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CASE ANALYSIS: IBM IN 2009 Analysis Industry: Computer Services Industry Porter’s 5 Forces 1) Risk of entry by potential competitors The risk of entry by potential competitors is relatively low (+). This is due to the newly entrant competitors that need a large market capitalization, software materials, services and consulting; to gain consumer’s interests. If consumers are able to choose buying their products from a large company that are adequate in the computer hardware, services and consulting, other technological services, they would rather choose a large firm than a smaller firm that do not have adequate resources. ) The intensity of rivalry among established companies within an industry The intensity of rivalry among established companies within this industry is relatively high (-). This is because there are big firms such as Oracle that are neck in neck with other large firms such as IBM, trying to acquire every software there is that helps them gain a competitive advantage. 3) The bargaining power of buyers The bargaining power of buyers is relatively low (+).

This is because in this industry that is supplying a particular product or service is not composed of many small companies and the buyers are large and few in number. Also, buyers are unable to purchase in quantity, because many of the firms in this industry offer services and consulting, and software that buyers use. 4) The bargaining power of suppliers The bargaining power of suppliers is relatively high (-). This is because the product that suppliers sell has few substitutes, and the profitability of suppliers is not significantly affected by the purchases of companies in this industry.

Also, switching costs are great as consumers will need to move from their original product to another supplier. 5) The closeness of Substitutes to an industry’s product The closeness of substitutes to an industry’s product is relatively low (+). There are hardly any substitutes as for many consumers, the importance of the market fortechnologyproducts and a source of high-tech workers for serving these types of software when consumers need help. The less technological advanced products are unable to satisfy similar customer needs. Forces - Conclusion: This industry is a 3 star industry. What IBM should do is: \* IBM should use their competitive advantage to surpass their competitors, and be the monopoly in the industry, instead of being in a competition neck-in neck with other leading competitors \* Since the product that suppliers sells has few substitutes, and the bargaining power is extremely high, IBM should acquire the supplying companies, to reduce their costs some more, and for suppliers not to have the bargaining power that they have currently.

Life Cycle: Growth stage \* E. G. In this industry, it is growing because consumers are becoming more and more familiar with the now technology-advanced products when technology in the world is advancing rapidly. Also, most of the large firms usually have control over technological knowledge as a barrier to entry which diminishes most of the smaller firms, which lessens the chance of a new entrant. The Value Chain IT Provides low cost-traditional IT services or value-creating, customizing consultant solutions depend on it having the distinctive competencies to develop state-of-the-art software applications across business processes and industries \* Recent advances have increased the power of business intelligence software to identify ongoing changes and forecasts many events after acquiring Cognos (software) \* Another advancement was that the IT department came up with a new initiative to make it easier for geographically dispersed people to interact and collaborate without the time and expense of in-person meetings.

They were using virtual technology which other people inside and between companies to exchange instant messages, chat verbally, share real-time presentations, and virtual meetings Hardware \* The systems and technology group put its resources into developing new kinds of mainframes and servers that would appeal to a wider number of customer groups and expand global sales. This will give them more power and flexibility for the IT product they buy from IBM \* Currently IBM sells its mainframes directly to customers through its own sales force to protect lucrative software and service revenues that accompany these sales.

By doing that, IBM’s mainframe installed base had doubled because IBM’s ability to deliver increasing amounts of processing power to customers at a decreasing cost \* Such as self-contained server would eliminate the need for expensive IT consulting and service; it would offer companies with a low-cost alternative and companies could simply order as many of Cisco’s (one of the acquired software) server racks as needed to operate or expand their business Competitive Advantage

Distinctive Competencies: are firm specific strengths that allow a company to differentiate its products from those offered by rivals and/or achieve substantially lower costs than its rivals. IBM’s distinctive competencies is acquiring the different servers and software to help the company gain a competitive advantage as the company integrated many technological advanced products that surpasses other firms in the industry Intangible Resources: are nonphysical entities that are created by managers and other employees, such as brand names, the reputation of the company, the knowledge that employees have gained through experience, and the intellectual property of the company, including that protected through patents, copyrights, and trademarks. The intangible source here is the brand name and reputation that IBM had built all these years, leading to one of the top companies in the computer service business. Capabilities: refer to a company’s skills at coordinating its resources and putting them to productive use. \* IBM’s skills at coordinating its resources and putting them to good and productive use by the drive to focus the efforts of all IBM employees on satisfying the needs of clients was one of the capabilities that made IBM have this competitive advantage Functional-Level Strategies EFFICIENCY \* The simplest measure of efficiency is the quantity of inputs that it takes to produce a given output; the more efficient a company is, the fewer the inputs required to produce a given output and the lower its cost structure will be. \* E. G. In 2007, IBM spent $11. 8 billion to acquire 36 software and 18 service companies in the fields such as security, data management, and Web commerce \* QUALITY \* The CEO’s strategy was to focus on high-profit margin products that directly complemented its service and software offerings.

