ANNEX BULLETIN

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Analysis of IBM Mainframe Announcement

Everyday Mainframe

IBM Unveils "Mainframe for All Businesses" Aimed at Restoring Customer Trust in Quality, Security

SCOTTSDALE, Apr 28 - IBM mainframe boss Jim Stallings traveled all the way to China to unveil the company's new "everyday mainframe," a midrange System z9 Business Class model that Big Blue hopes will become the "mainframe for all businesses" and occasions. Stallings wasted no time explaining why he was in China for the sixth time in the last 12 months.

"China has more than eight million small and mid-sized companies," he said. "They're growing these companies to be global competitors. And small companies have the same needs as large firms. They've got to think about security of data; they've got to keep information private; they've got to withstand Category 5 shocks to their system; they have to recover from incidents; and they have to scale up very quickly... just like big companies do."

As the host of the 2008 Olympics, Beijing has an opportunity to test the IBM mainframe's scalability to the extreme. It will have gone from "almost nothing right now" to "taking on the entire planet," as Stallings put it, in just two years.

IBM also hopes to reach out to new industries that value reliability and security. Having become the platform of choice in the highly secure banking and government applications, the mainframe now also wants to expand its presence in the health care and retail industries, for example, among others, where sensitive customer data has to be handled with utmost care and protection.

"The new z9 Business Class mainframe has been really designed to be the security manager for these industries regardless of the enterprise size," said Stallings.

Stalling added that IBM was growing in China at 15% per year, while the economy of the world's most populous country that has become the "world's factory" is expanding at 10.2% annually. "There some of the largest of everything here," Stallings noted. Plus, "this is a highly interconnected society," he added. "Everyone has a cell phone... the hotel room (where IBM was making the announcement) was full of reporters with computer notebooks."

The new z9 Business Class systems are priced in the $100,000 range, the lowest entry point ever for a mainframe, and can readily be enlarged as a customer's business grows. The existing line, called "Enterprise Class," typically sells for $1 million or more, though in 2004 IBM introduced a midrange mainframe tagged z890 that started around $200,000.

At $100,000 apiece, the new machine isn't exactly going to be every man's "everyday mainframe." But halving the entry price point will indeed help the mainframe move into an entire new server territory where Wintel is king (Windows+Intel). And it will be a cultural shock for many of these customers...

Why? Because Microsoft and Intel have gotten them used to accept shoddy quality as normal. It is not. It should not be. Not anymore than we should expect to die when we buy an aspirin, drive a car, or buy a home.

Shoddy Technology Betraying Customers' Trust

Over the last two centuries since the start of the industrial revolution, producer-companies have built up a level of trust with their customers which makes the consumers assume a built-in quality in the products they

buy. Technology companies like Microsoft, Intel, or the cell phone or other technology service providers, for example, are destroying that trust. Sadly, their typically young or inexperienced customers are learning to accept shoddy products or services without protest.

Nothing new there. We wrote nearly 12 years ago in an editorial titled "If PCs Could Fly" (Dec 1994). Here's an excerpt:

   If this writer's PC were an aircraft, it would have crashed no less than 10 times during the last two trips to the East Coast alone! Even cats don't have that many lives to spare... It is a small consolation that some of the crashes were caused by pilot error (i.e., the *WINDOWS* or other software bugs), not hardware failure. Dead passengers don't care why they died. Only survivors and relatives do! Which reminds us of a "real life" anecdote...

   At one point in the late 1960s, an entourage of high-ranking IBM executives arrived at the *Boeing* headquarters near Seattle for a bit of customer glad-handing. Close to the end of the visit, an IBM-er asked the *Boeing* people what would be the most important thing they (IBM) could do to help this valued customer? A hush fell over the room. You could practically hear the wheels turning inside the *Boeing* executives' heads.

