

# ANNEX BULLETIN

Annex Bulletin 2007-19

May 4, 2007

Highlights of **FULL CLIENT** edition (Annex clients [click here for Day 1 or Day 2](#))

## Recent... HEADLINES

[Growth Accelerating - Analysis of Capgemini's 1Q07 business results](#)  
[Annex clients [click here](#)]

[To Buy \(back shares\) or Not to Buy? - Analysis of stock buybacks in corporate America](#)

## INDUSTRY TRENDS

[Home](#)

Updated 5/04/07, 5:30PM PDT

Also check out...

[Index 1993-2007](#)

Highlights of IBM Partnerworld 2007 Conference

## Lowering Center of Gravity

**IBM Stresses Globalization, SMB to Receptive Partner Audience; Palmisano: "It's All About Collaboration"**

Day 1, Apr 30

[No Surprises in Good Opening Quarter - Analysis of IBM 1Q business results](#)  
[Annex clients [click her](#)]

[IBM Stock Still Grossly Undervalued](#) (A preview of IBM first quarter business results)

[Accenture Beats Forecasts, Again](#) (Analysis of Accenture's 2QFY07 results)

[HPS, Capgemini Tie for "Gold" - Results of Octathlon 2007](#) [Annex clients [click here](#)]

[The Value of pi \(π\) - Analysis of IBM System p and System i market and product strategies](#)

[IBM Profit to Grow Faster Than Revenue - Update to 5-yr IBM forecast](#) [Annex clients [click here](#)]

[The \(T\)ides of March Sink Markets Again](#) - Analysis of global economic & investment trends

[IGS: Growth Slows, Profit Surges](#) - Analysis of IGS

ST. LOUIS, Apr 30, 2007 - Some 4,000 IBM business partners from all over the world gathered here, at [America's Gateway to the West-city](#), for the opening of Partnerworld 2007 on Apr 30. A three-day event was held at the Edward Jones Dome, the football stadium that is home to NFL's St. Louis Rams. It was this writer's first time at a Partnerworld event. So we bring you here, also for the first time, a pictorial as well as a narrative report about it ([click here](#) for a full client report on [Day 1](#)).

[charts here]

### The Opening Act...

The show began with a spectacular, high-voltage dance performance by a local group. The theme was globalization and internationalism... in music and dance as in the IT industry.

[charts & photos here]

### The Opening Speeches...

The Indian-born Ravi Marvaha, IBM's top business partner management executive (right), was a perfect choice to kick off an event whose theme was globalization. He

said that in 2006, IBM grew its revenues earned through business partners by 11%. That's nearly three times the IBM overall growth rate (up 4% organically, without the divested PC business, or virtually flat as reported).

[charts & photos here]

[snip]

Steve Mills (left), the head of IBM software who followed Marvaha on the stage, later said that \$1 billion of that \$2.5 billion total is invested in support of ISV (Independent Software Vendors) activities. Business partners account for about 30% share of IBM software's global revenues, Mills said. He expects them to represent more the majority of the business in the future.

[snip]

**Geographies.** Yet despite being the largest IT services company in the world, IBM's share of the services market is only about 10%, according to Marc Lautenbach (left), the head of IBM North America, who formerly managed IBM's SMB business in its embryonic stage. "That's because services accounts for the largest share of IT spending due to it being so labor-intensive," he added.

[snip]

[charts & photos here]

The preceding are some of the interesting charts that backed up the presentation by IBM North America executives about their business and the SMB opportunity there.

[snip]

**High Labor Costs.** The world's total IT market was \$1.2 trillion, according to Mills. The top IBM software executive said that labor accounts for more than 50% of the vendor spending, and the same is true of the customers' in-house IT costs. The replacement value of the world's software is about \$20 trillion, which is why "nobody can afford to do that," from a labor standpoint. So companies are modernizing their code in stages, and trying to save money through offshoring and centralization of resources.

