

THE MARKET

In 1997, IBM coined the term “e-business” to convey the various ways that the Internet would transform business and society. Even in the early stages, IBM believed that the Web would dramatically affect lives, in commerce certainly, but also in government, healthcare, and education, among many other areas.

Today, e-business is a widely adopted industry and business term. According to International Data Corporation, e-business has helped fuel worldwide information technology (IT) spending to \$800 billion annually. e-business has also propelled IBM into the IT leadership role once more.

But that’s not all. Over the last few years, e-business has changed the way the Web is used — from the early stage of access to information to access to transactions, and now to e-business on demand, IBM’s current strategic focus.

“On demand” means that if a company has, end-to-end, integrated processes internally as well as externally with key partners, suppliers, and customers, that company can respond flexibly and quickly to any customer demand, market opportunity, or external threat.

e-business on demand enables leaders to see and manage their company as an integrated whole, and to create a dynamic, constantly adjusting enterprise.

ACHIEVEMENTS

IBM Research, the largest private research organization in the world, is credited with many scientific breakthroughs that have advanced today’s IT industry. Last year alone, IBM earned 3,411 new patents, more than the other 12 largest U.S. IT companies combined.

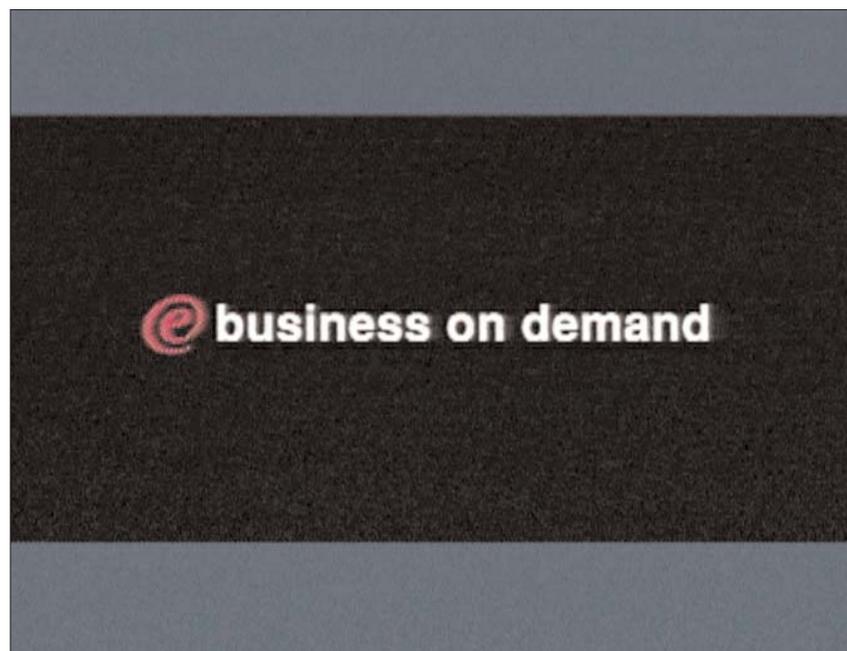
IBM’s most significant contributions have historically been in applying technology to improve how businesses operate and how people live. Today, IBM continues that legacy by helping customers find the most current and advantageous ways to use Internet technologies for business advantage.

As a corporate leader, IBM has extended the role of employer, enriching lives of employees through a well-developed corporate culture and extensive employee benefits. IBM was one of the first companies to provide group life insurance,

survivor benefits, and paid vacations to employees; recently, partner benefits were added. The company also frequently tops lists recognizing the best places for minorities, women, and working mothers to work.

HISTORY

IBM’s origins can be traced to 1896, when Herman Hollerith formed the Tabulating Machine Company.



This firm merged in 1911 with two other firms to form the Computing-Tabulating-Recording Company, or C-T-R, which manufactured products including time recorders, tabulators, and punch cards.

In 1914, rapidly growing C-T-R turned to Thomas J. Watson, the former number-two executive at the National Cash Register Company, to be its general manager. Watson, who would become president and chairman of the board, instilled more effective business tactics and fervent company pride and loyalty in every worker. Watson also stressed the importance of the customer, a lasting IBM tenet.

To reflect C-T-R’s growing worldwide presence and focus on tabulators, its name was changed to International Business Machines, or IBM, in 1924. In what was called “the biggest accounting operation of all time,” IBM fulfilled a government contract during the Great Depression and performed so well that other U.S. government orders quickly followed.

