

A Respectful Bow to Ginni Rometty

Yesterday, it was announced that Ginni Rometty will be stepping down as CEO of IBM, effective April 6, after serving in that role since early 2012. In her place, the BOD has elected [Arvind Krishna](#) as the new CEO, as well as electing Red Hat CEO James Whitehurst as IBM's new president. Rometty will remain the company's Chairman until the end of the year, when she will fully retire.



From all that I have heard, Krishna is an accomplished business and technology leader and should do a terrific job leading IBM going forward. He knows IBM and its culture well, having been with the company for 30 years. He is currently serving as SVP for Cloud and Cognitive Software and has been cited as one of the principle architects behind the recent acquisition of Red Hat. As Rometty shared in the press release announcing the executive leadership changes, "Arvind is the right CEO for the next era at IBM. He is a brilliant technologist . . . [and] a superb operational leader, able to win today while building the business of tomorrow."

Interestingly, this is the first time in a long spell that all three top positions at IBM have been held by three different executives – implying to McNee Associates that this is a well-thought-out succession plan as well as *reflecting on just how important IBM's acquisition of Red Hat is to the future of the company.*

This blog post is not about IBM's go-forward plan or strategy, but instead a reflection back on the journey that IBM has taken over the past 5-10 years, the significant role that Ginni Rometty has played in making IBM relevant for the next 10+ years, and some of the key challenges that IBM faces going forward.

I briefly met Rometty for the first time in the late 1990s when I was still with Gartner full time, and again in the early 2000s when I remained affiliated with the company as an external "Gartner Fellow" for a couple of years. My most vivid [initial] memory of her, however – *when I fully took the measure of who this powerful leader would become* – was at a special "industry congress" I attended in June 2004 [along with several hundred industry analysts in Monte Carlo], in celebration of the 10-year anniversary of the founding of IBM Global Services (subsequently renamed into two divisions, Global Technology Services and Global Business Services). I still have and use the leather note pad cover I received at that event, when I travel to industry analyst summits today!

Less than two years earlier, Rometty had championed and helped negotiate IBM's acquisition of PWC's consulting arm for \$3.5 billion, and then led the integration of PWC with IBM's consultants – all of which changed the game it was playing and squarely put IBM on the map in business services. It was obvious what a terrific communicator she was, and what a bold leader and risk taker she would become. I recall how impressed I was with her and noted to myself at the time that she was clearly on the path up the IBM executive chain.

Rometty Becomes CEO

March forward eight years. On January 1, 2012, Rometty became IBM's first female CEO. Just prior to this time, IBM was able to continue its formula of growing earnings with flat revenue performance. However, within two years of Rometty taking the helm that started to change, fundamentally. Services revenue growth started to sag significantly, and its bet on China stopped paying off.

More importantly, for the prior two years Rometty had been shackled by the weight of her predecessor CEO's unrealistic promise to Wall Street in 2010 that IBM would hit \$20 in earnings per share by 2015 – even though Palmisano knew he wouldn't be around to have to manage to it.

By October 2014, Rometty quietly but firmly closed

that chapter (and its crazy earnings commitment) and began a fundamental rethinking of IBM's go-forward strategy and place in the world. Business computing changed a lot between 2010-2014, as the pace of Cloud adoption accelerated rapidly. These were troubling times for legacy vendors, across the full spectrum of the business computing landscape. I remember it well, as we won numerous consulting assignments at my research and advisory firm Saugatuck Technology around a specialized practice we created helping legacy vendors transition their businesses to the Cloud. The list of companies was long, but included SAP, Microsoft, IBM, Wipro, Lenovo, Cognizant, HP, Sage, Infor, Pitney Bowes, Adobe, Dell and Cisco, to name a few.

No doubt, Rometty's legacy is mixed. Critics can point to the fact that the stock price languished for the better part of the past five years, amid the torrent run-up of cloud hopefuls and giants. Could have Rometty pushed the pace of change faster? Probably. However, Rometty was handed a company that needed to be substantially reshaped to remain relevant for its current and future customer base. In my opinion, one of the biggest issues was the legacy culture at IBM that just wouldn't accept that the world was changing faster than they wanted it to, and its internal forecasts had anticipated. The transition has been painful to say the least.

By the fall of 2016, with red pouring out of both the

top and bottom line, Rometty had to move fast – but the ship she was steering was, and still is, big. After the devastating October 2016 earning call, Steven Milunovich, a well-known Wall Street analyst at UBS, estimated that two-thirds of IBMs revenues at that time were still driven by traditional hardware, software and services products, and noted how tough multiyear transitions can be on legacy businesses. While the new businesses were growing robustly, the legacy businesses were contracting at a rapid pace. The issue was how soon would the two lines cross, with the new business segments surpassing in size the contracting legacy businesses.

Two years later, IBM announced its acquisition of Red Hat for \$34 Billion, the largest acquisition in its history – as it moved to position itself as a “kind of corporate ‘Switzerland’ in cloud computing – a trusted partner of businesses that are moving to the cloud, but are leery of becoming dependent on one major cloud supplier,” according to the [New York Times](#).

While Rometty had reached the normal retirement age for IBM CEOs in 2018, she agreed to stay on for two more years to finish the job that she began back in 2012: *seeing IBM successfully reach sustainable revenue and profit growth.*

In many regards, the portfolio transformation that occurred under her watch was by far the largest in scope and scale at the company in its 100+ year

history, and bigger than what has occurred at many other F500 firms. IBM was reinventing itself and its brand from one associated with mainframe computers, middleware and outsourcing, to one focused on next generation technologies such as machine learning / artificial intelligence, Cloud, cyber security, blockchain and quantum computing.

