

At Your Service

The transformation from selling products to offering services and solutions took IBM more than a decade to realize. Former IBM Chairman for Europe, the Middle East and Africa Hans Ulrich Maerki explains the necessary shift of mindset which, in his opinion, makes a company more fit to face future challenges.

Hans Ulrich Maerki worked for **IBM** for over 35 years, starting as a part-time student intern back in 1973, and after a highly successful career in the company, eventually became Chairman of **IBM** Europe, Middle East and Africa, a position he held until his retirement in April 2008. In addition, Maerki serves as a member of the board of several well-known Swiss companies such as **ABB** and **Swiss Re**, and he is on the advisory board of several leading business schools, including IESE.

During a recent visit to IESE Barcelona, Maerki met with Prof. Philip Moscoso to talk about **IBM**'s transformation from selling products to offering services and solutions. The expansion to services is one of Prof. Moscoso's area's of interest. Together with Alejandro Lago, his fellow professor in IESE's Department of Production, Technology and Operations Management, he has taught and carried out extensive research in this field. Given their shared interest in this topic, Moscoso sought Maerki's insights into how to excel in high value-added service businesses, an area which will no doubt grow in importance in the years to come.

The transformation from selling products to services has been one of the big business trends of recent decades, and companies have often struggled to meet this challenge. As one of those that have done this successfully, we would be very interested to learn from the **IBM** experience. Tell us what the situation was like at **IBM** in the early '90s, and how did the new strategy of becoming a service and solution provider emerge and develop within your organization?

Hans Ulrich Maerki: Services at **IBM** came about by accident. When Lou Gerstner became CEO of **IBM** in 1993, he wasn't really looking for a new strategy. "The last thing this company needs is a strategy," he said. "It has too many strategies. We need to survive."

Here's how it evolved: In the beginning, **IBM** used to be able to charge almost anything it wanted for hardware, and we had hardware specialists whom we called systems engineers. But as the hardware margins came down, the less we were able to afford those engineers, so we told clients that they would have to start paying for those people. Some said no and went elsewhere. But others started using our engineers, and the revenue we generated from this we started to call services. Then, at a certain point, we realized this new area didn't really fit with our existing business model, so we decided to take these people out and put them into a separate company,

which led to the formation of our Integrated System Service Corporation.

Lou Gerstner immediately recognized this was a different business model. It was not producing products, having a product development plan, bringing something to the market and selling it with a sales force. It was not transaction-oriented as selling hardware and software. This was relationship-oriented, and it required a different way of managing it. So he left this division separate, and started to nourish it and provided capital to grow. This is how we started this business in the early '90s.

One of the major difficulties companies face in this kind of transformation is not, as you say, developing the strategy but putting it to work. You have certain people who are used to a certain way of operating. How did **IBM** manage the transformation in terms of reorganization of the company, or reallocation of assets? How did you translate capabilities from product knowledge to solution knowledge? How did you ensure that the right capabilities were targeted, given that the clients' needs were also evolving? In short, how did you, within **IBM**, top-down and bottom-up, ensure that this transformation was successfully brought to life?

The first thing that we needed to do was to focus on the client again. We were producing products and then selling them to the market and hoping that the clients would buy them. It was not an outside-in look; it was more an inside-out look.

Gerstner understood that if we wanted to be competitive – to fight against other software and hardware vendors – then we couldn't be generalists, we needed to be really deep specialists. The same applied for Global Services. He said, "If you guys want to compete with **Electronic Data Systems** (our major competitor at the time) then you really need to understand services." In three or four years, we transitioned **IBM** into a very efficient, vertical organization.

Then the market changed. This was in the late '90s and early 2000, shortly before the Internet bubble burst, when we realized that clients were starting to act differently in the way they bought. They did not buy single software products and evaluate them against the competition. They said, "Listen, I have a problem. Solve my problem." Gerstner himself admitted that, as a former customer of **IBM** when he used to be a senior executive at **American Express**, "I never understood why you guys were selling me gigabytes of this and terabytes of that, and not telling



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me how I could run my business in a much better fashion." The answer was clear: We were not prepared to do that at the time.

So that brought up the question, if you really want to help the client solve his problems, you have to understand the client. You have to go deep into the client. Do we have people who know how a bank or an insurance company or a distribution company works? And the answer was, "Well, we have a few, but wasn't really the core strategy of **IBM**." We knew our biggest gap was the front-end consulting capability, to go not to the CIO, but to the board room of the client and become a trusted partner. And this took, I would say, probably five to six years, to build this concept of starting to think and work horizontally.

The idea is to have one partner for a large client who takes care of that client around the world in all its global operations and becomes a trusted technology and services partner for that client. But to do that, you have to retrain your people. They still need to have deep, specialist knowledge (be vertically-oriented or I-shaped) but they also need to have a broader contextual sense of that knowledge (be horizontally as well as vertically oriented, or T-shaped).

