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## Three questions for services, software and systems

Leaders of IBM's major businesses discuss their clients and the future



The leaders of each of IBM's multibillion-dollar businesses meet with hundreds of clients every year, from small start-up operations to the leaders of other multibillion-dollar businesses, in every kind of industry in every region of the world. They recently shared the challenges they've heard from IBM's clients in recent years, what they see on the horizon, and the strategic business and technology issues on which their own parts of IBM's business are focused.

### Questions for **Mike Daniels**, IBM Global Technology Services



**Q.** What are the biggest challenges you've seen for IBM's technology services clients over the past five years?

**Mike Daniels:** Security has to be one of the top challenges. Twenty-five years ago, the first virus started as a prank by a fifteen year old, who wanted to impress his friends. Now our clients face cyber terrorism and cyber crime, which are becoming increasingly sophisticated and dangerous. Because the security threat to businesses has really changed in the past five

years, many companies have tried to combat the threats by bringing in a series of point products. We have found these fragmented and reactive approaches don't work anymore. We believe clients need to [manage the risk](#) across their businesses with a proactive approach—dealing with tomorrow's threats, not today's.

**Q.** What trends do you foresee for these clients in the next five years?

**A.** Becoming a truly global company is going to require that companies change. Globalization requires companies be part of a global supply chain, deal with worldwide labor supply and manage talent around the globe. Enterprises need the right tools, management processes and governance to explore new marketplaces, support customers, enable new levels of collaboration and expand their business operations. There is a tremendous [convergence](#) happening in the areas of voice, video, data, and mobility and application resources. This is one way that we think clients can integrate their technologies—while controlling costs, improving productivity and collaboration, and enabling new business models.

**Q.** What is the biggest roadblock for companies to grow tomorrow?

**A.** When I talk to clients—CEOs and CIOs—they tell me about their power concerns. I am starting to hear over and over again that clients are literally running out of power. This energy crisis in the data center is the greatest obstacle that companies will face. Add to this that there is an ever-growing demand for computing power and storage capacity. This is really a great place for IBM to differentiate ourselves. Earlier this year, IBM announced [Project Big Green](#), an initiative to help clients create energy efficient data centers and optimize their IT environments. Our approach can help clients contribute to their bottom line and aid the environment. We set out a five-step approach that provides critical insight for our clients so they can better recognize their energy use and its business impact and then take appropriate action to optimize their operations.

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## Questions for **Ginni Rometty**, IBM Global Business Services



**Q.** What are the biggest challenges you've seen for IBM's business services clients over the last five years?

**Ginni Rometty:** One of the most important changes, the shift that has had the most pervasive influence on client priorities and decision making, is the rise of this new competitive environment—global, volatile, but with lots of opportunity for top-line growth. That's all come about in the last five years. One result of that is that it's no longer sufficient to base competitive position on great

operational efficiency or growth. Global business leaders tell us they have to have both, which requires them to drive [new kinds of innovation](#).

**Q.** What trends do you foresee for these clients in the next five years?

**A.** I don't think there's much question that we'll see more and more attention on innovation in [business model design](#). It's quite clear that this is the path to the most sustainable kind of competitive advantage. And then, what's really just emerging now is an increasing focus on moving to more globally integrated modes of operation. That's one of the biggest reasons you've got all this buzz around [service-oriented architecture](#), or SOA. If you want to be that kind of rapid-response, global player, SOA is the way clients are going to drive more and more flexibility into their application and business process base, and that flexibility is fundamental to business model redesign.

**Q.** In this context of global integration, how is IBM going to make sure it is bringing the best talent and thinking to its clients?

**A.** That's a great question, because I do believe we're approaching an inflection point in the management of global labor forces. More and more of our clients are coming to view the global economy as a [talent economy](#). And it's just as evident that traditional ways of finding and managing talent, developing professionals and training leaders are going to undergo fundamental change as work and teams become increasingly virtual, global, horizontal and fluid.

Taken together, these forces are creating a talent marketplace that's very different from anything we have seen before. I think it's going to be a major opportunity for IBM to differentiate. There are no other companies we compete with that come to this challenge with a 100-year history of progressive workforce policy—diversity, training, development, mobility, leadership development—which adds up to an [employment proposition](#) in any of the world's hottest labor markets that separates IBM from other potential employers. We're already being recognized in India and elsewhere for best-of-class training programs, which is one reason our attrition rates run under industry averages, which translates, for openers, into client value based on greater continuity of talent over the course of the engagement.

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## Questions for **Steve Mills**, IBM Software



**Q.** What are the biggest challenges you've seen for IBM's software clients over the last five years?

**Steve Mills:** One would be integrating the incredible quantity of information—that continues to grow exponentially every year—to solve business problems. Information is one of the most valuable assets within an enterprise and requires [thoughtful management](#). Information resides in so many forms and is stored in so many different formats that quickly extracting meaningful data is extremely difficult. Delivering [information on](#)

[demand](#), therefore, requires open industry standards to allow a seamless flow of all forms of data regardless of format, platform or location. IBM took aggressive steps, including a \$1 billion investment over three years and the dedication of 25,000 experts to expand our Information on Demand capabilities. The combination of our middleware and services and consulting expertise has made IBM well-suited to help customers extract new value from their business information.

