

IBM Global Services: A Brief History

IBM Corporate Archives
May 2002

OVERVIEW

Background

In 1991 IBM was a \$64.8 billion company, of which less than \$6 billion was derived from non-maintenance services. Ten short years later, the business of information technology (IT) services alone generated more than 40 percent of IBM's \$86 billion in sales and had become the single largest source of revenue in IBM's portfolio.

How did that happen? It was partly the result of old-fashioned hard work and serious commitment: growing customer by customer; building disciplined management and financial systems; and investing to hire and train experts in everything from IT consulting to systems architecture and Web services. IBM used its financial strength to fund the expensive push into outsourcing, and the company placed informed bets on the future in areas such as IT utility services ("e-business on demand") and hosted storage.

But most important, the success of IBM Global Services came from something very simple: a clear understanding of customers' needs. IBM saw that technology and business were converging to create something new and challenging for every kind of enterprise. And IBM had the deep experience in both areas to help its customers bring them together most effectively.

The following pages offer a brief look at the history and growth of the organization that is today IBM's top revenue generator.

Definitions

What are "services?" In the IT world, that broad term has encompassed dozens of offerings and meanings, including consulting, custom programming, systems integration (designing, building and installing complex information systems), systems operations (in which a vendor runs part or all of a company's information systems), business innovation services (such as supply chain management), strategic outsourcing, application management services, integrated technology services (such as business recovery), networking services, learning services, security services, storage services and wireless services. (For a full list of IBM's various services, visit <http://www-1.ibm.com/services/fullservice.html>)

Origins

The beginning of IBM's involvement in IT services can be traced back at least to 1989 when Eastman Kodak Company and IBM completed an agreement by which IBM designed, built and managed a new state-of-the-art data center for Kodak in Rochester, N.Y. That experience -- which was beneficial for both companies -- encouraged IBM to provide additional outsourcing services by exploiting the excess capacity in its own data centers.

Also in 1989, IBM introduced Business Recovery Services, an offering that enables a business to continue operations in the event of an unplanned outage or disaster.

In the spring of 1991, IBM's Corporate Management Board approved a new worldwide services strategy. Its goal: to make IBM "a world-class services company" by 1994. That same year, IBM

restructured its Systems Services Division as the Integrated Systems Solutions Corporation (ISSC), a wholly-owned subsidiary to provide a broad range of outsourcing services to customers.

Strategies & Tactics

Three different stages characterize IBM's evolution into a services-led business.

The Early-1990s

When Louis V. Gerstner, Jr., became chairman of IBM in 1993, he found some 20 largely independent business units -- each with their own strategies and some in the process of moving toward spin-off or sale. As IBM's 2001 annual report put it: "We were on a fast track [in 1993] to being dismantled, from within." But that spring, the new leadership decided IBM would stay together. "We believed niche players weren't the future," stated the annual report. "In fact, breaking up the company would have been the end of everything IBM stood for. We made a big bet that customers needed a partner who could both create technologies and integrate them -- with each other, and with the customer's business processes. At the time it was a gutsy call. They always are when you're alone. But we decided that we should be true to ourselves. It all started with that."

The 1993 decision not to break up the company became the foundation of an "integrator" business model for IBM. And IBM Global Services has become the focal point of this model, bringing together hardware, software and services.

A second strategy devised in the early-nineties built on the client/server phenomenon of the late-1980s and predated the explosion of the Internet for commercial uses. IBM initially called it "network centric computing." Harnessing the company's substantial networking capabilities, IBM brought together multiple internal networks under a single organization to form the IBM Global Network in 1994, the mainstay of which was electronic data interchange services.

Thirdly, IBM made some key investment and disinvestment decisions to shift the balance of its skills and capabilities toward higher revenue growth. For example, the company put additional funding into its consulting group, which had been unveiled in 1992. This buildup reflected a shift in IBM's services philosophy from merely an after-sales activity, such as maintenance, to a broader approach of assisting customers in every facet of their ongoing business operations.

In sum, during the early-nineties, IBM kept itself whole (to act as an integrator), established its future around networks, and acquired resources to better position the company in a world in which services was becoming more important for growth and success.

The Mid-1990s

In the middle of the last decade, IBM formed a unified organization to develop and deliver services. This new unit -- IBM Global Services (IGS) -- was formed in 1995 to provide customers with worldwide reach and more consistent service levels. As a result, Global Services rationalized its offerings by shrinking from an ungainly 2,500 offerings worldwide down to about 100 solution categories that were consistent globally.

