

# ANNEX BULLETIN

Annex Bulletin 2006-36

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## **IT SERVICES**

Updated 9/26/06, 6:45AM GMT, adds [Appendix A](#)  
***Analysis of IBM Global Services' Ground-shifting  
Announcements***

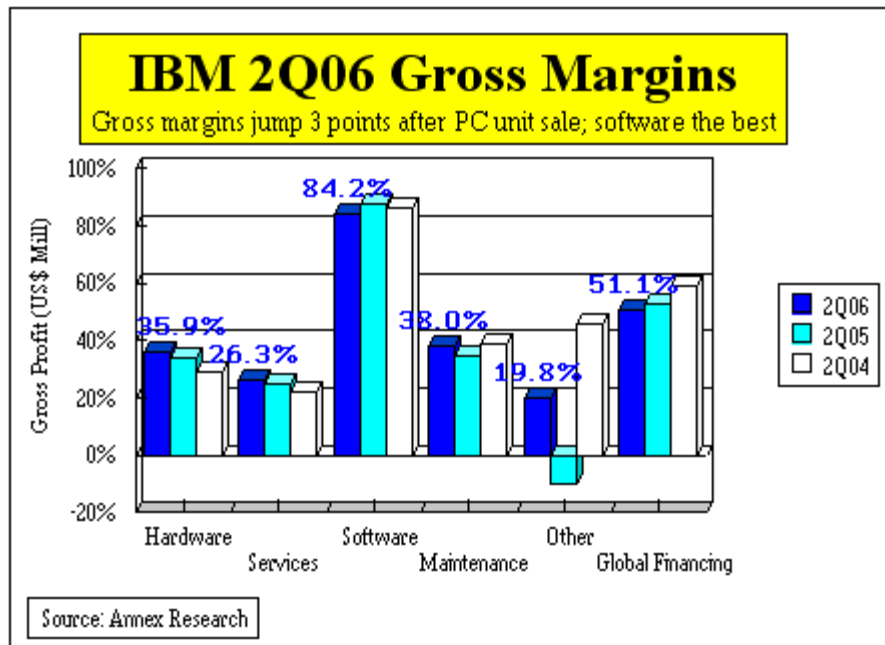
# Services in a Box

***IBM to Integrate Software, Hardware and Services into  
Reusable Assets, Call Them "Service Products"***

SCOTTSDALE, Sep 26 - In an effort to bolster the growth and profitability of its largest business unit - the \$47.5 billion-IBM Global Services (IGS) - Big Blue announced today a new way of delivering IT services. Calling them "service products," IBM unveiled reusable assets that can be purchased, implemented and run the same way a client would use computer hardware or software. Think of them as "services in a box," if you wish, a ground-shifting move for IBM.

"There has been extremely strong collaboration with the software group" in developing these products, said Liz Smith, general manager of infrastructure access services, in a pre-release briefing. "The bet is one of the biggest and most important for IBM," company executives also said.

Smith added that she was convinced the new services move would also help IBM grow the software and the hardware that are integrated within the new services "products."



And since hardware and (even more so) software have much higher profit margins than the services (36% for hardware; 84% for software vs. 28% for services in the latest quarter), that's good news for the IBM bottom line.

From a customer standpoint, the "services in a box" approach will be appealing as it improves the efficiency of delivering service solutions, thus saving the customer money, or increasing its business volumes, depending on the application.

Not all customers, of course, will go for it. Some will continue to prefer customized solutions. And a certain amount of customization would also apply to the companies that buy the new IBM services products.

## IBM Move Fits In with Long-term Trends

Overall, however, it is a step in the right direction. And it fits like hand in glove with new trends that we foresaw emerging from traditional custom services offerings. They will ultimately help customers restructure themselves more rapidly, and improve the speed to market of their products. Here's an excerpt from a January 2004 report, for example, titled ["IT Industry: Whither Goeth It?"](#), one of our "Holy Grail" expeditions:

"The successful process, as we see it, is analogous to creating a painting or a sculpture. The IT services vendor brings to the table his toolkit and

paints. The toolkit consists of various *building blocks*, along with instructions on how to use them. Just as software development, for example, evolved from writing individual lines of code, to using macros and icons and applets to speed up the creative process, so will the creation of new corporate forms – using the various IT building blocks. "

(An excerpt from "[IT Industry: Whither Goeth It?](#)," Jan 2004)

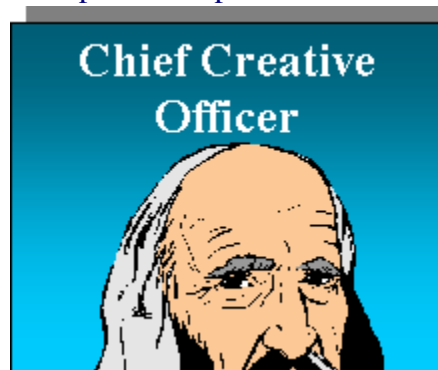
We also said this may lead to a new roles for the IT services vendors:

