits employees experienced in online social environments to serve as coaches to top executives and teach them ways to make the most of social software tools and techniques. It's proven to be an excellent way to link existing and emerging leaders.

The skills required to influence change today are different than they were even a decade ago. Recognizing this, we recently introduced the new IBM Competencies, a set of desired skills and expertise required to bring out the best in all IBMers. It incorporates and retains key concepts from leadership competencies that had come before, while reflecting new areas of emphasis—broader and deeper thinking of systems and patterns, the ability to handle uncertainty with optimism and enthusiasm, more openness to a multitude of cultural differences, meaningful collaboration, and a spirit of restless reinvention. It's this commitment to ongoing reinvention, by leaders at all levels, that is at the heart of IBM's transformation journey—and must be at the core of yours, too.

This is not to say we are finished. Far from it. We still have much work to do around partnering, sharing and globally integrating, and we expect those efforts to continue to yield benefits in future years. However, the greatest opportunity we see in transformation is in becoming smarter. Let IBM show you how.

For more information

To learn more about how to drive a successful transformation in your organization, please contact your IBM marketing representative or IBM Business Partner, or visit the following website: ibm.com/c-suite



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