Many companies are struggling with the same syndrome: All their people are very much "this way" – not talking to each other, not collaborating with each other, just looking after their own business, and as long as something is good for their own business, they do it, without thinking, "Is this good for the company as a whole? Is it good for the various stakeholders? Is it good for the client?"

This transformation is an ongoing process, and it takes a lot of detailed work and a lot of good communication. **IBM's** turnaround took 10 years, so this is not a quick fix.

As a result of these transformational efforts that you have just described, would you say that **IBM** might be in a better position now to face the current (or future) economic challenges?

Yes, for three reasons. First, **IBM** has become more global than it has ever been in the past, which means it isn't as reliant on one single market. So, if the U.S. has a crisis, obviously it's not good for **IBM**, but it doesn't harm **IBM** as much because we can compensate elsewhere. (This is assuming we will not have a global recession, but recessions in certain countries.)



Hans Ulrich Maerki

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Second, unless the customer-buying behavior fundamentally changes, and I don't think it will soon, then having this horizontal view is an advantage over competitors. We are an integrated company with the widest portfolio.

Third, having gone through these tough times to arrive at this point, **IBM** has developed the ability to react very quickly. This is what Gerstner meant when he wrote about **IBM**'s historic turnaround in his book, *Who Says Elephants Can't Dance?* Gerstner has created a team that can dance, even if you are an elephant.

It has to do with dynamism in management. If you need to stop expenses, you can stop them quickly. If you need to turn your attention elsewhere, you can do that. If you need to move resources from one place to the other, you can do that. We can manage our resources globally. We have 70,000 people in India, but they do not work for India only, they work for the whole world. And maybe when you see there is less demand in the United States, you can allocate your resources somewhere else. They can physically stay where they are, but the allocation of resources can be done quicker. The same thing with skills. I think this is a unique selling proposition that **IBM** has, which will make it easier for **IBM** to go through economic crises, though admittedly it will be hard.

Would you say that the transformation is completed? Has **IBM** arrived at the point where this vision was meant to go, or do you anticipate further transformation with some different models?

Transformation is never over. Now, depending on the horizon that you set yourself, you could say, “I have disposed of everything that looks like a commodity, and have moved my entire business model into more value-added services,” but who knows when our services will become commodities? Maybe some already have. Which means even the current service model will have to be adapted. So, it's never over. For the moment, it looks strategically well-built, but it would be a mistake to think this is it. It will change.

IBM is investing heavily in service science research. It operates service research centers, it leads a worldwide research initiative called Service Science, Management and Engineering (SSME), it sponsors academic conferences, and it collaborates with a wide number of business schools and universities such as IESE. Moreover, you recently wrote an article on the importance of services as the subject of scientific research and teaching, where you compared

this effort with the one **IBM** did years ago pushing for computer science. What exactly is this service research about?

Back in the '60s, people at universities asked **IBM** the same thing: “Why do you want computer science? This is a machine! What's the science about?” Today, we need to understand and agree that if you look at the world economy, 70 or more percent of most economies is created through services. Yet if you look at the curricula of most universities, which **IBM** has done over the past five or six years, you see that we have engineers, we have scientists, but no one really graduates as a person who has all the different skills, from psychology to engineering, to understand how to build a true services process. Are we really studying the 70 percent of the GDP that we are producing? The SSME initiative was born partly from that frustration. **IBM** has learned a lot from its own 10 to 15 years' experience of understanding that services is not the same world as products: It takes different skills. But **IBM** doesn't have all the answers, which is why it needs to work together with research and academic institutions around the world in this endeavor.

What are some of the success factors that need to be taken into account in order to yield beneficial partnerships when a company like **IBM** partners with a public body like a university or even with a government or E.U. institution, as you frequently did in your role as Chairman of **IBM** Europe, Middle East and Africa?

Two things. One is trust. The partner, whoever that is, whether it is an NGO or the EU, has to fundamentally trust that when someone from a company is coming in, he is not trying to blame the government for something, but is genuinely trying to help. Building that trust takes time.

The second virtue is patience. If you are on the business side, like me, you are used to different decision cycles. I am used to very different time cycles on projects, on how quickly we can do this, and you just have to learn – as I had to learn, the hard way, because many times I was frustrated – that the public sector doesn't act as quickly as we in the private sector would like them to. But if you pull out too early, you may have misspent your company's money, and your partner may also have misspent his money.

So, it does take a lot of patience. And it also takes trust. But by being patient enough, and creating trust, we have been able to accomplish many things over the past five or six years that we would not otherwise have been able to do ourselves. I think it helps that many politicians today understand much better that using this kind of collaboration with industry is beneficial for their job.