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[Business, Strategic Management](#)



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Executive Summary: In 1995, IBM (International Business Machine Corporation) created the Software Group to pull all of IBM's infrastructure, middleware and operational software together from dispersed units of. IBM's Software Group is now a self-sustaining software business, with growth rates, profits and other key measures in line with other major software companies. In addition, the software group has services and support capabilities via their development labs and their services via support centers. The Software Group has the industry's leading portfolio of middleware products. Software Sales Specialists within Sales and Distribution sell to large customers and over 24, 000 Business Partners to sell everywhere else. Managing and exploiting information is becoming increasingly complex for today's organizations. The value of information continuously changes over its lifecycle based on both external and internal environmental factors. The factors such as macro environmental factor and industry factor give either positive effects or negative influence for organization.

1. 0 Introduction IBM one of the leader company of IT industry which is related to computing, its business spreads to almost every area of technology and software. IBM is the world's largest information technology company in 2005. It is the biggest provider of IT services, hardware, rental and financing. IBM now provides wide range of Data storage devices as well

as servers with enormous storage and secure database. IBM is now aiming for animation, consolidation which saves wide range physical assets. Furthermore, today's networked economy has created a global business landscape and a mandate for business change. Integrated global economies have opened markets of new opportunity and new sources of skills. Given these opportunities, IBM creates its own specific strategies to management and develops the company and its strategic management has also significant influenced by the organizational external environment. In general, the external environment can be classified into the macro environments which have the same effect to all organizations with the same industry and the industry environment will have varying degree of effect depend on the organization's position. In this report, I will analyze the relevant external environmental factors that typically influence IBM's organizational strategies. It consists of both the macro environments which have the same effect to all organizations within the same industry and industry environment will have varying degree of effect depend on the organization's position. Moreover, a series of recommend application will be provided by the following topics to help the organization exploit the positive factors and overcoming the negative factors.

## 2.0 Macro-Environment Analysis

In a macro-environment analysis a series factors in the environment that has the power to alter the demands, the prices of the products and service and the strategies that organization implemented. These factors can be grouped by six categories: political, economic, social, technological, environmental and global. In this part, we will focus on the main macro environmental factors that affect IBM's strategies. In addition, some evidence and proposal will be provided to help

IBM's strategic development. 3. 1 Political Political factors encompass actions by local and national administrations and political parties, and by international bodies such as EU, AFTA, NAFTA and WTO. These affect the stability of an industry's environment, the extent to which firms can take decisions without reference to government, the cost of operating in a particular area (Adrian Haberberg). Since China joined WTO (World Trade Organization) 2001, the outstanding achievements of 2002 in China increased twice than year 2001 (ZDNet China, 2002). WTO membership opens up China's market for more international trade and investment, and also opens up the world economy for China's exports. It created more opportunities to IBM; however it also caused more challenges to IBM. The free trade regulations brought several challenges for IBM's development. Such as: the enhancement of their core competition, the implement of industrial reforming, and the improvement of science and technology level. Moreover, the increase of customer needs and wants became one of the biggest challenges these days. In order to overcome this challenge, IBM should restructure the industrial, enhance the organization core competence, and try to against the challenge through transformation and innovation. More specifically, IBM can integrate the business innovation together with the technical service, so that to understand the industry tendency deeply. Certainly, it is also important for IBM to keep their specific characteristics. Simultaneously, provide a diversified of products and service to meet the increasing customer needs and wants. For example, IBM can provide a complex service for the bank industry, such as: industry analysis and strategic planning, not only the soft or hard ware products. 3. 2 Economic

