

A Publication from INPUT

IBM Announces an Information Services Subsidiary

On Wednesday, May 15, 1991, IBM announced a wholly-owned subsidiary, the Integrated Systems Solutions Corporation (ISSC), its new information services organization. What's new, organizationally? Not a lot. Although ISSC looks much like the IBM Systems Services Division, being a subsidiary will make it a stronger competitor.

On Wednesday, May 15, via a nationwide telephone hookup, IBM explained its new subsidiary to the market research and consulting community. The purpose of this research bulletin is to provide INPUT's clients with the content of that teleconference and INPUT's view of the significance of the announcement.

In November 1990, IBM established the IBM Systems Services Division under Dennie Welsh, a former IBM Federal Sector Division executive. In the recent announcement IBM renamed the organization, restructured it to some extent, and set it up with a separate board of directors. Dennie Welsh, now president of the new subsidiary, made the announcement. He stressed that the major reason for this change was to provide the organization with flexibility. He commented that a rapidly changing market required a responsive organization

and an entrepreneurial environment. As a separate subsidiary with its own board of directors, Dennie believes that ISSC will provide that environment and responsiveness to its clients and prospects.

Though it was not discussed to any extent in the announcement, INPUT believes this structural change is also targeted at eliminating any constraints that may have been imposed by IBM's 1956 consent decree. During the teleconference, Dennie announced that ISSC would offer some new data services (that may have been restricted by the consent decree). Establishing the subsidiary appears to have eliminated the consent decree restrictions and truly improves IBM's flexibility. Competitors beware! IBM can now freely address all of its clients' requirements.

A Full Range of Services

During the announcement, Dennie described the services ISSC will be offering. They are listed in Exhibit 1 and are a surprisingly broad set of offerings. It is worth examining some of these services because they go beyond what earlier IBM systems operations units offered.

ISSC will offer consulting and systems integration services in addition to its basic



ISSC Service Offerings

- Systems operations
- Consulting
- Systems integration
- Business recovery services
- Network management services
- Custom application development
- Application software maintenance
- Help desk
- Education and training
- Data services

Source: INPUT

systems operations services. It will bid on any systems integration project that the local "trading area" staff feels it is not capable of addressing. (IBM now operates its U.S. field sales activities through 64 geographic trading areas.) The organization that preceded ISSC had also offered SI services, and had completed projects like the ATM system for Bank South.

In the area of business recovery services, ISSC indicated that it already has over one thousand contracts in place. It is also under contract for several network management jobs.

ISSC will offer the full range of application software services, including custom development and maintenance. Help desk services are being expanded and will include support to distributed systems environments, including IBM and non-IBM products.

In the data services area, ISSC will perform check, claims, or reservation processing services for its clients, should they request it.

Organization

As a subsidiary of IBM, ISSC will have its own board of directors. The Chairman of the Board is M. Bernard Puckett, who is also the General Manager of IBM's Application Solutions Line of Business. Other board members include Dennie Welsh (the Division President), Bill Wilson (ISSC General Manager of Operations), and Sid Handler (ISSC's Chief Financial Officer).

The top-level organization is shown in Exhibit 2. It is important to note that there are three marketing vice presidents, each with specific industry focus. ISSC has no direct sales capability.

ISSC has two basic responsibilities: providing service to the commercial and state and local government industries, and providing internal IS support for marketing and services. It will not serve the federal market, since that market is reserved for the Federal Sector Division.

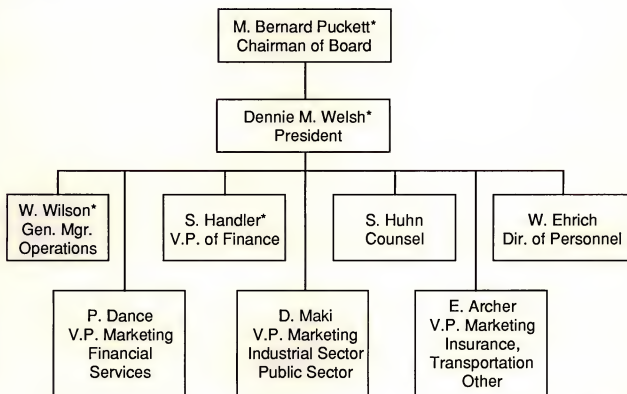
To perform its mission, ISSC has five thousand employees. Four thousand of these employees are currently performing IBM support and the remaining thousand are applied to commercial work. ISSC will continue to use alliances and partners, like Computer Task Group, to supplement its skills. It will also borrow or lend resources from or to the trading areas.