IBM had sold off its PC business to Lenovo; its disk drive business to Hitachi, and its printer business to Ricoh. By doing this, IBM is able to focus on high-profit margin products and ditch the failing products in the company that are sold off to other companies \* INNOVATION \* By keeping up with the technology advancements, IBM had announced a new “ virtual world” IT initiative to make it easier for geographical dispersed people to interact and collaborate without the time and expense of in-person meetings. These virtual worlds are interactive, immersive Web sites based on the use of three-dimensional graphics.

This allows people to exchange instant messages, chat verbally, share real-time presentations and ideas in private, virtual meeting spaces that exist permanently in real time so people can meet on regular, periodic, or impromptu bases. \* CUSTOMER RESPONSIVENESS \* At this stage, the sales of its new mainframes of IBM were up by 25%; software revenue rose 5%, helped by increasing sales of its popular WebSphere software package that improves the performance of a company’s electronic commerce and business applications Building Competitive Advantage Through Business-Level Strategy Competitive Positioning High Market Segmentation \* What IBM is doing is high market segmentation where they could choose to recognize the differences between customer groups and make a product targeted toward most or all of the different market segments. The customer responsiveness and high and products are being customized to meet the needs of customers in each group. \* E. G. IBM had shifted its products to higher profit-margin services and automating traditional business processes such as procurement, financeand human resources which was leading to increasing numbers of long-term service contracts between large firms. Differentiators \* Clearly, IBM is a differentiator. This is due to how IBM was able to acquire different software from companies which then was able to offer clients high profit-margin software application to satisfy their needs. IBM was able to differentiate their products from the leading competitors and satisfy consumers that the other competitors clearly could not Business-Level Strategy and the IndustryEnvironmentMain strategies that companies can adopt to deal with decline: \*Leadershipstrategy The speed of decline and the intensity of competition in the declining industry are moderate. Through aggressive acquisitions, IBM was able to acquire much software to create high profit-margin products to satisfy customer needs and to also provide clients with their best service and consulting. The open standards approach that Gerstner’s approach was that as IBM’s consultants went from client to client assessing their needs; they were able to provide detailed feedback to IBM’s other divisions about whether their products were adequately meeting clients’ needs.

Gerstner’s strong focus on being close to clients had the additional advantage of spurring innovation throughout the organization. Chaining \* They establish networks of linked merchandising outlets that are interconnected by IT and function as one large company. The enormous buying power these companies possess through their chain of nationwide stores allows them to negotiate large price reductions with suppliers that promote their competitive advantage \* With IBM, the company is able to link with other software companies and IT back up servers that could connect as one large company.

By doing so, it allows IBM to create a competitive advantage in regards to price reduction from suppliers. Strategy & Technology Technological Paradigm Shifts \* This occurs when new technologies come along that revolutionize the structure of the industry, dramatically alter the nature of competition, and require companies to adopt new strategies to survive. \* E. G. When technology has been advancing, IBM innovated a new product that made geographical dispersed people to interact and collaborate without the time and expense of in-person meetings called the new “ virtual world” from the IT department.

Also, IBM had put its resources to good use by developing new kinds of mainframes and servers that would appeal to a wider number of customers groups and expand global sales. Proprietary standard \* Establishing a proprietary standard as the industry standard may require the company to win a format war against a competing and incompatible standard. Strategies for doing this include producing complementary products, leveraging killer applications, using aggressive pricing and marketing, licensing the technology, and cooperating with competitors \* E. G.

IBM could produce complementary products, leverage killer software that they have been acquiring and perfecting it, also using aggressive pricing and marketing to let gain new consumers. Strategy in the Global Market By serving as a global market, a company can potentially utilize its production facilities more intensively, which leads to higher productivity, lower costs and greater profitability. Global sales also increase the size of the enterprise, so its bargaining power with suppliers increase, which may allow it to bargain down the cost of key inputs and boost more profitability. IBM made the investment to establish huge, low-cost service delivery centers for its global clients by improving the software necessary to automate the management of networks and data centers, and develop IT to improve telecommunications, especially Internet services. From India, IBM runs a whole range of IT services for its global customers. In Bangalore, IBM has a command center that monitors the operation of the database server networks of more than 16, 000 clients. Through this, IBM was forced to eliminate 20, 000 jobs in Europe and the US, and move these jobs to India as the cost of labour in India is significantly low.