[snip]

Which shows that, as hard as it may be trying, it is very difficult for the Big Blue leopard to change its spots. That is why we recommended IBM create a new "Baby Blue" brand last fall (see "[From Little Acorns Mighty Oaks Grow](#)," Nov 2006), and which is what Bill Zeitler, the head of IBM hardware, did back in January (see "[IBM Lowers Its Center of Gravity](#)," Jan 2007). It remains to be seen if other lines of business join in.

### A "No Name" Decade? Try "GooglePod" Era

Mills closed by noting that nobody has as yet named the current decade the way IT people used to refer to the "PC era" or the "client/server era" in the past. He concluded that that was because the future will be business-driven, not technology-driven. "The

2006 business results  
[[Annex clients click here](#)]

[HP: Toward New Highs?](#)  
(Excerpts from analysis of HP's 1Q07 business results)  
[[Annex clients click here](#)]

[Capgemini Caps Great Year, Saves Best for Last](#) (Analysis of Capgemini's fourth quarter business results)

[EDS: On Sunny Side of Street](#) (Analysis of EDS' fourth quarter business results)

[CSC: Where Less Seems More](#) (Analysis of CSC's third quarter fiscal 2007 business results)

[Fujitsu: Sales Up, Profit Down](#) (Analysis of Fujitsu's third quarter fiscal 2007 business results)

[IBM Shatters Records](#) (Analysis of IBM's fourth quarter business results)

[IBM Stock Passes Century Mark](#) (Analysis of Big Blue's Stock Performance)

[Happy Days Are Here Again](#) (Analysis of Top 20 IT leaders' latest stock market and business performances)

["Excellenture" Excels Again](#) (Analysis of Accenture's first quarter fiscal 2007 business results) [[Annex clients click here](#)]

[Hedging the Bets](#) (Analysis of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Perot ) [[Annex clients click here](#)]

[Globalization Accelerates](#) (Analysis of United Nation's annual survey of global

customers are in control," he said. "I am incredibly optimistic about the future."

Actually, while nobody in corporate boardrooms may be referring to the current period with a new buzzword, this is hardly a "no name" decade. The decade is being defined by upstart companies and ideas, such as Google or Apple's iPod, for example, that are thriving in mass markets IBM has chosen not to be in. They are empowering individuals and small companies to compete with giant corporations (Google), or just enriching their lives (iPod). Back in 1994, we likened them to the invention of the handgun. In an implicit recognition of their popularity, even the IBM web site is offering "podcasts" to its visitors (click on the right icon to see it).



So how about the "GooglePod" era? It is breathing a new life into MySpace and You(r) Tube in SecondLife?

**Is History Repeating Itself?** All of this is kind of reminiscent of another era, 30 years ago, when IBM was missing the boat on the significance of new industry trends. As "micros" proliferated (the name the industry used back then to describe the pre-PC products), and companies like Apple thrived, IBM shunned these opportunities dismissing them as "hobbyist" market. This writer quit IBM in 1978, for example, because he got tired of fighting the corporate brass when he advocated that IBM ought to be in such developing markets. Three years later, IBM reversed itself and entered the business, creating the buzzword "PC" in the process (though we've heard some Apple executives claim that they were the first to use that term).

Here we are, 30 years later, and the same companies - Apple and IBM - are at it again. "The more things change, the more they are the same" (Alphonse Karr, 1809-1890).

### Creating a Culture of Innovation

The next speaker, Sir Ken Robinson (right), was introduced as "one of the world's greatest thinkers on creativity and innovation." Liverpool-born, a former professor of philosophy at Warwick University in Britain, lives in Los Angeles now.

"We don't grow into creativity; we grow out of it," he asserted. "Somewhere on our way from childhood to adulthood, we lose it. Yet creativity is the highest form of intelligence."

An eloquent and entertaining speaker, Sir Robinson offered some examples in support of his theory that our social attitudes can stifle creativity as well as encourage it.

