

IBM sells the next big thing in e-business

Spencer Ante, Source: BusinessWeek

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Sam Palmisano has seen the future of computing.

Last week IBM's chief executive unveiled what his company deems the next big thing: e-business on demand. He calls it the most important initiative IBM has undertaken since the internet hit the scene.

He's throwing all the might of IBM's 350,000 employees and \$US5 billion (\$8.9 billion) research and development war chest into the effort. "We have rallied the entire technology community at IBM around this," he said.

It's a call to arms much like the one delivered by Microsoft chairman Bill Gates when he wrote the legendary 1995 "Tidal Wave" memo that galvanised the software giant to move beyond PC computing and on to the internet.

Mr Palmisano is hoping IBM's "e-business on demand" will have just as profound an impact on the way corporations buy and use technology.

Mr Palmisano's vision is a grand one. He sees a world where companies will no longer need to worry about technology. Computing power will be dished out just as a utility supplies water to customers who pay only for what they consume.

Software will connect as easily as Lego blocks, and digital elves will spot potential problems and fix them before they happen. "This is exactly what customers want," Mr Palmisano said. "It's going to drive phenomenal productivity."

Behind his new strategy are five key initiatives. He's banking on work already under way at IBM to push open standards such as the free Linux operating system and to push web services. He's marketing so-called grid software for sharing computer resources. His troops are trying to convert customers to a pay-as-you-go

utility model where IBM turns on the processing power and customers are billed based on how much they use.

And, in the research labs, an effort is under way to develop software that automatically fixes bugs.

Indeed, the first seeds of IBM's labour are coming to fruition. In an April upgrade of its Tivoli network management software, IBM engineers built a feature that automatically predicts when a computer server will run out of memory.

Sound like pipe dream? IBM will try to prove it isn't by "eating its own dog food". Mr Palmisano said it would take five to seven years to transform IBM's internal computers into systems that can be tapped when needed. The savings, he said, would be huge.

"This initiative is worth a 5 per cent productivity improvement each year for the next five to 10 years." That could translate into \$US2 billion to \$US3 billion a year for IBM.

Mr Palmisano may be striking at the right moment. With IBM doing relatively well profits were flat last quarter, at \$US1.7 billion so it's a good time to press its advantage. What's more, corporate buyers are looking for a way to save money and get away from the headache of managing complex computer systems.

"The time is right to lay out an aggressive road map," said John McKinley, Merrill Lynch's chief technology officer. That's why IBM plans to spend up to \$US800 million in the next year on a campaign to convince customers of the value of on-demand computing.

But for all the hoopla, don't expect that to happen overnight or make much of a difference to IBM's top line in the near term. Many of the products, services, and industry standards that would make on-demand computing possible are still on the drawing board.

"We're at least five years away before the technology starts going mainstream," said IDC analyst Melanie Posey. Even if IBM did have the goods, penny-pinching corporate buyers are wary of lofty promises.

Just ask Bob Egan, a vice-president at Boise Cascade, the \$US7 billion papermaker based in Idaho. As an IBM customer that processes \$US4.5 billion worth of e-commerce transactions every year, Boise should be an ideal customer. But Mr Egan isn't buying into Mr Palmisano's vision. "I can't imagine ... they will be able to install a system that is cheaper" and more efficient, he said.