

by Linda DiBiasio

A Conversation

WITH BILL ETHERINGTON

In his role as senior vice president and group executive, Sales and Distribution, for IBM, William A. Etherington oversees the sales forces and operations in the 162 countries in which IBM conducts business.

Bill has been taking on increasingly challenging roles at IBM since 1964, first with IBM Canada, followed by stints in Latin America, Europe, the Middle East and Africa, returning to IBM headquarters in 1998.

Today, he is leading the company from its stodgy roots to become a nimble player in the new world of e-business.

LD: What kind of company is IBM today?

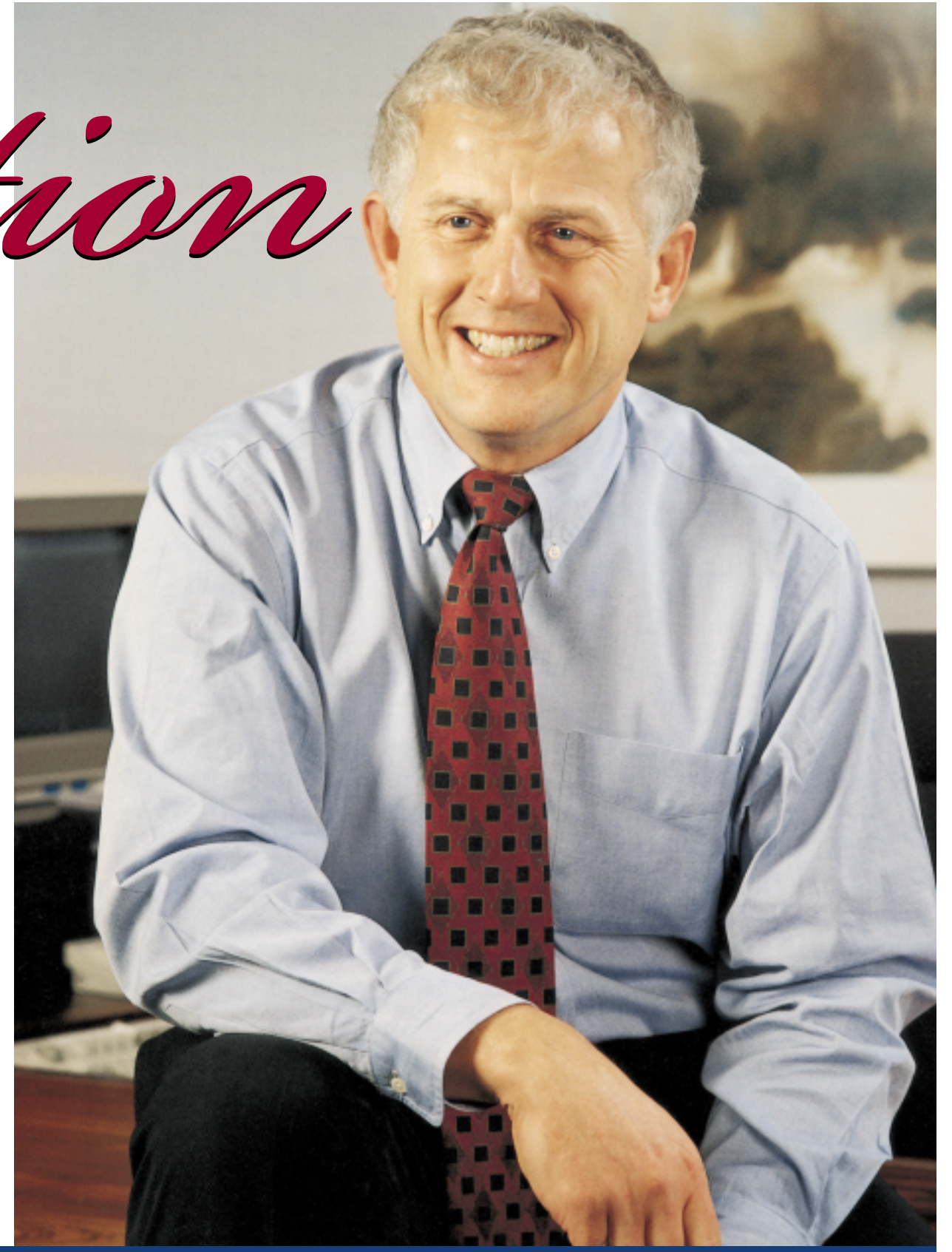
BE: We have repositioned the company over the last few years in several respects. When Lou Gerstner came in April, 1993, we were going through a major transition from a higher margin hardware company to become something new. In the midst of that transition, we decided to bet the company on the Internet computing model—what became known as e-business, which we branded as a category.