[snip]

### Exhibits & Afternoon Sessions

The preceding scenes from the exhibition hall and the luncheon area should give you a good feel about the enormity of the St. Louis Convention Center that's attached to the Edward Jones Dome. Considering that they are both located in downtown St. Louis, which is obviously thirsting for business judging by the number of closed stores and other rundown buildings, IBM and its 4,000 partners were most welcome guests.

investments)

[IBM: A \\$125-Stock? \(An update to "From Small Acorns Mighty Oaks Grow"\)](#)

[Capgemini: Longest Sustained Stock Price Rise \(An update to "By Leaps and Bounds"\)](#)

[HP: New King of the Hill \(Analysis of HP's fourth quarter business results\)](#)

[IBM: From Little Acorns Mighty Oaks Grow \(Analysis of IBM's "State of the Union"\)](#)

[Capgemini: By Leaps and Bounds \(Analysis of Capgemini's preliminary third quarter business results\)](#)

[Fujitsu: Good Performance Gets Better, More Global \(Analysis of Fujitsu's first half FY2007 business results\)](#)

[IBM: A Slam Dunk Quarter \(Analysis of IBM third quarter business results\)](#)

[Accenture's Emphatic Year-end Accents \(Analysis of Accenture's fourth quarter results\) \[Annex clients click here\]](#)

[IBM: Services in a Box \(Analysis of IBM Global Services' Ground-shifting Announcements\)](#)

[Strong Comeback by IT Stocks in Third Quarter \(Analysis of top 20 IT companies' market and business trends\)](#)

[Stock Buybacks: A Fading Fad \(Dell, erstwhile "King of Fluff," suspends its stock buybacks\)](#)

[snip]

### Off to the Races with IBM Software Team

The theme of IBM Software team's Executive Forum was car racing...

[charts & photos here]

By the time all the dust and smoke had settled, the team software executive members, led by Mike Borman, the head of global sales and marketing, assembled on stage for short presentations and a mock-up Q&A (a mock up, because Borman was asking prescribed questions). They even included a lady "driver" (Ilse Cilliers, the head of IBM Northeastern Europe software business - right thumbnail).

Here are some interesting points that emerged from that discussion...

[snip]

The IBM Software would-be racers were followed on stage by a real racing legend - Mario Andretti (right thumbnail above). It suffice it to say that he was more of a legend before than after his long and boring speech, which he read verbatim from prepared remarks.

[CLICK HERE](#) to go to [DAY 2 \(May 1\)](#)...

#### Day 2, May 1

### IBM Chairman Emphasizes SMB, Echoes Our January SMB Headline But in Different Context: "It's All About Collaboration"

[charts & photos here]

*Partnerworld participants were welcomed back to the St. Louis Dome by an energetic group that played Eagles' and other favorite classic rock hits. And then IBM chairman and CEO, Sam Palmisano, took the stage...*

ST. LOUIS, May 1, 2007 - "Our strategy is all about integration, collaboration and innovation," IBM chairman and CEO, Sam Palmisano, told some 4,000 business partners assembled at the St. Louis Dome (football stadium) on May 1. He added that, "a globally integrated enterprise is inherently an architecture of partnership."

Palmisano also said that the SMB (small and medium size business) market is "the biggest IT growth opportunity in the world today" in which IBM "partners play a central role." The global SMB market is a \$487 billion opportunity, growing at 6.5%, he thinks. And 47% of IBM's SMB revenue is driven by the business partners, he added.

[snip]

[Capgemini: Growth Continues \(Revenues, net profit up in double digits, margins also improve\)](#)

[HP Firing on All Cylinders \(Stock sets new multi-year record following excellent third fiscal quarter results\) \[Annex clients click here\]](#)

[Power of Manpower \(While others move to India, Russia... AMD invests in New York, hailing "phenomenal" quality of its labor force\)](#)

[Ebb Tide Lowers Most Boats \(Analysis of EDS' and CSC's latest quarterly results\)](#)

[BM Stock Grossly Undervalued? \(Analysis of stock market valuations of IBM and its major competitors\) \[adds latest Fujitsu, Capgemini results\]](#)

