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Global Services Are King at Big Blue

MICHELE ROSEN

To Louis Gerstner, IBM Corp. CEO, 1997 was a very good year. Revenue was up 3 percent to a record \$78.5 billion, and net earnings increased by more than 12 percent.

Services are sustaining IBM's bottom line.

But the services division's financial strength is being challenged by higher costs and continuing overseas economic woes. And now, it may face its greatest challenge yet, as more and more computer companies such as Compaq Computer Corp. and Computer Associates Int'l Inc. realize that services are the key to customer satisfaction.

It's ironic that services have become such a cash cow for IBM, considering that the company used to give them away free. For its first 4 decades, IBM included services such as consulting and systems integration with hardware and software purchases.

But during the last recession, companies laid off employees and replaced them with consultants from companies such as services firm EDS (Plano, Texas). In 1990, IBM decided to get into the act. Its new Global Services division made \$2 billion in its first year.

Revenue has grown by more than 20 percent a year since. In 1995, IBM overtook EDS to become the largest services

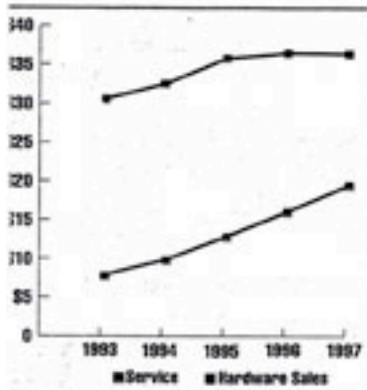
company in the world. In 1996, Big Blue signed \$27 billion in services contracts. Many are long-term deals, such as the 10-year outsourcing agreement IBM reached last December with Monsanto (St. Louis, Mo.), an agricultural and pharmaceutical products company.

The IBM division offers 20

services that range from business management services to systems integration to network outsourcing services. The offerings are grouped into three categories: professional services, product support services and network services. Levels of service are also divided into three categories: ServicePac,

which offers a single "shrink-wrapped" service; ServiceSuite, for small and medium-sized businesses; and ServiceElect, for larger enterprises.

The services division now brings in more revenue than any other at IBM — \$19.3 billion in 1997, almost 25 percent of total (Continued on page 52)



Service growth: While IBM's hardware sales have flattened out, services business continues to grow in excess of 20 percent per year.

Without the company's Global Services division, however, things would have been very different. In fact, if the division had not existed last year, Big Blue would have lost money for the first time since it recovered from its 1993 death spiral. Revenue from all products excluding services dropped 1.4 percent last year. Gross profit from non-service products dropped by 2.6 percent. To put it bluntly, ser-

Hewlett-Packard and Unisys Face Compaq/Digital NT Challenge

STEPHEN SWARTZ

As it looks toward the second largest computer company in the world, the Compaq Computer Corp. Association of Digital Equipment Corp. is expected to announce a series of alliances in the Windows NT world. The alliances are expected to include a series of

agreements with International Data Corp. (IDC, Framingham, Mass.), the consulting firm Digital Equipment Corp. (DEC), and the local arm of the global Windows NT software support organization, "Service Elect." It is trying to position itself much higher

Significant Service Relationships

August 1997 Digital Equipment Corp. and Microsoft Corp. enter into the Microsoft/Digital Alliance for Enterprise Computing, the first major strategic alliance in support of Microsoft's leading Windows NT operating system.

March 1997 Hewlett-Packard Co. and Microsoft Corp. enter into a relationship to provide enterprise-class service and support and promote Windows NT in the enterprise.

October 1997 Unisys Corp. (Blue Bell, Pa.) and Microsoft Corp. enter into an alliance to develop mission-critical, enterprise-ready Windows NT applications and pro-