

IR PODCAST

# INVESTOR FORUM: GLOBAL DELIVERY

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**Changing technology, demographics and business models are affecting patterns of work in developed and developing countries, and the emerging skills of the future. As work evolves, companies and employees will have to deal with the blurring of traditional boundaries between work and family life, between offices and remote locations, between manager and employee, and between nationalities and cultures in the global economy.**

EDWARDS: I'm Ben Edwards and this is an IBM investor podcast. In the past few years the globalization of the IT industry has accelerated markedly. Products and services which only recently were manufactured and distributed locally are now assembled by increasingly complex global supply chains.

As IT globalization has spread, we've been hearing more and more about the so-called global delivery of IT. But despite the noise in the marketplace, true global delivery remains a surprisingly poorly understood concept.

With me today is Bob Moffat, IBM's Senior Vice President for Integrated Operations. Bob will be explaining IBM's point of view on global delivery, the promise it holds for delivering dramatic gains in efficiency, quality and growth, and IBM's strategy through global integration to create a unique delivery platform for our clients. Bob, welcome to this IBM Podcast.

MOFFAT: Thank you.

EDWARDS: Why don't we start with the first part of that. Just explain to us what IBM understands by "global delivery".

MOFFAT: Well, global delivery means a lot of different things to a lot of people. And I think it's very simple for people to understand it in a hardware world. It's exactly what you said. It's really putting together a global supply chain that can deliver a good to someone through a network of either suppliers or partners that can deliver anything from any place in the world.

The problem is people don't understand it from a services standpoint. And often global delivery is a euphemism for labor arbitrage, right? How many jobs can you move to India, right, to lower the cost? That is not what IBM thinks.

IBM really does view this on a global sense, and it's how can we leverage our multi-national presence for operational advantages, getting the right skills at the right place at the right time, at the right cost, to really leverage the worldwide pools of labor that exist, right, to really be able to give a client value.

I mean, I'll use an example of a customer that we have in a low-cost jurisdiction in the telecommunications industry.

Yes, we do things for them out of India, which is where they're located. But they also leverage telecommunications experts that exist inside the United States. They also leverage one of our laboratories in France who has advanced telecommunications skills in order to really enhance

their value proposition.

That is why it's critically important to have something like the professional marketplace that gives you transparent visibility around the globe at all the skills that you can bring to bear for a customer, so that you can bring those skills no matter where they are to a customer on a global basis.

EDWARDS: Okay. Just tell us a little bit more about that.

MOFFAT: Well, Professional Marketplace is something that we have inside of IBM. Roughly 70,000 professionals are up on it. And what it allows a consultant to do is in essence bring together a team that can satisfy the requirements of the customers.

He has total visibility to the skills of these people, their availability, and what they would cost to bring to bear for the customer. He can assemble this team on behalf of the customer, schedule the workload for these people on a global basis.

EDWARDS: Right. I mean, how far in general has IBM got to go to fulfill this promise of global delivery?

MOFFAT: Well, first of all, let's understand where the industry is in global delivery. Most delivery is not at all thought of on a global basis. I mean, it is either people use a low-cost jurisdiction to labor arbitrage and bring it to bear, but they really run things on an account by account basis.

The first thing that anyone needs to really do to truly bring global delivery on behalf of the customer is to think globally, to understand this concept of global labor pools.

To do that, you honestly have to have a common taxonomy of skills. You need to be able to describe people and their capabilities in a common language or a common currency around the world. IBM has done that.

The second, we have recently reorganized our strategic outsourcing delivery by competency or by skill so that those skills can actually be delivered to a customer around the globe.

But organizational structures aren't what gets it done. What you have to do is get the common processes so that you can actually take process discipline that we've applied to many other parts of the business for decades and apply it to the services business.

You may say, wait a minute, that's already done. The fact of the matter, it is not. There's no company in the world that has really taken true process discipline and applied it to many of the services disciplines out there.

EDWARDS: Okay.