In 1995, Lou gave the keynote address at Comdex and publicly launched the message that became e-business. Since then, we have been busily reengineering our hardware and software products as well as our service offerings to be the leader in providing e-business solutions. We are a solutions integrator. We are the people who can put it together.

LD: IBM's e-business TV ads are focused on individuals and small companies. How do you now take that brand message to the enterprise?

BE: We knew we had a relevance issue. Our history is that we were a company that dealt with large enterprises and dealt with them through a single buyer, the corporate information officer. But, our surveys told us that younger buyers and line of business executives who were outside the CIO didn't know how IBM could help them and didn't know if we were relevant. When we first started this transformation, our TV ads, *Solutions for a Small Planet*, were meant to reposition us. The ads were edgy and humorous, and they appealed to a younger demographic.

What we were trying to build there was the message, 'IBM is someone you could think of in the Internet space – the people



THE DREAM TEAM

In March of this year, IBM signaled its commitment to the B2B market by taking an equity stake of about \$600 million in Ariba, Inc., and i2 Technologies.

In what the industry is calling “The Dream Team,” the new alliance combines the marketing power of IBM with the net savvy of Ariba and i2.

Under the terms of the alliance, IBM will integrate its e-business hardware, software and services facilities to Ariba’s B2B eCom-merce platform and i2’s services and B2B platform. IBM brings its global sales force of more than 5,000 across every industry to the alliance. IBM also will open up its library of related eCommerce patents.

Ariba brings both the front office procurement software and its expertise in net markets stemming from its December acquisition of Tradex Technologies; i2 brings its back office expertise in supply chain management.

“It is our commitment to be a customer of the alliance,” said Gregory A. Connolly, IBM general manager, e-markets, in his address at Ariba’s Spring 2000 User Group and Advisory Council. “We’re betting our business on it. We are using what we are selling – we believe in it. —LD

who know how to build solutions.’ We have to appeal to people on an individual basis, because in the end, the buyer is an individual, and in many cases, not the same buyer we had been talking to historically.

LD: *How do you find the line between being a big corporation and being an agile new economy player? Some companies want to turn to IBM as a partner because of your experience and your brand recognition. Yet, you represent many of the things they are trying to get away from.*

BE: That’s a fair point. Our franchise has huge value. We have relationships with governments and enterprises globally, and we’ve had some of them for 80 years. IBM has been in China for example, since 1925. So we have a long history of being in all the markets and working with those organizations.

But we also understand that as a large company, we are not as nimble as we would like to be. Scale has its value and it has its challenge. When we relaunched our solutions strategy about a year ago – particularly in the application space which is where Ariba comes in – we asked ourselves, ‘What are we good at? We build world class hardware, we have the best middleware in the industry, and by the way, we integrate and operate systems very well.

‘But, we don’t write applications software very well.’ So we decided to go out and partner with the world

class leaders in the software spaces that our customers are most interested in today. And of course, eProcurement, B2B markets, CRM and supply chain and ERP solutions are very much on that radar screen.

When we made that shift not to be a provider of applications software, we made the decision to be a partner in these spaces. This has many implications because, for example, if we were a competitor to Ariba, they would more likely be using someone else’s database, be more likely to test their software on somebody else’s hardware platform.

LD: *Over the years, critics have charged that IBM’s consulting services really meant, hire us to consult and we’ll sell you all our own products. In the best-of-breed approach that many companies are now adopting, has that changed?*

BE: Yes. When we launched our global services business in 1991, one of the first premises was that we had to be able to integrate a total solution for the customer that may include non-IBM technology.

In the past, we as the biggest player along with some others, had a habit of telling customers how to do things. But, today, as the customers are more sophisticated and the technology is used more broadly, there is more need to say, ‘We see your needs and will build the capability to respond to those needs.’ It doesn’t mean that we are not prescriptive. It doesn’t mean that we don’t think

there are some core architectures here, that open standards are crucial, that robust servers or storage are fundamental. It says that our value proposition is we can integrate this for you better than anyone else.

You know, there’s been a huge discontinuity in the IT industry over

which you’re going to base your sourcing. They are *very* interested in the solution.

LD: *Where do you see the IBM/Ariba partnership going strategically? Will there be others like it?*

BE: About a year ago when we made

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the last couple of years, accentuated by Y2K, and that is that the power of buying has shifted from the typical technology department to the line of business buyer.