[BM vs. HP: A Tale of Two Blues \(Both companies are doing well in business, but only HP is favored by Wall Street; Big Blue trying to change that now with its new "India Opus"\) \[Annex clients click here\]](#)

[Go East, Young Man! \(A speech delivered in St. Petersburg, Russia, May 25, 2006; click here for slides\)](#)

[BM 5-Yr Forecast: Steady As She Goes \(Emphasis on quality continued\) \[Annex clients click here\]](#)

[Octathlon 2006: Accenture Again Wins "Gold!" \(HP gets "Silver," IBM "bronze"\) \[Annex clients click here\]](#)



### Emphasis on Innovation

What actually drives success in IT is innovation, we think. And IBM evidently does, too. The company has been investing heavily in it, both directly - through R&D, and indirectly - through collaborative developments with its partners and customers (see "[An IBM Seedling: Technology Collaboration Solutions](#)," Nov 2006).

Last year, IBM commissioned a survey of over 750 global CEOs and government leaders, Palmisano said. It asked them how innovation takes place today?

[snip]

"They said that the best innovators don't do it all themselves," Palmisano said. "They collaborate... In today's global economy, no one stands alone. Every one of our organizations is part of an ecosystem of business partners, government agencies, universities and research labs, customers and competitors."

Furthermore, a vast majority of CEOs realized their companies must change, but a scant one-fifth of them thought they were good at changing. Here are some conclusions IBM drew from that survey:

#### Select Other Palmisano Slides...

[charts & photos here]

### Emphasis on SMB

Steve Solazzo, the head of IBM SMB business, had the unenviable role of following his leader on stage and putting a spin on chairman's words. Here are some slides and charts from his talk and the business partner panel that followed:

[charts & photos here]

Solazzo stressed the "simple solutions to tough problems" - a stated goal of IBM "Express" offerings, a Big Blue euphemism for its SMB solutions. He said IBM would be investing \$200 million in support of this campaign."

[snip]

[charts & photos here]

Of the three business partners that participated in the SMB panel (above), the comments by the Dynax president (a small systems integrator from the Northeast - second from left above), were the most illuminating.

This IBM partner said that after listening to the Big Blue CEO's speech, he thought...

[snip]

### Emphasis on Innovation, Act II

Rod Adkins, the head of development at IBM hardware (STG) group, who followed the SMB panel, tried to reinforce his chairman's message about the importance of developing a culture of innovation.

[charts & photos here]

Adkins started with a long list of markets in which IBM hardware is ranked as No. 1 in terms of revenue market shares (third thumbnail above). He followed up with some examples that he said illustrated IBM's technological leadership (rightmost thumbnail)..

[charts & photos here]

... as well as some applied uses of it (the three slides above). Adkins then brought on stage Tom Bradicich, an IBM fellow and vice president of its blade business, for a live demonstration of this technology in a CATIA (manufacturing automation) environment.

[snip]

Adkins finished up with what he called the "coming attractions" - a preview of the next generation of the System p Power6 chips, the new entry blade servers and other products IBM has planned for release in 2007:

[snip]

### New Chip Technology Breakthrough

Two days later (May 3), IBM made a splash with an announcement of a application of a breakthrough self-assembling nanotechnology to conventional chip manufacturing, borrowing a process from nature to build the next generation computer chips.

[chart here]

"The natural pattern-creating process that forms seashells, snowflakes, and enamel on teeth has been harnessed by IBM to form trillions of holes to create insulating vacuums around the miles of nano-scale wires packed next to each other inside each computer chip," IBM said in a release.

In other words, IBM has been able to realize a scientists' old dream - bring a space age technology to Earth, and apply it in real world manufacturing environment.

As a result, Big Blue researchers have proven that the electrical signals on the chips can flow 35 percent faster, or the chips can consume 15 percent less energy compared to the most advanced chips using conventional techniques, IBM also said in a release.

"The compound itself is the secret sauce," Adalio Sanchez, general manager of IBM's global engineering solutions, systems and technology group, [told the Los Angeles Times](#) (May 3).