   Finally, the top data processing manager spoke up. "You must improve the reliability of your computers," he said. The IBM-ers were offended. They felt their machines were already highly reliable, relative to the competition. They tried to point that out. The DP manager shook his head. "You don't get it, do you? Do you realize that if we built our aircraft the way you build your computers, you'd only have a 50% chance of making it home tonight?"

   The IBM-ers were stunned. Then, they went to work...

   Today, no one is talking about the mainframe reliability anymore. It is simply taken for granted, just like the relative safety of "jumbo jet" air travel. Not so in the PC industry. This segment of the market is still roughly where the mainframes were in the 1960s. The "PC jets" are crashing millions of times every day. But since these systems die one at a time, and since only the customers' nerves, data and time are lost, not human lives, such tragedies go unrecorded in the media headlines (until

the first time someone commits a suicide after seeing his life's work going down the drain as *WINDOWS* or other software crashes without a back up).

Intel Debacle

There are exceptions, of course, to these "deaths in solitude and anonymity." The recent publicity regarding a flaw in Intel's Pentium chip is rapidly turning into a media avalanche, and a PR disaster of perhaps unparalleled proportions in the IT industry. Yet, we also see the event as an invaluable, badly-needed consumer education, which may eventually lead to better *buying standards*.

Until the ubiquitous PC showed up on the scene, the flaws in the IT products, or the shoddy service or software design, only affected the corporate customers. If it wasn't written in the agreement, the vendors rarely volunteered to make good on such deficiencies.

But now that they are selling their products to millions of consumers, the "techie" vendors' business practices must also mature. You see, there is an implied contract at work here. When one buys a *Tylenol*, for example, one does not expect to die. When one deposits a pay check in a bank, one does not expect the money to disappear. When one buys a car, one does not expect a "lemon." Etc.

"When I was working (for RJR Nabisco) in the food industry, and for American Express, I learned that such trust must not be violated," said Rick Thoman, who heads up IBM's PC business. For, if it is, the entire industry's reputation will suffer, not just that of a particular vendor. Which is why IBM decided to stop selling the PCs with the Pentium chips last week.

Indeed, why should the IT buyers accept anything less than the pharmaceutical, banking or food customers? Why are they propelling "nerds" into multi-billionaires by making their sub-standard products "bestsellers?" The answer, of course, is because they don't know any better. Which is a dangerous predicament. Just check out an old proverb:

> *"He who knows not, and knows not that he knows not....*
> *....is a fool - shun him;*
> *He who knows not, and knows that he knows not....*
> *....is ignorant - teach him;*
> *He who knows, and knows not that he knows....*
> *....is asleep - wake him;*
> *But, he who knows, and knows that he knows....*
> *....is a wise man - follow him."*

Whichever vendor first demonstrates that "it knows that it knows" and

helps educate the IT consumers, will reap significant long-term benefits. Just as the late Peter Finch yelled out of his window in the film, *"Network," **"I'm mad as hell, and I'm not going to take it anymore!",*** millions of IT buyers now probably feel the same way. They offer a terrific *sales opportunity*!

P.S. Annex Ed., 6/18/2000: This writer personally delivered the above message to IBM's CEO, Lou Gerstner, in a private meeting the two had held in Scottsdale, AZ, in late October 1994. It obviously fell on deaf ears...

Restoring Trust

Not anymore. Not at Palmisano's Big Blue that's evidently putting an emphasis on quality throughout its business.

Meanwhile, back to the new IBM z9 Business Class mainframes and the *System i* (iSeries) servers, that also offer highly reliable integrated solutions to the SMB marketplace, Big Blue is evidently trying to restore the customer trust that the PC and mobile technology makers have eroded in the last couple of decades. For the sake of the future generations, let us hope that it is not too late to save them from themselves and their low quality expectations.

"Mainframe for everyone?" Well, maybe that's still a hyperbole at the $100,000 price tag. But "mainframe quality for everyone" is a worthy reality.

Happy bargain hunting!

Bob Djurdjevic

P.S. As if to prove this writer's point, the Wintel system he is using crashed three times (!) while he was writing and publishing this editorial.

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