Another major challenge I've seen has been for clients to become flexible and responsive to changing business conditions. Clients want open rather than proprietary software; quantifiable business benefits; and integrated business processes and solutions tailored to their needs. Companies that have adopted a [service-oriented architecture](#) [SOA] are able to look at their business as a set of linked services. It's important to understand that SOA isn't a technology; it's a business-driven approach to information technology. With an SOA approach, businesses tap into their existing technology investments and link together previously fragmented data and processes—creating a more complete view of operations. SOA also draws on all of IBM's strengths: software, services and systems and, as the worldwide leader in middleware, we're in a strong position to continue to lead in the SOA market.

**Q.** What trends do you foresee for these clients in the next five years?

**A.** First, [Web 2.0](#). With more than one billion users online globally, the social networking phenomenon is exploding and will have an impact on the enterprise. Web 1.0 was about connecting people with information, whereas Web 2.0 is about connecting people to people *and* information—amplifying their power through collaboration. Within five years, Web 2.0 will generate a new age of collective

intelligence and extreme insight, in which business leaders can correlate the massive amounts of information on the Internet with that of their own enterprises, including text, audio, video and dynamic “gadgets” to create real-time business scenarios and timeliness never before possible. As the first vendor to offer a social networking platform for business and a leading internal user of social software, IBM has established itself as an innovator in business-grade social networking.

Next, I’d say [business-driven computing](#). The days of buying technology just to get the latest widget are over. The IT industry is no longer vendor-driven, but customer-driven, as clients are trying to derive more business value out of their existing applications and infrastructure to gain new business insights or to reduce costs. We believe the IT industry is now in a new era which plays to IBM’s strengths in providing software and services for initiatives such as SOA and Information on Demand. We’re leveraging [our entire portfolio](#)—systems, software, and services—in pursuit of this customer-driven market opportunity.

**Q.** With SAP’s recent \$7 billion acquisition of Business Objects and Oracle’s continued aggressive acquisition strategy, there appears to be significant consolidation in the software industry. What is your view on this trend and how this impacts IBM?

**A.** Despite these recent high-profile mergers and the inevitable speculation about industry consolidation, the software market is expanding, not contracting. Hundreds of new software companies quietly enter the market every year, boosting the industry’s overall size. The software industry will continue to be an attractive area for entrepreneurs for the foreseeable future. In the most recent quarter, venture capitalists [VC] continued to make the software industry one of the top funded business areas. Overall, VCs invested more than \$7.1 billion in 887 deals in the third quarter of 2007. This marked the ninth consecutive quarter of investment growth and represents the highest quarterly investment total since the first quarter of 2001.

Since we formed a [VC Group](#) in 2000, IBM has gone from working with 20 firms funded by VCs to establishing partnerships with more than 1,300 VC-backed companies in the past two years alone. The impact is clear when you consider that our business partnerships account for one-third of IBM’s revenue. Our VC Group has increasingly contributed to our acquisition strategy, serving as a catalyst to 18 acquisitions around areas such as business intelligence, SOA and security.

We will look for companies that enhance our portfolio, but also continue to innovate with our own set of over 20,000 developers in 60 labs around the globe. This balance of “organic” growth and strategic acquisitions helps us maintain the most well-rounded product portfolio in the industry and moves us toward higher value opportunities for our clients.

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## Questions for **Bill Zeitler**, IBM Systems



**Q.** What are the biggest challenges you’ve seen for IBM’s systems clients over the past five years?

**Bill Zeitler:** Over the past five years, we’ve seen an acceleration of our clients’ enthusiastic embrace of new IT products and systems that started with the build-up of the web infrastructure about a decade ago. As a result, today our clients are dealing with an incredible level of [complexity in their infrastructures](#). The installed base of systems and associated networking equipment has grown dramatically, while at the same time our clients’

systems management, administrative, and power and cooling costs in their data centers have reached a breaking point.

**Q.** What trends do you foresee for these clients in the next five years?

**A.** Over the next five years, we expect our clients will work with companies like IBM to help them [simplify their complex infrastructures](#) through virtualization and integration technologies. Simplification will enable our clients to optimize their resources and make their infrastructures more secure, available and green. This, in turn, will allow them to stay competitive and respond quickly to changes in the marketplace.

**Q.** What is IBM's "Project Big Green"?

**A.** Many of our large clients have simply run out of space and power in their data centers. IBM responded in May 2007 by announcing our energy efficiency initiative—or Project Big Green. This is an example of IBM's leadership in the enterprise, from designing energy efficient data centers, to deploying systems virtualization, to developing energy efficient products, to our "Cool Blue" energy management offerings. My colleague Mike Daniels and I recently spoke with financial analysts about Project Big Green. In [a recent webcast](#), we discussed how IBM is helping clients rearchitect, provision and manage their data centers to reduce energy use and gain efficiencies.



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