With its latest announcement, "IBM is hoisting a flag on Moore's Law," said Bob Djurdjevic, president of Annex Research, a market research and consulting firm in Scottsdale, Ariz. "What it does immediately for IBM is earn it some bragging rights."

### Economist Warns of Dangers of Globalization

The final speaker of the May 1 morning session at the IBM Partnerworld 2007 was Dr. Laura Tyson, an economist who is a senior advisor at the McKinsey Global Institute. She was introduced as "one of the top 25 most influential women in the world."

[charts & photos here]

Dr. Tyson noted that global trade has been growing faster than output for the last 40 years as globalization economic effect. The trade's share of the world GDP is now 30%, she said. So clearly, globalization is on the rise.

Furthremore, everybody seems to be taking the globalization as axiomatic goodness. But as has often been the case in the past, those who do not learn from history are doomed to repeat it. Some of the thing Dr. Tyson said should be heeded by today's business leaders, including IBM's, as a warning that the globalization they are pushing may lead to some undesirable results.

"Globalization can lead to 'creative destruction'," she warned.

She pointed out that during a part of the industrial revolution (1870-1914), the world experienced another period of intense globalization. Just as this is now happening under the leadership and the strength of the American economy, back then the Britain and its Commonwealth were the catalysts and champions of that global trend.

"The world was about as integrated back then as it is now." Dr. Tyson noted. "Cross border flows of people were even greater back then." It was a world of rampant and practically unrestricted immigration that fed the insatiable need for labor that the industrial production created.

But as is the case with all major economic changes and disruptions, there were winners and there were losers. The losers fought back. Worker revolutions, protective tariffs, and two world wars followed.

"That round of globalization ended badly," Dr. Tyson noted. "It wasn't until the mid-1950s that the world began to (re) globalize slowly again."

[snip]

[charts & photos here]

Above is the view of the stage from high up in the St. Louis Dome stands as the participants were filing out after the May 1 morning session.

### IBM Partnerworld 2007 Photo Gallery & Notes

[Click here](#) for a 17 page-detailed report on [Day 1](#) & [Day 2](#), including 82 charts and photos (Annex clients only; others [click here](#) to ask for temporary user ID & password)

[snip]

"That's all she wrote," we're afraid, for those of you who are NOT *Annex Research* clients, who are now reading the complete *Annex Bulletin*, along with many tables and charts that back up our forecast.

Qualified media and friends of Annex may request a TEMPORARY User ID and Password by [clicking here](#) and explaining why they wish to have access to this particular Annex Bulletin. Or call Bob Djurdjevic at **602-703-2111** (cell) to promise not to copy it or otherwise republish it.

To find out how you can become one of our clients, and read the rest of this and other *Annex Bulletins*, click on **Subscribe**. Thank you.

[Annex clients click here, for Day 1; click here for Day 2](#)

*Happy bargain hunting!*

*Bob Djurdjevic*

For additional Annex Research reports, check out... [Annex Bulletin Index 2007](#) (including all prior years' indexes)



Or just click on [SEARCH](#) and use "company or topic name" keywords.

Volume XXIII, Annex Bulletin 2007-19  
May 4, 2007

Bob Djurdjevic, Editor  
(c) Copyright 2007 by Annex Research, Inc. All rights reserved.  
e-mail: [annex@djurdjevic.com](mailto:annex@djurdjevic.com)

8183 E Mountain Spring Rd, Scottsdale, Arizona 85255  
Tel/Fax: +1-602-532-7789

The copyright-protected information contained in the ANNEX BULLETINS is part of the Comprehensive Market Service (CMS). It is intended for the exclusive use by those who have contracted for the entire CMS service.

[Home](#) | [Headlines](#) | [Annex Bulletins](#) | [Index 1993-2007](#) | [Special Reports](#) | [About Founder](#) | [Search](#)  
| [Feedback](#) | [Clips](#) | [Activism](#) | [Client quotes](#) | [Speeches](#) | [Columns](#) | [Subscribe](#)