Corporate Level Strategy Vertical Integration \* This could enable IBM to achieve a competitive advantage by helping build barriers to entry, facilitating investments in specialized assets, protecting product quality, and helping to improve scheduling between adjacent stages in the value chain \* One of the disadvantages is that it increases bureaucratic costs if IBM’s supplier becomes lazy or inefficient, and it reduces flexibility when technology is changing fast or demand is uncertain Strategy Outsourcing By strategic outsourcing of value creation activities, it may allow a company to lower its costs, better differentiate its products, and make better use of scarce resources, while also enabling it to respond rapidly to changing market conditions \* One of the disadvantages is that if IBM outsources important value creation activities or becomes too dependent on the key suppliers of those activities \* IBM has invested in India to take advantage of its growing importance as a market for technology products and a source of high-technology workers.

IBM made the investment to establish huge, low-cost service delivery centers for its global clients, improve the software necessary to automate the management of networks and data centers, and develop IT to improve telecommunications. IBM runs a whole range of IT services for its global customers, including software delivery services such as upgrading and maintaining client software and managing and protecting database centers in India. Also in Bangalore, IBM has a command center that monitors the operation of the database server networks.

The largest of IBM’s three global IT service centers are in India, Brazil, and China. IBM’s scope was to expand traditional outsourcing operations and attract more and more global clients to compensate for reduced profit margins so it can still increase profits from this group. Related and Unrelated Diversification Acquisitions \* Acquisitions are used to pursue vertical integration or diversification when a company lacks the distinctive competencies necessary to compete in the industry.

Acquisitions are often perceived as being less risky than internal new ventures because they involve less commercial uncertainty. \* IBM has done many acquisitions, such as Lotus, CenterPoint Energy, Phillippines PSBank, PTT Chemical Public Company of Thailand, Skynet in Lithuania, Cognos etc. which helps IBM increase its expertise in specialized IT services to strengthen its competitive advantage Corporate Performance, Governance, and Business Ethics ROIC 1) Participate in growing market 2) Take market share from competitors ) Consolidate industry through horizontal integration 4) International expansion, vertical integration or diversification \* E. G. For IBM, pursing strategies to maximize profitability and profit growth helps a company to better satisfy the demands that several stakeholder groups place on it, not the other way around. Also, by maximizing returns to stockholders, IBM could boost its profitability and profit growth rate to be consistent in satisfying the claims of several other key stakeholder groups.

Ethics \* Despite the argument that maximizing long-run profitability and profit growth is the best way to satisfy the claims of several key stakeholder groups, a company must do so within the limits set by the law and in a manner consistent with societal expectations \* It is incumbent on managers at IBM to make sure that the company is in compliance with these laws when pursuing strategies.

Unfortunately, there is plenty of evidence that managers can be tempted to cross the line between the legal and illegal in their pursuit of greater profitability and profit growth. IBM could hold many various seminars on the topic of ethics and to try and implement ethical protocols when dealing with an issue that arises. Implementing Strategy in Companies that Compete in a Single Industry Strategic Reward Systems \* Organizations strive to control employees’ behavior by linking reward systems to their control systems.

Based on a IBM’s strategy (cost leadership or differentiation), strategic manager must decide which behaviors to reward. Selecting, Developing an Action/Implementation Plan \* Disadvantage of acquisitions \* Many acquisitions fail to increase the profitability of the acquiring company and may result in losses. Acquisition may fail to raise the performance of the acquiring companies suggesting that acquisitions usually destroy rather than create value. As IBM is acquiring many types of software to enhance its competitive advantage, but it may fail to raise the performance of the acquiring companies for four reasons \* Companies frequently experience management problems when they attempt to integrate a different company’s organizational structure andcultureinto their own \* Companies often overestimate the potential economic benefits from an acquisition \* Acquisitions tend to be so expensive that they do not increase future profitability \* Companies are often negligent in screening their acquisition targets and fail to recognize important problems with their business models \* IBM should be firm on their management organization structure to refrain any management problems with IBM makes an acquisition \* IBM should weight out all the pros and cons to distinguish whether the acquisition is beneficial to the company or not.

Also, when doing the acquisition, IBM should think of all the important problems that align with their current business model \* Outsourcing \* IBM will fail when their profitability is now substantially lower than the average profitability of its competitors; it has lost the ability to attract and generate resources, so its profit margins and invested capitals are shrinking rapidly. IBM will have to acquire many new software to keep their competitive advantage \* IBM should incorporate quality control in those countries that they have outsourced their services and consulting to continue to attract and generate resources and have profit margins still high