

APPLIED FINAL PROJECT

Applied Final Project

The Decision by IBM: Selling Out PC Division to Lenovo in 2004

Yuji Shimojo

BMGT 317

Instructor: Prof. Brandon L. Cohen

May 8, 2013

The Decision

In 2004, IBM announced to sell its personal computer division including ThinkPad and ThinkCentre to China-based Lenovo Group for \$1.75 billion. With this deal, IBM will maintain the ability to sell and support them, and Lenovo will continue selling the brand in the world (Burt, J. 2004).

This decision was made by Samuel J. Palmisano who was the CEO at that time, and also was a consequence of expansion of coherent strategies for corporate turnaround by Louis V. Gerstner, Jr. who was a former chairman and CEO.

The PrOACT Model

Problem

In 1992, IBM's situation was worst that it posted annual loss of \$5 billion, highest in american corporate history (Burgess, J. 1993).

The reasons of its financial trouble are described by Applegate, L.M., Austin, R., & Collins, E. (2009). It points out that IBM couldn't keep the former earnings model by converting a leasing-oriented business into a sales-oriented business in mainframe business. Also, with the spread of mobile personal computers with distributed data sources and applications, it dropped in sales of not only mainframes themselves but also the sources, which accounted almost half of its revenues. Besides, even though IBM launched personal computers initially in 1981 and dominated its market before, new entrants such as Compaq and Dell stole the market share in the early 1990's. Even more than these expansions of external threats, the biggest problems were its organizational inefficiencies.

Objectives

The fundamental objective is to lead the implementation of company's major strategic transformation from high-volume low-margined business to high-value high-margined business.

As means objectives to achieve it, IBM aimed to withdraw from consumer business and focus on enterprise as its target market to maximize its core competencies.

Alternatives

Through watching its rivals, IBM could simply choose four alternatives as shown by Figure1 below.

Figure 1: Alternatives

IBM's Alternatives
Sells out PC business and more focuses on enterprise software and IT services
Sells out PC business and more focuses on enterprise software
Doesn't sell out PC business but enhances offshoring
Doesn't sell out PC business and expands PC business

Consequences

By focusing on highly profitable service based business, IBM now has the biggest market share in worldwide IT services, according to Gartner (2011). Also, the company has acquired the most number of patents for 20 years since Gerstner became the CEO in 1993, as mentioned by Bednarz, A. (2013). Furthermore, Gerstner's strategy made its hardware business recovery. Since his strategy was customer-oriented as seen in eight basic principles he proposed, he adopted Linux as an OS of its mainframes in addition to its original OS, and strongly supported it, although mainframe business was a symbol of its monopolization (Wilcox, J. 2000).

APPLIED FINAL PROJECT

As the result, the company still has the biggest market share in worldwide server market by strong sales of its latest mainframe System z model, according to IDC (2013).

Tradeoffs

I created a ranking of the alternatives on three IBM's values (Palmisano, S.J. n.d.) in the way of Chapter 6 of Hammond (1999), and evaluated on a scale of one to four by my subjective view as shown by Figure2 below.

Figure 2: Ranking Alternatives

Alternatives/ Consequences	Sells out PC business and more focuses on enterprise software and IT services	Sells out PC business and more focuses on enterprise software	Doesn't sell out PC business but enhances offshoring	Doesn't sell out PC business and expands PC business
Dedication to every client's success	4	3	1	2
Innovation that matters, for our company and for the world	3	4	1	2
Trust and personal responsibility in all relationships	4	3	1	2
Total	11	10	3	6

Cycle of Change Model

In the Dark

Through the crisis in the early 1990's, IBM had the biggest problems which were product complexity and the organizational silos. Actually, it had 20 separate business units, which totally sold 5,000 hardware products and 20,000 software products with different designs. Different business processes were used in different parts of the company. Also it had 125 separate data centers worldwide and 128 CIOs (Applegate, L.M., Austin, R., & Collins, E. 2009).

See the Challenge

When Gerstner became the CEO, he faced the problems and felt the necessity to become one IBM.

Get Started

He formed committees and council, composed of executives and leaders, met periodically, and discussed them about strategies and operations exhaustively.

Roll Out

He rolled out the concept of e-business within and outside the company and strongly executed it, and created eight basic principles of leadership to guide the company's recovery (Gerstner, L.V. 2009).

Results

As a result, when he stepped down in 2002, the company reported \$7.7 billion in profits and \$87.4 billion in revenues in 2001, according to Bloomberg (2002).

Time to Move On

Although its CEOs have changed to Palmisano and then Rometty currently, IBM is carrying on Gerstner's strategies as its corporate cultures and values.

Decision Evaluation

APPLIED FINAL PROJECT

The company has acquired a number of companies with future potential in the field of IT services and software over the past two decades. On the other hand, it has completed strategic sell-offs including PC business as shown by Figure3 below.

Figure 3: Major M&As

IBM's Major M&As Over the Decade
Buying PwC Consulting for \$3.5 billion in 2002 (Shankland, S. 2002).
Selling HDD business to Hitachi for \$2.05 billion in 2002 (Naraine, R. 2002).
Selling PC business to Lenovo for \$ 1.75 billion in 2004 (Burt, J. 2004).
Selling Printing Division to Ricoh for \$725 Million in 2007 (Morgan, T.P. 2007).
Selling POS business to Toshiba for \$850 million in 2012 (Walker, B. 2012).

For example, the sell-off of its POS business to Toshiba apparently sounds odd because IBM currently has the biggest market share in the world; however, if you understand its consistent strategies, that decision is quite natural.