As Dennie M. Welsh, the first general manager of IGS, said in December 1996: “It is clear we cannot stand still. IBM Global Services must change because our customers, marketplace and competitors are all changing. Our new management structure will enable greater teamwork throughout IBM and continue building on the momentum of profitable services growth and customer satisfaction worldwide.”

And change it did. Among the new moves were reorganizing services around clear lines of business mapped to customer needs and concerns; aligning IGS capabilities, skills and practices around three major areas (innovation and integration, infrastructure support, and strategic outsourcing); and gearing up consulting group practices to help clients implement and manage standards-based environments.

IGS made other adjustments as well. It moved out of the network infrastructure business by selling its Global Network because it could acquire underlying connectivity from other providers at less cost and investment. As a corollary of that, IBM elected to concentrate on managing the information and data that was streaming into networks by connecting business processes across enterprises and up and down industry value chains. In addition, IBM merged the Consulting Group -- which was previously tied to its sales units -- into Global Services. Ginni Rometty, general manager of IBM Global Services, Americas, says “What this did for Services and for IBM was to join at the hip our best market-facing thinkers with our integration experts who knew how technology fits together to deliver higher value solutions to the customer.”

Late-1990s And Beyond

In recent years, IBM Global Services has expanded its portfolio to offer many more e-business services as a result the powerful effect of the Internet on commerce. Customers needed help to sort out the new range of technology choices. They wanted advice on a coherent strategy for e-business and a better understanding on the impact of technology on their overall enterprise strategy, especially advice that is relevant and specific to their own industries.

IBM Global Services responded rapidly to these emerging needs because it always believed “serious e-business” is what customers would eventually want. And, as demonstrated by the collapse of many dot-com start-ups, that belief has been validated by events in the marketplace.

Much of what IBM learned and applied to customers was derived from the company’s own transformation during the late-nineties into a leading e-business in its own right. IBM converted its in-house experience in e-business into several commercial opportunities. For example, internal advances based on business intelligence and knowledge management tools were incorporated into many solutions, and IBM’s expertise in using the intranet as its primary internal communications channel paid dividends when many customers asked IBM to build similar web environments for them.

Going forward, IBM Global Services has increased its industry focus by concentrating its skills, knowledge and capabilities on clients’ specific business issues and building an inventory of reusable assets to speed response time. IGS has integrated at the industry level, where it concentrates on 16 industries grouped into five sectors.

LESSONS LEARNED

In building its services business over the past 10 years, IBM has learned at least six lessons which might be applicable to other businesses.

First, commit to business and cultural change for the long run. IBM's successful services evolution was not initially obvious to observers. Even though the services-only business (excluding maintenance) was unprofitable until 1994, IBM stayed the course, and that business has grown accordingly.

Second, invest in people and the processes to support them. In the services business, *people* are the brand. For that reason, IBM invests over \$1 billion a year in education and training for its employees, much of it done via distance learning.

Third, align your resources closely to customer demands.

Fourth, adhere to your core strengths and remain focused on strategy. IBM did not get distracted by the dot-com mania. The company believed e-business was not about browsers but was really about business; not about clicks but about commerce. IBM's business plan was based on that belief and when the market eventually shifted in that direction, IBM was ready and positioned to deliver mission-critical services solutions.

Fifth, build and leverage multiple value chains. In today's global business environment, alliances and "co-opetition" are common practices because no one company can do it all. Competitive advantage can be derived by identifying the role that best suits your company and by recognizing what someone else can do much better or much quicker -- and combining the two.

Sixth, adapt, anticipate and be quick to innovate. IBM now regenerates its services portfolio on a rigorous and regular basis. Annual strategic plans are a relic of the past.

CHRONOLOGY & SELECTED HIGHLIGHTS

1989

IBM says that it and Eastman Kodak Company have entered into an agreement under which IBM will design, build and manage a new state-of-the-art data center for Kodak in Rochester, N.Y.

IBM introduces Business Recovery Services, an offering that enables a business to continue operations in the event of an unplanned outage or disaster.

IBM signs a service contract with Hibernia National Bank to operate and maintain its computer systems and provide information processing support throughout the organization.

1991

In the spring, IBM's Corporate Management Board approves a new worldwide services strategy to make IBM "a world-class services company" by 1994.

IBM restructures its Systems Services Division as the Integrated Systems Solutions Corporation (ISSC), a wholly-owned subsidiary to provide a broad range of outsourcing services to customers.

In a related move, IBM Canada, Westbridge Computer Corporation and STM Systems Corporation form a new systems management services company: Information Systems Management Corporation.

IBM's Integrated Systems Solutions Corp. announces agreements with a number of U.S. firms, including Supermarkets General Corp., Commerce Bancshares and First American National Bank of Nashville.