Factors A strategic company policy is the response of an organization to the demands that are set by its social environment. Economic market factors are important for companies who are actively seeking profit. Economic downturns may cause difficulties for most industries but may help the growth of sub-sectors. Factors such as economic growth rates, interest rates could affect the consumers' spending power. They can also impact on the nature of competition in an industry. Look back the past in year 2008-2009. By influencing of global economic crisis, the global market economy turned down. It also brought negative effects to IT investors. According to IBM's financial report in 2008, the total revenue of IBM decline 7% than previous year. Even the Chief Financial Officer Mark Loughridge noticed it wouldn't be a serious affect to IBM , the sales of IBM continued fall down in 2009 (Li Bo, 2009). Especially for the hardware businesses, IBM faced a challenge when the economic downturns. By influencing of economic crisis, the business environment is deteriorated for all industry. In such serious environment, the competition will increase a lot. So, it is necessary to IBM to take any means to stimulate consumption. One of the best ways to stimulate consumption is promotion. IBM can provide hardware promotion package for its customer. Moreover, reduce the cost is another way to overcome the economic crisis. Outsourcing can help IBM gain the quality sources easily with a lower cost. 3.

3 Environmental A number of factors that affect economic activity derive from the physical environment. Environmental protection also becomes to a duty for those leading companies. General awareness of protect ecological balance to be increasing, and driven by pressure groups that can use the internet to spread to the world about firm's behavior. All computer

technology manufactures are the global companies, they can be affected by some environmental factors that happening around the world. So, it is necessary to protect it. For example, in 2002, there were widespread outbreaks of an illness SARS. That situation effected to all business that operate in China. It also brought a huge challenge for the IT industries. According to the CCW Research in China (2003), the increased cost lead to consumption delay actions. 4. 8% consumer decided to give up their purchasing plan, customer and needs dropped by 21. 6%. These crises also effect to IBM in terms of ability to source and deliver products and services to its customers and customer demand since IBM has many supplier in China and Asia countries (www. ibm. com). Environmental factor is unpredictable for organization. Normally, the environmental factors such as natural disasters, environmental laws will set IT industries barriers to develop their business. At this time, what IBM should do is to create a good company image to the society. For example, IBM should build a better environmental protection image, and support the government when the natural disasters come. A good brand image can also influence the company's development.

### 3. 0 Industry Environment Analysis

The previous section talked about how factors in the macro environment influenced IBM's strategies. But the impact of these general factors tends to surface in the more immediate environment through changes in the competitive forces on organizations. An important aspect of this for most organizations will be competition within their industry or sectors (Gerry Johnson, 2005). Porter's 5 force is a framework for the industry to analyze the organization by assessing competitive intensity and develop business strategy to improve the profitability. With Porter's five

forces framework, we can identify the sources of competition facing by IBM.

4. 4 Threat of Entry The high capital investment, high budget for research and development, high technology of production and assets make the threat of new entrants relatively low. Those factors prevent new competitors to enter into computer technology industry. IBM spends approximately \$5-\$6 billion for research and development every year, in order to constantly introduce new high technology and innovative products and solution to market to maintain its competitiveness. For example, IBM spent \$171 million in system and technology for their server products in 2005 (Annual Report, 2006), and it spent over \$1 billion in the Linux operation system in 2001 (Shankland, 2002). The barriers such as cost, technique, distribution channel to entry are quite high in this industry. Base on the first mover theory, the new entrants may face a difficulty in order to meet economies of scale and experience curve when there are already many well-established brands in the market (Hill, 2005). Thus, in computer technology industry with many well-known brands such as IBM, DELL and GP, it was difficult for competitors to be able to get into the market. So the threat of new entrants for the market is low for IBM. When the barriers are high, it is more difficult for new competitors to enter the market. The high entry barriers positively affect profits for IBM. However the competition between IT industries is stiff. For IBM it is important to compete with the existing well-known brands. What should IBM do is to build a positive self image to their customer. IBC can coordinate every channel of communication to build the image. This includes advertising, sales people, letterhead, shipping label, employee training manuals and so on.

4. 5 Threat from Substitutes The threat of substitution is

one of the most difficult of all forces to access. That's because not all products have substitutes. In general, the strength of the substitutes threat depends on whether it offers better value than others. The threat of substitutes also varies from low to medium with high switching cost and product differentiation such as technology, performance, functionality. In recent year, computer becomes essential equipment for people and organizations. With the helping of manipulate data, calculation and communication, it becomes necessary for our daily life. As we know, software is the main components of computer which used to enable a computer to perform specific tasks (Wikipedia). So, there is no product can replace or substitute computer software. Although the substitute threats are quit low for IT industry, the upgrading of software and hardware products is quite fast. It is also a negative effect to IBM. In order to attract more customers and gain a strong competitiveness, IBM should enhance the core competence and increase the strength of the products and service. It is necessary to spend more time and capital on research and development the new products or service. So that to insure the technology can update timely.