By the 1950s, IBM had developed powerful computers that could handle business applications such as billing and inventory control. In 1959, IBM unveiled the 7090, which used transistors

rather than vacuum tubes. The computer could perform 229,000 calculations per second and would be used to run American Airlines’ SABRE reservation system.

This period of rapid technological change also featured a new generation of IBM leadership. In 1952, Thomas Watson passed the title of president on to his son, Thomas Watson Jr., who foresaw the role computers would play in business and pushed IBM to meet the challenge.

IBM in 1964 introduced the System/360 mainframe, the first large “family” of computers to use interchangeable software and peripheral equipment, a move that transformed IBM into an industrial giant that posted 1972 revenues of more than \$9 billion. The number of employees rose to over 260,000.

A new era of computing began in 1981 with the birth of the IBM Personal Computer, or PC. The IBM PC put the most desirable features of a computer into one small machine. In 1985, IBM introduced networking technology that permitted computer users to exchange information and share printers and files. These advances laid the foundation for today’s network-based computing, but threw IBM into turmoil.

PC and networking technology unleashed the client/server revolution in the 1990s — a development that emphasized personal productivity — and the desktop moved business-purchasing decisions to departments and individuals. IBM’s traditional customer relationships had not been formed at this organizational level, and by the early 1990s, IBM had fallen on hard times.

The arrival of Louis V. Gerstner Jr. in April 1993 began a turnaround that would restore IBM to its position as one of the greatest brands in the world. Despite pressures to break the corporation into many companies, Gerstner kept it as one entity, recognizing that in an increasingly global world, IBM’s key strength was its ability to provide integrated solutions around the globe.

The growth of the Internet once again put IBM at the center of dramatic change, but this time the company was better prepared to meet the challenge with its combined strengths in services, products, and technologies.

In the fall of 1995, Gerstner articulated IBM’s new vision: that network computing would drive the next phase of industry growth and would be the company’s overarching strategy. Two years

later, IBM was the first to articulate the remarkable potential of the Internet, the ultimate network, with the phrase “e-business.”

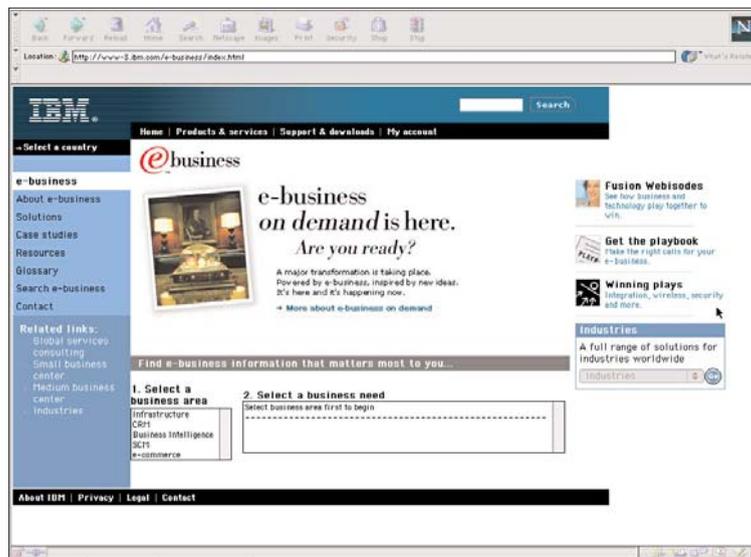
Now, a 21st-century IBM is still building e-businesses and driving to the next stage of evolution: e-business on demand, the way to help companies operate at the speed of the market and in step with constituents’ needs.

Under the new leadership of Sam Palmisano, previously president and chief operating officer, the company is well positioned for growth. Since becoming CEO, Palmisano has led a number of major initiatives designed to augment the company’s services and maintain industry leadership.

THE PRODUCT

IBM invents technology, then applies it to solve customers’ problems, in small, mid-size, and large enterprises. The company has a heritage of consistently large investments in research and development.

IBM’s technological innovations have enabled unparalleled end-to-end solutions that address the totality of customers’ business needs, providing for today and preparing for the future. These solutions are designed to make doing business easier.



RECENT DEVELOPMENTS

Anticipating that the pace of data volumes and transaction flow will keep quickening, and that information systems will continue growing in complexity, IBM is working towards autonomic computing. Just as human systems allow functions such as breathing and heart rates to occur without our controlling them, autonomic computing systems will be self-managing without our intervention. The systems will be more reliable, self-protecting, and even self-healing, so enterprises can focus on more creative areas, such as new uses for the systems.

