Commentary

IBM Seeks to Use BCS to Transform Itself and Its Customers

IBM has combined its resources with those from its PricewaterhouseCoopers Consulting acquisition to form the Business Consulting Services group. It's too early to claim victory because the key to services is relationships.

IBM completed its acquisition of PricewaterhouseCoopers Consulting (PwCC) on 2 October 2002. As a result of this acquisition, IBM Global Services (IGS) assumed the top revenue position in all worldwide IT professional service segments, with the exception of process management services, where IGS ranks sixth, according to a pro forma analysis of Gartner Dataquest's 2001 IT Services vendor market share database.

Most of PwCC resources and assets have been combined with the former IBM Business Innovation Services group to produce a new division, IBM Business Consulting Services (BCS), which is headed by Ginni Rometty (managing partner for BCS). Rometty has been with IBM for more than 20 years. Her appointment as the leader of BCS, rather than a senior managing partner from PwCC, suggests that it will be important to monitor how much of the legacy PwCC is shifted to operating the IBM way.

BCS has more than 60,000 employees and operates in 160 countries. Although IBM has included "consulting" in the name of this new division, its charter is by no means limited to consulting and systems integration services. The BCS group houses the business process outsourcing (BPO) services that PwCC brought into the acquisition and is the IGS engine for all business strategy and business-process-related services, e-business "on demand" services and business transformational outsourcing (which is essentially IGS' BPO offering — see "IBM Commits to the Business Process Outsourcing Market").

Post-Acquisition Integration Status

BCS has embarked on a three-phase post-acquisition strategy:

- Phase 1, completed in October 2002, addressed the integration of client-facing activities. As a result, the then-separate organizations identified 1,400 common clients, named client account leaders and established integrated account plans.
- Phase 2 spanned October through December 2002 and involved the integration of account teams, geographies, industry sector teams, and the IGS and PwCC portfolios.
Phase 3 is slated for 2003 and will address the integration of internal support systems. Thus far, as reported by IBM, the integration appears to be going smoothly. However, because the acquisition was formally completed in October 2002, the organizations have only operated as a combined entity for one quarter. Consistent revenue growth and market penetration in new offerings premised on synergies between the two legacy firms combined during the next year are needed to prove the worthwhileness of the acquisition.

In addition, IBM recently launched a "winback" program that focuses on regaining clients that dropped PwCC prior to the acquisition, as a result of auditor independence issues (also known as the "Enron effect"). IBM reported to that it regained more than 103 of its 149 accounts. Although the winback program has been successful in re-establishing relationships with clients that had severed relationships with PwCC, Gartner cautions that representations of the number of clients that have been won back (estimated at 70 percent) must be qualified, because the success of such a program is based on the revenue realized from the renewed relationship. Gartner estimates that the actual total revenue of signed deals is a small fraction of the business that PwCC had with these accounts, and it's going to take 18 to 24 months to grow those relationships and translate them into signed contracts that yield true benefits.

**Business Transformation and On Demand Services**

IBM has articulated a new corporate strategy that seeks to tie together several elements of its overall business. "Business transformation" and "on demand" are two companion initiatives of IBM's overall strategy. BCS is the driver of business transformation marketing messages, which are largely focused on business transformational outsourcing. According to IBM, its new Business Transformation Outsourcing practice "delivers improved business results through the continuous strategic change and operation of the client's business processes, applications and infrastructure measured against business outcomes."

On demand is a rallying point for IBM and is geared toward enabling IBM to become an on demand business and to help its customers become on demand businesses as well. IBM defines an on demand business as follows, "An enterprise whose business process — integrated end-to-end across the company and with key partners, suppliers and customers — can respond with speed to any customer demand, market opportunity or external threat."

IGS has a solid vision for offerings that focus on providing enterprises with options to achieve a level of desired business agility at a much better price point. However, Gartner believes that IBM is in transition — it is working on developing these offerings and achieving this vision, but it is not there yet. The key will be executing against its vision (see "Can IBM's 'On Demand' Strategy Build Real-Time Enterprises?").

The question really is, "What will it take to make IBM's vision a reality for clients?" In Figure 1, Gartner has defined a simple matrix to illustrate the layers of offerings that need to come together across a new environment. We have plotted where we believe IGS is today, which is in a "state of transition" moving toward the new vision. In the competitive landscape, IGS is clearly one of the players to watch because it is the only one that has all of the layers of the model within the four walls of its organization at a scale that is difficult to match. Thus, it has more ability to internally control and manage its destiny. However, it also makes IGS vulnerable because size can work against it. Given the size of IBM, a challenge will be to coordinate its broad capabilities and create synergies that result in true transformational solutions to clients. This new vision will require a paradigm shift in IBM's service businesses and will be a challenge to manage. In the meantime, within each layer and across layers, there are numerous formidable competitors reaching for the same goal, as there are several elements of this vision that are not unique to IBM.
Figure 1
Vision vs. Reality

Layers

<table>
<thead>
<tr>
<th>Business Process</th>
<th>IBM Transition</th>
<th>IBM Vision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application</td>
<td>Developing Offerings Today (e.g., Grid Computing)</td>
<td>Utility</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>In Progress</td>
<td>Business Transformation</td>
</tr>
</tbody>
</table>

Old Model: Customized Solutions
“Building Blocks” Prerequisites for the Future
New Model: Configurable (Business Agility at Optimized Cost Structure)

Source: Gartner Research (April 2003)

Messaging

First and foremost, business transformation and on demand are difficult and intangible concepts to convey. Second, there are competitive versions across the landscape that add to enterprises' difficulty in understanding their value. For example, Accenture, Cap Gemini Ernst & Young and Hewlett-Packard are also offering versions of business transformation.

Thus far, Gartner has found IGS messages somewhat confusing and contradictory. For example, business transformation may mean business process improvement. It may also mean major change to a company's business model that is sufficient to change the "rules of the game" in a given industry sector. Furthermore, IGS has also used business transformation to mean a shift in the way a company obtains its business capabilities — mainly a shift to outsourcing and ultimately to on demand business and computing services. Moreover, IGS is putting this business transformation "label" on many things, which dilutes the message, rather than reserving it for a true differentiated offering and client solution.

Bottom Line: It's too early for IBM Global Services to declare victory regarding the PricewaterhouseCoopers Consulting acquisition. Nevertheless, external service providers should view IBM Business Consulting Services as a solid contender for large-scale business consulting and outsourcing opportunities. Enterprise buyers should recognize the positioning of IBM's offering and be clear on the business benefits.