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IBM heads toward SMB space

By Barbara Engler, Editech

Analysts share the opinion that IBM will face considerable challenges as it takes on the needs of the small and mid-sized market.

IDC analyst Raymond Boggs, SMB Research, said certainly SMB is a market that's growing faster than the enterprise space in general, plus it represents a major opportunity in the developing world that is especially appealing.

"IBM has had good traction with its Express line of hardware, software and services sold through partners and is looking to leverage that success," he said.

However, IBM is still thought of as maybe not so interested in the SMB space, even the mid-market folks that IBM is really targeting. But the products and channel partners, as well as the messaging are all addressing that issue, Boggs said.

"And certainly the red meat that Sam Palmisano was throwing to the partners in terms of the opportunity that SMBs represent will certainly keep folks motivated," he said.

Sam Palmisano, IBM chairman, chief executive and president, told attendees at IBM's PartnerWorld 2007 conference that "In two to three years, SMB will be the largest industry for us."

"The global SMB market is valued at \$487 billion, growing at 6.5 percent and 47 percent of IBM's SMB revenue is driven by our business partners," he said. "It is the biggest IT growth opportunity in the world today."

Palmisano said IBM needs to develop additional programs and services that will allow independent software vendors and value added resellers to sell its products more effectively to SMBs.

He told the attendees the SMB market is poised to become the company's biggest source of revenue, surpassing the financial services industry which has long been IBM's number one industry in revenue terms.

Enderle Group analyst Rob Enderle said IBM has been after this market on and off for over a decade and it has always seemed both very attractive and elusive.

This segment is where VARs live and breathe and they have historically owned this segment, according to Enderle.

“Microsoft and Compaq (pre HP) made the most focused attack on the segment but Dell, of the big hardware players, has seemed to have the best sustained support there,” he said, noting that Microsoft bought Great Plains Software to specifically target this market and keep Oracle and IBM out.

Enderle explained that historically the reason IBM (and most large companies) do not do well here is scale. They don’t scale down to where the business support required is profitable for them, he said, pointing out that a VAR, which has vastly less corporate overhead, can deal with this segment more profitably.

“I’m not convinced this latest effort from IBM addresses the fundamental problems of scale or affinity and that doesn’t bode well for the outcome,” he said.

Annex Research analyst **Bob Djurdjevic** pointed toward the IBM culture as standing in the way.

“It’s equivalent of getting leopards to change its spots,” he said, adding there needs to be organization and cultural changes for IBM.

Djurdjevic confirmed that while Palmisano said the SMB market is IBM’s best growth opportunity, SMB customers tend to buy from other SMB suppliers and not large corporations like IBM.

The SMB 4Q2006 growth rate of 11 percent and total full year revenues (\$17 billion) are both better than most IBM businesses, Djurdjevic said, “but they are not nearly as good as they can be, if IBM were to exploit the full SMB opportunities, especially in emerging markets.”

It’s important for IBM to do two things, according to Djurdjevic. The company must continue to build up and broaden the relationship with these thousands of partners. And second, it needs to re-brand itself just for the SMB market.

“SMB, one of the promising seedlings, has just been promoted to a tree in the Big Blue garden,” he said.

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