IBM and Coopers & Lybrand form Meritus Consulting Services, a company that offers consulting services to businesses in the consumer package goods, pharmaceutical, aerospace, automotive and other industries.

1992

The IBM Consulting Group is unveiled with 1,500 consultants worldwide to provide management and information technology-related consulting services to companies and organizations in 30 countries.

IBM -- through its Integrated Systems Solutions Corporation -- and Sears, Roebuck and Co. reach an agreement to form Advantis, a joint venture that will be the premier voice and data networking services company in the United States.

The State of California awards IBM's Integrated Systems Services Corporation (ISSC) subsidiary an \$80 million contract in February to develop, implement and maintain California's child welfare system. Included in the plans are 4,500 Personal System/2 computers and a network that will link nearly 10,000 county social workers and staffs. Two California health-care providers award ISSC in June its first outsourcing agreement in the health-care industry. Marriott selects IBM systems integration services, as well as RISC System/6000 servers, for a new hotel management system to be used in more than 230 hotels worldwide. ISSC and United Technologies Corp. announce a long-term agreement under which ISSC will assume data center management for three UTC business units.

Canada's Consumer and Corporate Affairs Department awards IBM Canada a \$49 million systems integration contract to automate its patent office.

IBM U.K. forms IBM Information Solutions Ltd. as a wholly-owned subsidiary to offer outsourcing services.

IBM CSFR announces the availability of the IBM Managed Network Service to customers in Czechoslovakia. IBM's first systems integration in the Czech Republic is awarded by the Ministry of Finance for the implementation of a system for tax administration and collection.

IBM North America's services business grows 38 percent to \$4 billion. IBM becomes the largest services provider in Europe with revenues of \$2.3 billion.

1993

Under a \$650 million contract, IBM's Integrated Systems Solutions Corporation (ISSC) is to provide Equifax Inc. with data center management and other services for 10 years. Southern Pacific Lines signs a 10-year, \$415 million technology agreement with ISSC to provide the railroad with a new program for handling its information technology function and a new organization to manage the process. ISSC wins a major multiyear contract with Jack Eckerd Corporation.

The IBM Consulting Group is awarded major contracts in Brazil with Philips and CHESF.

IBM Japan Services Company is formed.

IBM's total services revenue reaches \$17 billion (see Chart 1).

1994

The company forms the IBM Global Network as a business unit which will develop and operate the world's largest high-speed voice and data network dedicated to network-centric computing. It will be made up of Advantis, the IBM Information Network organizations worldwide, and wholly-owned subsidiaries around the world. The IBM Global Network already serves two million users at some 25,000 businesses and government agencies in more than 100 countries.

1995

In January, IBM unifies its services business into IBM Global Services, a single, global team to deliver seamless, integrated solutions to customers worldwide. Dennie M. Welsh is named general manager, global services.

Holiday Inn Worldwide and IBM say they will work together to refine and fully integrate the worldwide hotel chain's client/server central reservation and property management system..... Ameritech and IBM form a technology services alliance in the desktop outsourcing marketplace.

STET, the Italian holding company which owns Telecom Italia, and IBM announce a preliminary agreement to become global partners on a wide range of advanced business and consumer services via worldwide communication networks.

IBM becomes the world's largest IT services provider, surpassing EDS on a services-only basis.

The total value of IBM's worldwide managed operations contracts reaches the \$30 billion mark as new business signings of more than \$3 billion are recorded worldwide during the first half of the year. IBM's total annual services revenue reaches \$20 billion (see Chart 1).

1996

The company says it will operate its worldwide services business under a single brand: IBM Global Services.

At the 1996 Centennial Olympic Games in Atlanta, Georgia, IBM demonstrates the largest integrated information technology system ever seen by a mass audience. IBM systems are deployed on 30 interconnected venues. An estimated three terabytes of time-sensitive, transaction-oriented data are collected during accreditation, games management, scoring and other events, and are passed through 7,000 microcomputers, 250 LANs, 500 data lines and 2,000 wireless computers and other system communications devices. The system also supports 80 AS/400 servers and four System/390 mainframe computers. An IBM SP2 supercomputer acts as the World Wide Web server and runs the Regional Weather Forecasting System.

Lucent Technologies and IBM's ISSC subsidiary sign a multi-year, multi-billion dollar outsourcing agreement, in which ISSC will manage the majority of Lucent's day-to-day information technology operations. IBM and The MetraHealth Companies, Inc., a subsidiary of United HealthCare Corporation, signs a 10-year, \$540 million contract for information technology services.