And just explain to us the dynamic or the relationship between process automation and global delivery.

MOFFAT: Yes, well, first of all, remember what I said about how people used to do delivery. It was really done by an account by account basis or if anything a country by country basis, which really said there was no standardized processes or standardized process disciplines. Every account did it essentially differently.

By understanding the cost structures, you can actually take and understand what processes should be standardized, where do you get the most leverage and where can you apply automation so that you can take your people and move them to a higher value add task as

opposed to doing mundane administrative types of things.

We've seen this in IBM in a lot of different ways. In our procurement organization inside of IBM, we're actually able to flip our mix from about 80 percent doing administrative tasks and 20 percent doing what I'll call true value add tasks and actually flip that ratio.

What process automation does is allow you to truly understand the process, go through a continual improvement process and actually take that down and only focus on the value add task.

Now, you have a second decision of, where do you do that value add task. Do you do it in the United States? Do you do it in India or China or eastern Europe? Do you do it in software? Do you do it inside of a piece of hardware? So you can do that.

Now, if you listen to what I just said, IBM is uniquely positioned. Why? Because we understand process discipline. We understand software. We understand hardware. We have an incredible research group available to us to help us understand this, manage the work flows, actually take these concepts and move them into reality.

Some of the firms we compete with have one capability, and that is to do labor arbitrage. And the question is, what's the next trick then? How do they go...what's the next labor arbitrage they do? That's not value add. That's not what clients are looking for.

The second thing is, if you think about what clients want is the ability to have resiliency. Clients do not want to bet the fact that one site is going to support them from a process standpoint or from a people standpoint.

They want a fail-over mechanism. To have a fail-over mechanism you truly have to have common processes, right, because you want to be able to move something if there is a fail quickly to another center that can support them. And the only way you can do that is common process and common process discipline.

EDWARDS: What about remote management and the separation of labor from, you know, the physical assets? How does that play out in terms of [this] developing global sourcing model?

MOFFAT: To truly do global delivery, you actually have to break three things out: the physical systems from the people that are managing them, from the processes which are used to manage them.

Now, why do I say that? The physical systems you need to have in places that have, you know, highly resilient power, true capabilities for security and those types of things. The people should be able to be anywhere.

But what makes them be able to be capable to be anywhere is the fact that they are following processes that are predefined and really executing on those processes.

Now, think about the hardware world. When someone orders a piece of hardware from any company, they're not worried about what plant it is sourced on, or where the parts come from or any of those sorts of things.

It is completely transparent to them where their request for a piece of hardware is fulfilled. All they know is I want this box delivered on this day in order to do these types of work loads.

You have to be able to get there in the services world. You want to be able to have it completely transparent to the customer of where their service request is delivered.



Now, hardware and services aren't quite the same, but many of the concepts that you've used to dynamically partition a hardware supply chain and route orders, you can do the same thing with the service request, by applying catalogs for service requests, having those catalogs broken down into the components that are required to deliver on that service request and then transparently routing that and using work flow capabilities to deliver that to a customer.

EDWARDS: So process discipline frees people from the assets?

MOFFAT: It clearly does. It frees people from the physical systems, which is critically important if you really think about global delivery.

EDWARDS: You want to rationalize your production to the fullest extent possible?

MOFFAT: That's right.

EDWARDS: Yes.

On that note, can you give us a sense of the productivity gains, you know, that are available from this rationalization?

MOFFAT: I can tell you that.... And I'll go back to the world I know very, very well, which is the physical goods world. Applying basic process disciplines of work flow, all right, can result in easily 20 to 25 percent productivity.

By adding techniques of truly dissecting the processes and only focusing on the value add types of tasks, in the hardware world has been shown to drive 60 to 70 percent productivity. There is no reason in my eyes why we can't get similar types of results out of the services types of disciplines.

EDWARDS: Okay. Well, Bob Moffat, thanks very much for your time and your thoughts. This has been an IBM Podcast.

[END OF SEGMENT]