In conclusion, from both company's values and business continuity aspects, the series of decisions including sellout of PC business would have to say a hugely success so far. If the company keeps changing continuously in the future, the prosperity will continue.

Decision Plan

Analyzing IBM's strategies over the two decades, it seems to me that the company always pursues two things: its core competencies and potentially profitable markets. That can be broken down by using the product portfolio analysis known as the BCG matrix (Boone, L. E. & Kurtz, D., 2012), so that I tried to create a product portfolio of IBM as shown by Figure4 below.

Figure 4: BCG Matrix

APPLIED FINAL PROJECT

BCG Matrix		Relative Market Share	
		High	Low
Growth Rate	High	Stars: High-end Storage Consulting	Question marks: Application Software Low-end Servers
	Low	Cash cows: High-end Servers System Software Outsourcing	Dogs: No

In my view, in the field of hardware, by increasing needs of large-scale distributed parallel computing, the markets in low-end servers and high-end storage probably go up. In software, by standardization of hardware and expansion of open systems, I think system software market shrinks. And in IT services, lower processes in system integrations such as outsourcing of system implementations and testing will move to low-labor-cost countries sooner or later.

In the short term, I think the company needs to decide whether to invest on or to withdraw from question marks of the Figure4 above. In the long term, it might have to change strategies on cash cows.

APPLIED FINAL PROJECT

References

- Applegate, L.M., Austin, R., & Collins, E. (2009). IBM's Decade of Transformation: *Turnaround to Growth*. Harvard Business School, Retrieved May 8, 2013, from <https://faculty.washington.edu/socha/css572winter2012/HBR%20IBM%20Decade%20of%20Transformation.pdf>
- Bednarz, A. (2013). IBM cements 20 years of patent dominance. *Network World*, Retrieved May 8, 2013, from <http://www.networkworld.com/news/2013/011013-ibm-tops-patent-rankings-265697.html>
- Boone, L.E. & Kurtz, D. (2012). *Principles of Contemporary Marketing, International Edition (15th ed.)*. Stamford, CT: Cengage Learning. ISBN 0-538-48177-3
- Burt, J. (2004). IBM's big ticket to China. *eWeek*, 12/20/2004, Vol. 21 Issue 51, p9-10. 2p. doi:001368083
- Gerstner, L.V. (2009). *Who Says Elephants Can't Dance? [Kindle Edition]* New York, NY:HarperCollins Publishers. ISBN: 0060523808
- Gartner. (2011). Gartner Says Worldwide IT Services Revenue Returned to Growth in 2010. Retrieved May 8, 2013, from <http://www.gartner.com/newsroom/id/1666514>
- Hammond, J.S., Keeney, R.L., & Raiffa, H. (1999). *Smart choices: A practical guide to making better decisions*. Boston, MA: Harvard Business School Press. ISBN 0-7679-0886-04
- IDC. (2013). Worldwide Server Market Rebounds Sharply in Fourth Quarter as Demand for x86 Servers and High-end Systems Leads the Way. Retrieved May 8, 2013 from <http://www.idc.com/getdoc.jsp?containerId=prUS23974913>
- Magazine Louis V. Gerstner Jr. (2002). *Bloomberg*, Retrieved May 5, 2013, from <http://www.businessweek.com/stories/2002-01-13/louis-v-dot-gerstner-jr-dot>

APPLIED FINAL PROJECT

- Maurer, R. (2010). *Beyond the Wall of Resistance: Why 70% of All Changes Still Fail--and What You Can Do About It (2nd ed.) [Kindle Paperwhite 3G]* Austin, TX: Bard Press. ASIN: B0048EKJM8
- Morgan, T.P. (2007). IBM Sells Printing Division to Ricoh for \$725 Million. *Guild Companies, Inc.*, Retrieved May 8, 2013, from <http://www.itjungle.com/breaking/bn012507-story01.html>
- Naraine, R. (2002). IBM Sells Hard Disk Drive Biz; Cuts Staff. *QuinStreet Inc.*, Retrieved May 8, 2013, from <http://www.internetnews.com/bus-news/article.php/1183321/IBM+Sells+Hard+Disk+Drive+Biz+Cuts+Staff.htm>
- Palmisano, S.J. (n.d.). Our Values at Work on being an IBMer. *IBM*, Retrieved May 8, 2013, from <http://www.ibm.com/ibm/values/us/>
- Schultz, R. (1998). Compaq snags Digital in \$9.6 billion deal, plans to expand AltaVista. *CNNMoney*, Retrieved May 8, 2013, from <http://money.cnn.com/1998/01/26/technology/compaq/>
- Shankland, S. (2002). IBM grabs consulting giant for \$3.5 billion. *CNET News*, Retrieved May 8, 2013, from <http://news.cnet.com/2100-1001-947283.html>
- Walker, B. (2012). IBM Sells POS Business To Toshiba: What It Means. *Forrester Research.*, Retrieved May 8, 2013, from http://blogs.forrester.com/brian_walker/12-04-17-ibm_sells_pos_business_to_toshiba_what_it_means
- Wilcox, J. (2000). IBM to spend \$1 billion on Linux in 2001. *CNET News*, Retrieved May 8, 2013 from <http://news.cnet.com/2100-1001-249750.html>
- Williams, M. & Legard, D. (2001). HP to Buy Compaq in \$25 Billion Deal. *IDG News Service.*, Retrieved May 8, 2013, from <http://www.pcworld.com/article/60583/article.html>