

IBM Executive Changes Focus on Growth and Profitability

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IBM has appointed the former head of IBM Global Services (IGS) to lead its sales and distribution unit and has put its CFO in charge of IGS. These moves underscore the importance of services in IBM's overall business strategy.

NEWS ANALYSIS

Event

On 3 May 2004, IBM announced two significant changes to its executive leadership team. Doug Elix, the former head of IBM Global Services (IGS), became senior vice president of sales and distribution, and John Joyce, formerly IBM's CFO, replaced Elix as senior vice president and group executive of IGS. Elix, under whose direction IGS had grown to \$42 billion and 52 percent of company revenue, replaces Michael Lawrie, IBM's former head of sales and distribution, who leaves IBM to assume the CEO position at Siebel Systems. Elix will be responsible for enhancing teamwork and collaboration between sales, industry sectors and services. Elix's purview also includes the IBM Global Business Partner program. Joyce will also have reporting to him IBM Global Financing, thus integrating services and financing into IGS. Both Elix and Joyce will report to IBM's chairman, Sam Palmisano.

Analysis

Since its founding in 1989, IGS has continuously evolved its operating and sales models, choosing its services leaders carefully to fit with the maturity of the services business and with market dynamics. IBM recognizes that the execution of its OnDemand business strategy requires a new approach to sales and partnering that treats "services as the product." Gartner expects that Elix will embed this mentality in the IBM sales and partnering organizations. This should be welcome news for IBM's channel partners, which are confronting eroding product margins, as well as the uncertainty that a utility/subscription-based computing model creates for them. Gartner anticipates that Elix will leverage his services experience to promote consultative selling capabilities in IBM's sales organization, as well as closer integration of services (particularly IBM's Business Consulting Services), products and partners in OnDemand solutions.

Joyce brings strong financial expertise to his leadership role with IGS, which is arguably the most critical growth engine for IBM's future. Joyce's operational experience and financial expertise are critical disciplines that he will bring to improving operational efficiencies within IGS. This will be needed, as IBM's OnDemand strategy is a capital-intensive endeavor that relies on scale and rigor to ensure profitability and growth.

Competitors should view IBM's move as a step toward executing on an on-demand sales and partnering model, as well as an indication that IBM plans to exploit the scale of its \$42 billion services business as a growth vehicle to fuel its on-demand vision. Enterprises should expect IBM interactions to exhibit more business process acumen, vertical industry expertise, consultative selling, and a higher concentration of IBM business partners.

Analytical Sources: Michele Cantara, Allie Young, Michael Haines, Linda Cohen and Christine Adams

Recommended Reading and Related Research

- "IBM Needs Independent Vendors to Achieve Rich-Client Vision" — Support from independent software vendors will be key to IBM's launch of a new rich-client framework that could reopen the "desktop wars." **By Simon Hayward, Gene Phifer and French Caldwell**
- "Vendor Rating: IBM Rates 'Positive' for Strategy, Portfolio" — IBM's on-demand strategy is sound, matches its product and service potential and sets a strategic direction for all of IBM's business divisions. **By Thomas Bittman**

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