When that line of business buyer comes in, they are not so much interested in the core technology as they are in solutions to their business problems.

They say, ‘Could you please tell me how to solve it, and show me where you’ve done it before, and tell me how fast you can deploy it for me, so that I can meet my business requirement.’

Our customers are much less interested in the technology on

the decision to create integration services, we worked with our customers to target the right areas of interest.

We already had a big relationship with SAP and JD Edwards and a number of ERP suppliers, so we knew that space pretty well. We then determined that there was a huge interest in CRM and we went out after surveying the market, and established a strong alliance with Siebel Systems.

Then late last summer, we saw a huge interest in B2B solutions, starting with procurement, with which we had a lot of experience. [IBM runs the largest private electronic

network in the world, which last year accounted for \$13 billion in revenue.] We looked across the market to identify the companies with which we should form an alliance, and we certainly surveyed all the players – we looked at Intellysis, Commerce One, RightWorks, Ariba, and we determined that the dominate player in the procurement space, the company that was going to be fundamental to these B2B markets, was Ariba. Then we set about to meet with the Ariba team, and develop a mutual value proposition and said, ‘We can work together.’ Today, Ariba is one of about 15 anchor partnerships we have, and we expect that to continue to grow as we find applications spaces where our clients want us to integrate solutions.

LD: *Can you discuss the new e2Open marketplace?*

BE: After we entered the marketplace space, we created an alliance with Ariba and i2. There are three of us because we believe that a complete B2B solution needs to deal with production procurement, non-production procurement, supply chain, etc, and we were convinced that together we would be a powerful alliance. Then, we said that we want to go out and build these for all the people who are looking to build markets.

In parallel, our own procurement people told us there was a space here that we should participate in along with other players, which is the electronics industry. The electronics

industry is the largest procurement industry in the world – bigger than automotive or aerospace. So together with a number of early people like Nortel, Hitachi, Seagate and others, we became part of e2Open.com, a

manage and execute supply-chain transactions over the Internet. These companies account for about \$700 billion of goods and services bought and sold. Founding partners are Hitachi, IBM, LG Electronics,

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procurement network that's focused on the electronics industry.

[The e2Open.com consortium was launched in June to bring together thousands of computer, electronics and telecommunications companies worldwide to plan,

Matsushita Electric (Panasonic), Nortel Networks, Seagate Technology, Solectron and Toshiba. Technology partners are Ariba, i2 and IBM. In late July, Lucent announced that it was joining the online exchange start-up.]

LD: *Lou Gerstner has said that in a few years, e-services would represent more than half of the company. What percent of the company does that represent today?*

BE: In 1999, e-services had revenues of about \$35 billion out of \$85 billion. That is also reflective of the market. If you look at the IT industry, which is about a trillion dollars, you would find that about 40 percent of money is spent on services. Because of our scale, we can move to where the market moves. So when the market said, 'We want to do outsourcing,' first in the U.S. and then in Europe, and now in Asia, we moved our capabilities there. When the market says 'We want to have B2B capability,' we

move our capabilities and we hire skills and create partnerships to go there, because in the end, our focus is on solving customer problems.

LD: *What are the biggest challenges facing the industry today?*

BE: Numbers one, two and three are skills. There is a huge shortage of IT professional skills globally. It's estimated that there are 500,000 open jobs today just in the U.S. There is a war for talent, and it's having an effect on the industry. One of the implications that is good for IBM and Ariba is that customers are less likely to build their own solutions. We anticipate going forward that about 80 percent of all the applica-

tions in the world will be written by 15 percent of the programmers. People are buying packages, and Y2K really accelerated that. Those of us who went through the reengineering and recoding said, 'We'll never do this again. Let's go to open standards, and buy rather than build. It allows us to deploy faster.'

LD: *How does IBM look in the year 2010?*

BE: First of all, that's too far out. Remember that nobody forecasted dot-coms; nobody forecasted these B2B solutions that have popped up in the last 12 months. We have a healthy humility about the ingenuity that's in the marketplace. We do know

some things: we know that the raw technologies, the microprocessors, the hardware, the storage, the network transmission broadband capability are going to continue to race. There are no known limits. That's good news. It says that this capability that we're all putting on the table gives you the power to do many things. We can forecast the technology for the next ten years, but we have no way of forecasting how people are going to use it. That's the exciting part of the industry.

LD: *So you're pretty excited about the future?*

BE: Believe it or not, after 36 years, I'm still excited. 