INPUT believes ISSC will not attempt to increase the permanent staff rapidly, but will continue to use partners and alliances as subcontractors for many of its contracts. During the announcement Dennie stated that ISSC would retain IBM's basic principles—including its salary and benefit



Exhibit 2

ISSC Organization



Source: INPUT

*Board members

plans—which would also discourage rapid growth of the permanent staff.

Operating Philosophy

ISSC is in business to support the IBM trading area sales force, so it has no sales force of its own. IBM has retained its philosophy of one face to the customer and is using the commissioned trading area sales force to sell ISSC's services. The trading areas have built-in services capabilities in their field systems engineering forces, as well as the former Systems Integration Division professional services staff that was distributed among the field forces last year.

The field sales force will call upon ISSC when it does not have local resources to satisfy a customer's requirements. This has interesting implications. ISSC's success will be based on the trading area sales force's willingness to use them. For this to work successfully, the IBM commission plan must promote use of ISSC, and ISSC must prove—through responsiveness, competitiveness, and quality service—that it should be the sales force's vendor of choice.

Although it is a wholly-owned subsidiary of IBM, ISSC will not report its business results publicly. It will meet all legal reporting requirements through internal reporting.



Summary

This most recent announcement reemphasizes IBM's resolve to become an even more significant player in the information services industry. The announcement releases it from any real or implied restrictions of the 1956 consent decree. IBM will become an even more fierce competitor in the systems operations market and in other service areas as well, particularly where its hardware base is threatened.

Near the close of the announcement, ISSC stated its 1990 commercial revenues for the activities now in ISSC were around \$300 million. It expects revenues to grow in excess of 100 percent per year over the next three years.

Exhibit 3 identifies the strengths that IBM now has in the systems operations business. This list is similar to the one published in INPUT's November 1990 Research Bulletin; however, another item—flexibility—has been added to the list.

Exhibit 3

IBM Systems Operations Strengths

- Operations experience
- Market access
- Capital
- Technology
- Low product cost
- Flexibility

Source: INPUT

IBM has outstanding systems operations experience. Its on-line marketing and support systems have been industry leaders for many years. In addition, IBM has extensive experience in manufacturing applications. IBM's internal planning process and quality programs have made its internal IS operations extremely efficient and effective. This permits it to price proposals extremely competitively in the systems operations market.

IBM has superior market coverage as a result of its equipment business. It has sales and services personnel in constant contact with virtually every systems operations prospect. Paying commissions to the trading area sales personnel to sell ISSC's systems operations services should prove very successful.

IBM has outstanding credit and access to capital markets. As a subsidiary of a technology leader, ISSC knows the product developments that are coming and will build them into its proposals. In addition, as a subsidiary of an equipment manufacturer, ISSC will enjoy extremely low equipment and software product costs.

Finally, IBM created ISSC as an organization that will be extremely flexible and nimble. The decision cycle will be shortened and the consent decree should no longer get in the way. ISSC may very well achieve the growth objectives stated in its announcement.

This Research Bulletin is published by INPUT.

If you have questions or comments on this bulletin,
please call your local INPUT organization or Doug Wilder at INPUT,
1953 Gallows Road, Suite 560, Vienna, VA 22182, Telephone (703) 847-6870, Fax (703) 847-6872.



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**** Exhibit 1**

- ISSC service offerings
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- Custom application development
- Application software maintenance
- Help desk
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ISSC will offer consulting and systems integration services, in addition to its basic systems operations services. It will bid on any systems integration project the local trading area staff feels it is not capable of addressing. ISSC's predecessor organization had also offered SI services, and had completed projects like the ATM system for Bank South.

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The top level organization is shown in Exhibit 2. It is important to note that there are three marketing vice presidents, each with specific industry focus. ISSC has no direct sales capability.

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Exhibit 2

ISSC Organization

M. Bernard Puckett *
Chairman of Board.

Dennie M. Welsh. *
President

W. ~~Bice~~ Wilson *
Gen. Mgr.
Operations

S. Handler. *
V.P. of Finance

S. Huhn
Counsel.

W. Ehrlich
Dir. of Personnel

~~H.P.~~ P. Dance
V.P. Marketing
Financial
Services

D. Maki
V.P. Marketing
Industrial Sector,
Public Sector,

E. Archer
V.P. Marketing
Insurance, Transportation
Other

* Board Members

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