**New Roles...** "IT industry's Holy Grail obviously also requires some radical changes in the traditional roles and strategies of the IT services vendors. They must morph in their self-perceptions from being providers of specific non-essential tasks (such as running data centers), to being providers of life and fortune, like the owners of the thoroughbred studs who can sire the customer's mares. (Of course, they'd better make sure first that they have thoroughbred studs in their stables, rather than parade ponies). In short, the IT services vendors are now the quintessential "change agents."

**New Metrics...** New roles require new metrics, too, meaning new ways of measuring and charging for value created. No longer should the IT services vendors allow themselves to be on the mercy of the customers' "overheads" or expense budgets; not when nothing less than the client's survival is at stake. As equal partners in procreating and parenting the new "adaptive enterprises," the IT services vendors have the right to demand and to expect commensurate shares of the revenues and profits that the corporate newborns generate. [snip]

**New Terms...** New roles and new metrics of the IT services providers also require new terms that describe them. "Outsourcing," for example, should be abandoned as an outdated type of business relationship. Outsourcing implies that the customer turns over the responsibility for running its IT to a vendor, and then just yells at him if something goes wrong. As a parent of a new "adaptive enterprise," the customer (mother) has a *joint custody* of the infant with the vendor (father). Both are responsible for its well-being. Both should share in risks and benefits of its upbringing.

**New Jobs...** Finally, creating new "adaptive enterprises" takes creative people at the helms of enterprises. As far as we know, creativity has never been high on the list of prerequisites for a Fortune 500 CEO. Maybe it ought to be (we think so), but the reality is that it hasn't been.



[snip]

The Fortune 500 CEOs should be encouraged to take a proactive role and save their jobs – by creating a position of Chief Creative Officer (CCO), a corporate artist of sorts (even if the term sounds like an oxymoron).

The CCO would play the role of the virtual mother in procreation of the “adaptive enterprise,” partnering with the corresponding number at the IT services company (the virtual father). The CCO should report directly to the CEO and have the power to cut through the bureaucratic webs that tie his corporation to the old legacy systems and habits.

Back to stark reality of today, not much has changed in nearly three years since we described our dreamy vision of the future. Until now. Now that IBM has sanctioned a new product-based approach to services (which we called "building blocks" in the above report), there are pretty good chances that other IT services vendors will follow. But rather than compete with Big Blue across the board, which is a daunting prospect for any competitor, they are likely to pick out the niches of expertise in which they can offer their own services products.

Some are already doing it. Accenture, for example, is "already (making) significant investments in developing reusable assets in the healthcare sector," we noted in an April 2005 report (see "[Roaring Ahead](#)," Apr 2005). EDS has also talked about it last year, in the context of its huge U.K. Defense Ministry contract. But only a few computer conglomerates can hope to take on IBM across a wide front. HP and Fujitsu (EDS), for example, come to mind as possible candidates.

## **First Launch in Telecom Sector**

Nor will IBM necessarily have all of its new ducks lined up on day one of this announcement. We can expect a gradual rollout of "services in a box" that will ultimately comprise its new "services products" portfolio. The first two shoes to drop, however, are in the telecom market, which IBM characterized as a "booming market for networking services that can facilitate anytime, anywhere business communication."

The "Network Convergence Services Product" analyzes readiness for communication networks that support data, voice and video. The second product, "IP Telephony Services Product," helps customers design, deploy and manage IP telephony infrastructure to reduce costs associated with managing and maintaining separate voice and data equipment and networks.

Over the next eight weeks, IBM will roll out more than 30 new "service products," the company said (see [Appendix A](#) for details of the IBM Global Services product lines). And then we'll have to wait and see if the competition follows in Big Blue's footsteps, or keeps on offering mostly custom services, as they have been doing since the inception of the industry.

*Happy bargain hunting!*

*Bob Djurdjevic*

## Appendix A

### IBM Service Product Lines

Currently, there are 10 Service Product Lines (SPL). They are grouped into three Service Product Area Groups.


| <b>Infrastructure Access Services</b> | <b>Infrastructure Management Services</b> | <b>Support Services</b>         |
|---------------------------------------|---|---------------------------------|
| Integrated Communications             | Business Continuity & Resiliency          | Maintenance & Technical Support |
| Middleware                            | Storage & Data                            |                                 |
| IT Strategy & Architecture            | Site & Facility                           |                                 |
| End User                              | Server                                    |                                 |
|                                       | Security                                  |                                 |

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Bob Djurdjevic, Editor