Key Accomplishments

Yesterday I had a chance to connect with a long-time analyst colleague, and we came up with four primary areas of focus that Rometty can especially be proud of:

First, Rometty shed IBMs investment in and dependence upon products / markets / services that were lower-margin, or were heading toward commodity status, or extinction. Several great examples, among many include:

- The refocusing of its services business away from traditional outsourcing and toward more profitable services;
- The selling off of a range of non-strategic software assets to HCL in 2018 to bring more focus to its core go-forward mission; and
- The spinning off of its semi-conductor business to GlobalFoundries in 2014; and
- The sale of a significant portion of its server business to Lenovo in 2014.

Second, Rometty drove IBM to increase its focus on products / markets / services that are heading toward near-term or long-term growth.

- This includes its significant focus on AI / Watson, Blockchain and Quantum Computing – all delivered on **IBM's** enterprise-strength cloud platform – as well as major investments in key verticals such as health care, and value-add offerings such as the acquisition of the Weather Channel.

Third, Rometty maintained IBM's focus on high profit margin products / markets / services where it has minimal or no competition. This includes mainframes, and mainframe software.

Lastly, the acquisition of Red Hat.

- While Rometty's "bet the farm" purchase of Red Hat was considered by some as a concession that its prior strategy was not working fast-enough, the bottom-line is that Red Hat is clearly helping to now drive significant and sustainable top-line and bottom-line growth for the company.

Rometty's Legacy

No doubt, only recently have we seen the turnaround fully express itself in positive revenue and profit performance, after a number of years of declines. Today, more than half of the company's revenues are

coming from the emerging, high-growth segments of IT.

Rometty put Cognitive / ML / AI at the center of IBMs strategy, building assets that are not easily commoditized. In fact, Rometty's ultimate legacy might be that she has steered the company into becoming primarily a data company.

As the father of three beautiful and intelligent daughters, Rometty's efforts to keep women in the workforce likewise remains a key long-term accomplishment. She pushed for extended leave, a breastmilk delivery program and returnships. I love this quote from Rometty:

"You've got to keep women in the workforce, whether it's through having children, caring for elder parents, all the things. Not that husbands, spouses, and partners don't do those things as well, but it's often what takes them out, and then to get them back in is hard. You keep them in the workforce and your odds are much higher. And that's one of the many things we do (at IBM)."

Lastly, to me Ginni Rometty will always be known for her bluntness, determination, and risk taking, as she was not afraid to try new things, and break glass, to maintain IBMs leadership in the market. These are all signs of a strong and effective leader.

The Road Ahead

No doubt, IBM has many challenges ahead while it continues to transform the company. This includes first and foremost, learning to compete with Cloud giants such as AWS and Microsoft, especially with mid-size customers, and in regard to new application development. Second, IBM needs to make sure that Red Hat continues to grow unimpeded by the conventional IBM bureaucracy. And third, IBM needs to continue to identify new high-growth, high-margin markets where it can carve out a defensible market position.

Yet one can only be optimistic that IBM has now turned the corner – with a special thanks to Ginni Rometty for helping the company get there.

IBM Cloud Summit: Its All About the Data

In the emerging *Age of Insight*, or what Mike McNamara, CEO of Flex recently termed the [Age of Intelligence](#), machine learning and artificial intelligence are becoming central to effective business strategy and decision making, product design and development, and all aspects of service delivery. Unlocking the

critical corporate data that support these initiatives and systems were key themes presented at the IBM Cloud Summit that I attended in New York City earlier this week (along with 60-70 other industry analysts / influencers).

No doubt, IBM is in a truly unique position with clients, given its heritage of providing world-class infrastructures to the F1000 for the past 40+ years. These systems hold vast vaults of transactional and operational data that IBM wants to help clients make available in the cloud, and to its' growing arsenal of highly differentiated Watson-based offerings.



Throughout the one-day Summit, IBM demonstrated its commitment to help its clients adopt and deploy hybrid cloud strategies and environments – as they transition their huge portfolios of on-premise apps to the cloud. Byrson Koehler, CTO and General Manager, IBM Watson and Cloud Platform, kicked the session off by emphasizing that IBM is building a “rich collection of capabilities to deliver an end-to-end hyperscale cloud platform” . . . In fact, IBM Cloud now includes 450

services, 127 of which are customer-facing, with IBM committed to supporting the full range of deployment options, whether it be Public, Private or dedicated on-prem.

A big part of the day focused on IBM Cloud Private, IBM's newest hybrid cloud offering that leverages common platform-as-a-service tools and developer runtimes, as well as popular and developer-friendly technologies such as Kubernetes, Docker and CloudFoundry. IBM's strategy is to develop and deliver (via containers) a common fabric across all three environments. IBM also announced new data cataloging and data refining offerings for the Watson Data Platform that helps developers and data scientists analyze and prepare data for AI apps.



I especially valued the late-morning presentation by Don Rippert, CTO, IBM Industry Platform, that demonstrated how committed IBM is in building next-gen AI-based SaaS vertical solutions. As they develop

their industry roadmap, beyond Banking, Healthcare and Retail (among others), IBM is clearly focused on business processes where it can help take cost out of the equation, and that can exploit the deep (and sticky) machine learning capabilities of Watson.

All in all, IBM's presentations demonstrated to me that IBM is coming into a sweet spot as it helps clients exploit the massive vaults of locked-up data and systems ripe to get redeployed to next-gen cloud(s). The biggest question is whether IBM will likewise win the hearts and minds of developers building cloud native solutions, in the increasingly multi-cloud world (e.g., Amazon, Microsoft and Google) that is emerging.