IBM reports in August that its worldwide outsourcing business reaches a total commercial contract value of \$40 billion since the business was launched in 1991, driven by new business signings of \$5.1 billion recorded during the first half of the year. Total IBM annual services revenue reaches \$22 billion, some 29 percent of IBM's total worldwide revenue (see Chart 1). Four out of every 10 IBM employees now work in Global Services (see Chart 2).

1997

IBM announces plans in May to become sole proprietor of Advantis — the U.S. data network services arm of the IBM Global Network — by buying Sears' 30 percent equity interest.

IBM, Telstra and Lend Lease Corporation form an information alliance, signing Australia's largest information technology outsourcing deal and establishing a new network services company called Advantra. As part of the agreement, IBM Global Services Australia will take responsibility for Telstra's data center operations, creating the largest data processing center in the Southern Hemisphere.

IBM Global Services hires 15,000 new employees, bringing the total to 109,000.

IBM's total services revenue reaches \$25 billion, with a \$43 billion backlog (see Chart 1).

1998

IBM and AT&T announce in December a series of strategic agreements under which AT&T will acquire IBM's Global Network business for \$5 billion in cash, and the two companies will enter into outsourcing agreements with each other. IBM will outsource a significant portion of its networking needs to AT&T, and AT&T will outsource certain applications processing and data center management operations to IBM.

IBM acquires The Chem Systems Group Inc., a management consulting firm serving chemical and petroleum companies, which will function as part of IBM Consulting.

IBM helps set new Internet records at the Nagano Olympic Winter Games in February. The official Nagano Web site, powered by IBM, registers an unprecedented total of nearly 650 million hits from around the world over the course of the 16-day event. (By comparison, the 1996 Atlanta Olympic Summer Games registered 187 million hits.) The *Guinness Book of Records* officially recognizes IBM for setting two world records in Internet traffic on the 1998 Nagano Olympic Winter Games Web site: "The Most Popular Internet Event Ever Recorded" and, with 110,414 hits, "The Most Hits On An Internet Site in One Minute."

IBM wins more than \$30 billion in new IBM Global Services (IGS) contracts. Of the 38 outsourcing contracts IBM signs in 1998 that are worth \$100 million or more, nearly half are with customers outside the United States, more than double the percentage of two years ago. For example: the French insurance company GAN selects IBM to help deploy a worldwide satellite network connecting 1,000 of the company's general agents eight Singapore government institutions and ministries award desktop outsourcing contracts worth more than \$16 million to IBM Korean Airlines signs a 10-year, \$120 million outsourcing contract with IGS IGS and SC Johnson Wax establish a comprehensive global information technology (IT) alliance, including a 10-year, multi-million dollar outsourcing contract for IGS to manage SC Johnson Wax's data center operations across Europe and to support manufacturing sites in the U.K. and Holland Kao Corporation and IBM Japan, Ltd. sign a strategic outsourcing contract Fiat and IBM announce a \$175 million outsourcing relationship in Latin America Equifax broadens its U.K. outsourcing contract with IBM with a new 10-year contract for \$220 million and Lend Lease extends its outsourcing agreement with IBM Global Services Australia in a \$167 million, six-year contract extension.

The Boeing Company awards IBM a comprehensive IT contract valued at more than \$2 billion over five years. GE Capital Services and IBM announce their intent to enter into a long-term IT alliance, under which GE Capital will outsource its mainframe and midrange processing for its own businesses to IGS, and IBM will acquire the commercial data center outsourcing business of GE Capital Services Technology Management Services and serve its current external customers worldwide. The Hertz Corporation renews its five-year, \$100 million-plus contract for a variety of IT services. Chiron Corporation and IBM establish a 10-year, \$139 million IT outsourcing relationship.

The company introduces IBM Security Services to help customers assess and improve security in their computing environments and IBM Distributed Learning Services, which help companies assess training needs and implement technology-based learning programs.

IGS now has 126,000 employees and generates nearly \$29 billion in 1998 revenue, with a \$51 billion backlog.

1999

Global Services annual revenue reaches \$32 billion, with a \$60 billion backlog. There are 138,000 IGS employees.

2000

In building and managing the technology infrastructure for the Sydney 2000 Olympic Games, IBM turns in a Gold Medal performance. The official Games Web site, powered by IBM, handles unprecedented Internet traffic with 11.3 billion hits, a 1,700 percent increase over the Nagano Games official site in 1998. More than 13 million lines of software code are written and thoroughly tested before the Games begin. Nearly 6,000 people provide technology support for 300 medal events in 37 sports competitions held in 39 venues. More than 7,300 IBM PCs and ThinkPads are connected to the Olympic Games information technology network, 540 Netfinity Servers support the Games Management System by storing massive amounts of data, 50 IBM RS/6000 PC and three RS/6000 SP servers manage and organize data generated by Olympics.com and an intranet system, and three S/390 Parallel Sysplex power the Central Results System.