4. 6 Power of Buyers Buyer power is the extent to which and industry's customers have the power to dictate price quality standards and other terms and conditions to the firms that are supplying them (Adrian Haberberg). As IBM operates business in B2B market, most organizations always buy in large amount per time. Therefore, customers have power to negotiate with the company (Chneoh, 2008). Switching costs are another important consideration in looking at the relationship between firm and their customers. Buyers have strong bargaining power since IT business has



grown rapidly in the recent years. There are many small IT businesses which are competing with IBM. So the power of buyers is high because of the low switching costs and the variety choices during the sourcing stage. However, although the switching cost in this industry is low but many more companies still choose IBM as their partner in their business process. As a 100+ years old legacy in the world, IBM have a very strong brand image and customer loyalty. To summarize, we consider the power of buyer in this industry as moderate high level. The low switching costs make the power of buyer high for IBM. That is a negative affect for IBM to explore their business. Because it means that it is not easy to retain the customer in the fierce competition environment. At this part, IBM should take a series measures to build a better customer relationship. Such as, build a long term customer relationship management department, strengthen the staff qualities through training.

#### 4. 7 Power of Suppliers

Supplier power is the degree to which the suppliers to an industry have the power to dictate price, quality standards and other terms and conditions that they are supplying. IBM's business employs a wide variety of components, suppliers and raw material from different suppliers in the world. In order to meet the quality requirements, IBM maintains a diversity of suppliers. IBM spends nearly \$2 billion a year with diverse suppliers. Building and maintaining the diverse suppliers increases IBM's opportunity to get new ideas, apply different approaches, and gain access to additional solutions that respond to customer needs. Therefore, they can switch suppliers easily if the suppliers can't fulfill their demands. Thus, the supplier's power is particularly concerned as low. Outsourcing is one of the best methods to make full usage of supplier

resource for IBM. The lower degree of supplier power lead to IBM can choose their supplier more flexible. Yet, it is also very matter for IBM to choose and utilize resource rationally. Many of the companies that provide outsourcing service are able to do the work for considerably less capital and better quality. Depend on the location; it may also be more affordable to outsourcing to IBM located in different countries.

#### 4. 8 Degree of competitive Rivalry

After several years of contraction, there are many computer software manufactures in today's global market. Each manufacture tries to differentiate its product by creating new programmers that make a computer more power, build brand image and create customer loyalty. The competition in this industry is intense with the powerful competitors such as Microsoft, Dell, Sun Microsystem and Hewlett-Packard with the diversified capabilities. Therefore, the intensity of rivalry in the industry is quite high. In additional, the high investment in non-transferable fixed costs and high exist barrier make the degree of competitive rivalry also higher for the industry. For example, when IBM entered the PC market in 1975, they invested a big amount capital and resources on it. However, they ran their business in loss for long time and sold it to Lenovo, but still they have stake in it. The high degree of competitive rivalry makes it more difficult for IBM to maintain its business. Such as the example of Lenovo, IBM should have a long term after sales service for its products. Besides create corporate image and build customer loyalty, a good after sales service is also important for IBM. IBM can improve their through set up a complete after-sale service center to provide technical consultation, installation, maintenance and technical guidance service of software and hardware products of the world.

Conclusion This report discussed the external environmental factors that affect IBM's business operation which include PESTEL analysis and Porter's 5 forces analysis. We can see that external environmental influence for IBM become more and more important now. As we talked above, IBM has the biggest threat in front of it is the global recession. So, the company needs to find some strategy to exploit the strength and overcome its weakness. As well, a series recommendation is mentioned following by the environmental analysis in the report. In conclusion, we advice IBM take the environmental factors seriously; and focus its strategy on developing business complexity, inflexibility, speed and scale. So that to gain a bigger market share and also develop better.

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