In its labs, IBM is studying the “e-workplace.” e-workplaces will address a changing workforce with radically different expectations, a changing marketplace with no time for bureaucracy or time-zone disruption. Along the way, the traditional office will become obsolete.

For many of tomorrow’s most massive computing challenges, IBM scientists expect to see 10 times the energy efficiency at the same costs. “Cellular architectures” of thousands, or perhaps millions, of simpler microprocessors that will work in parallel on discrete areas of a problem will make this achievement possible. When the aggregations of these power-efficient chips combine their resources over virtualized computing networks, supercomputing could come within an individual’s reach — not just for enterprises anymore.

IBM has a vision of an interconnected, shared computing infrastructure through which people will be able to access the world’s computational resources. This emerg-

ing global infrastructure will act as one big computer. How? Through technology called “grid” computing, where millions of computers are interwoven into a gigantic grid that people will use like a utility, as is currently done with electricity.

PROMOTION

IBM maintains a broad range of traditional advertising, sponsorship, and marketing activities.

In the spring of 1998, the company launched the e-business campaign, one of the highest profile and most successful ever for IBM. The e-business campaign, still running today, embodies a strategy for the entire company to speak with one voice. Moreover, the ads continue to explain new ways of using the Web, such as e-business on demand, and they’ve helped make IBM one of the companies most identified with the Internet.

Extending IBM’s embrace of e-business has been its trend-setting online advertising strategy. One of the first to recognize the advertising opportunities that the Internet presents, the company sponsored the HotWired Web

site as early as 1994. Since then, IBM has leveraged its Internet site as online “investments” with Web events such as coverage of the famous chess match featuring the company’s supercomputer Deep Blue, the first computer to defeat a sitting world champion. IBM also capitalizes on its e-business expertise through Web sites created in support of marketing sponsorships of events such as the Wimbledon and U.S. Open tennis championships.

BRAND VALUES

Over the years, IBM has acquired deep operational and industry experience, know-how, and expertise. With a long, continuing history of providing quality, reliable products that customers can trust — and that deliver value for the money — integrity, honesty, and truthfulness have always distinguished IBM.

One of the company’s greatest strengths is its people. IBM seeks, hires, and inspires the best global talent, providing a work environment that fosters creativity and recognizes vision.

THINGS YOU DIDN’T KNOW ABOUT IBM

- IBM research has produced five Nobel prizes, four U.S. National Medals of Technology, and three National Medals of Science.
- IBM is known for its deep science and engineering research, with investment of more than \$5 billion annually. The results? In each of the last nine years, IBM was awarded more patents than any other company in the world.
- IBM has long benefited from collaborations with some of the world’s greatest leaders in design, architecture, and art. Graphic designer Paul Rand created the classic blue-bar logo as well as much of the IBM design aesthetic. Charles Eames developed a variety of IBM World’s Fair, Museum, and Film exhibitions, and world-renowned architects such as Mies van der Rohe, Eero Saarinen, and I. M. Pei designed various IBM work sites.
- In 2002, IBM ranked first among *Business Ethics* magazine’s 100 Best Corporate Citizens. *Fortune* placed IBM at the top of the 10 Most Admired Computer Companies.



The Business Time Machine

Once upon a time,

there was a company in desperate danger of getting left behind. Their customers were demanding more personal service, more customization, more value. More, more, more. Instantly. *On demand*. But the company was inflexible. *Stuck*. They couldn’t respond quickly. Things were dire.

SO THEY BOUGHT A TIME MACHINE. THAT’S RIGHT, A TIME MACHINE.

Flick a switch, they could go forward in time — and understand what their customers were going to need before they actually needed it. Touch a button, they could go back and undo investments in proprietary technology — stuff that slowed them down. Then, they could respond *like that*. They could catch up. It was exciting. *They were jazzed*. There was only one problem: the time machine was a dud. It didn’t work.

And that’s when they called IBM.

In 2002, IBM acquired PriceWaterhouseCoopers Consulting, which strengthened the company. PWC was rated number one by *Consulting Monitor* for “understanding client’s industry,” creating synergy with IBM, which itself garnered IDC’s number-one ranking for a Business and IT Strategy Consultant. Together, the companies have formed the world’s largest on-demand consultancy.