IBM Global Services adds hosted storage and storage management to its portfolio of network-delivered services.

Texaco awards a five-year, \$100 million to IBM Global Services to be its primary information technology (IT) service provider. Aventis, a leading life sciences company, and IBM sign a ten-year, \$1.5 billion global IT services agreement under which IBM will manage and run core elements of Aventis' IT operations. In one of Europe's largest outsourcing agreements, The Bank of Scotland awards IBM a ten-year, \$1 billion contract to manage and operate the Bank's IT infrastructure. IBM announces a 15-year, \$1 billion global technology services agreement with mg technologies ag, an IT company. Westpac Banking Corporation selects IBM to supply its IT services for the next ten years in a \$2.3 billion agreement. IBM and Xcel Energy, one of the 10 largest utilities in the United States, announce an 11-year strategic relationship to strengthen the latter's technology infrastructure while cutting IT costs in 12 states. The total value of the relationship now exceeds \$1.2 billion.

Revenue from e-business services grows more than 70 percent. Total worldwide services revenue tops \$33 billion, with a backlog of \$85 billion. There are 149,000 IGS employees.

2001

As part of the company's Project eLiza -- a multi-billion dollar program to develop self-managing systems that reduce the cost and complexity of the IT infrastructure -- IBM

delivers the industry's first services to automate key e-business processes that predict, identify and intercept problems on a real-time basis.

IBM announces a worldwide initiative to align its extensive safety and security offerings within an expanded IBM Global Services Practice and to create a new corporate-level Global Solutions Office to address broader and emerging safety and security issues in industry, global commerce and society.

IBM services revenue of \$35 billion surpasses hardware revenue for the first time. Whereas in 1996, Global Services contributed 29 percent of IBM's total revenue, IGS now accounts for 41 percent of the total. With 148,300 people, IGS now has nearly half (46 percent) of the company's employees (see Chart 2).

CHARTS

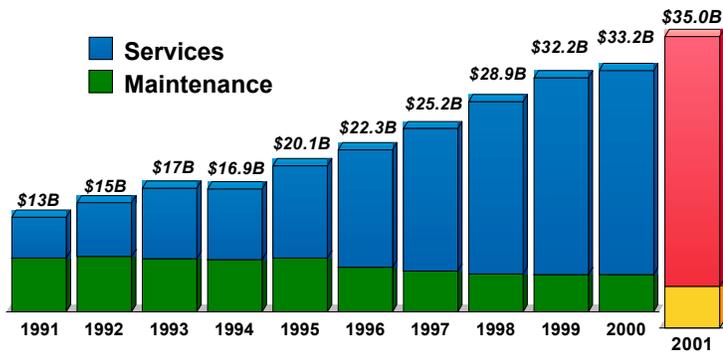
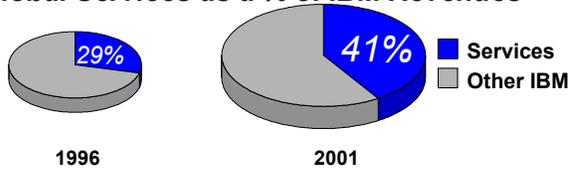
Chart 1 - IBM Services Revenue 1991 - 2001A Decade of Growth in Services

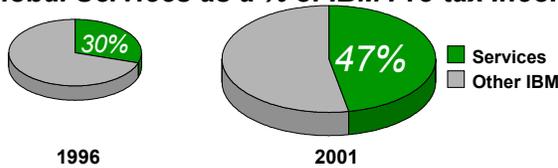
Chart 2 - Global Services & IBM 1996 & 2001

Services Contribution to IBM

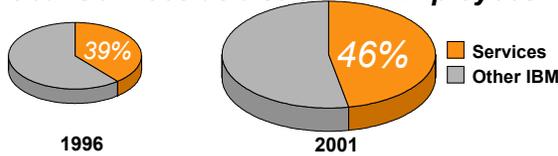
Global Services as a % of IBM Revenues



Global Services as a % of IBM Pre-tax Income



Global Services as a % of IBM Employees



Acknowledgments

The author s wish to express their appreciation to Bill Dunne, Ames Nelson, Jon Iwata, Roberta Paul, Ginni Rometty, Ken W. Sayers and Dennie Welsh for their contributions to this history.