



IBM Business Consulting Services

## Branchfokus: Industri ISV Update Stockholm

Peter Pohl  
Mars 2006

**ON** DEMAND BUSINESS™

March 2006

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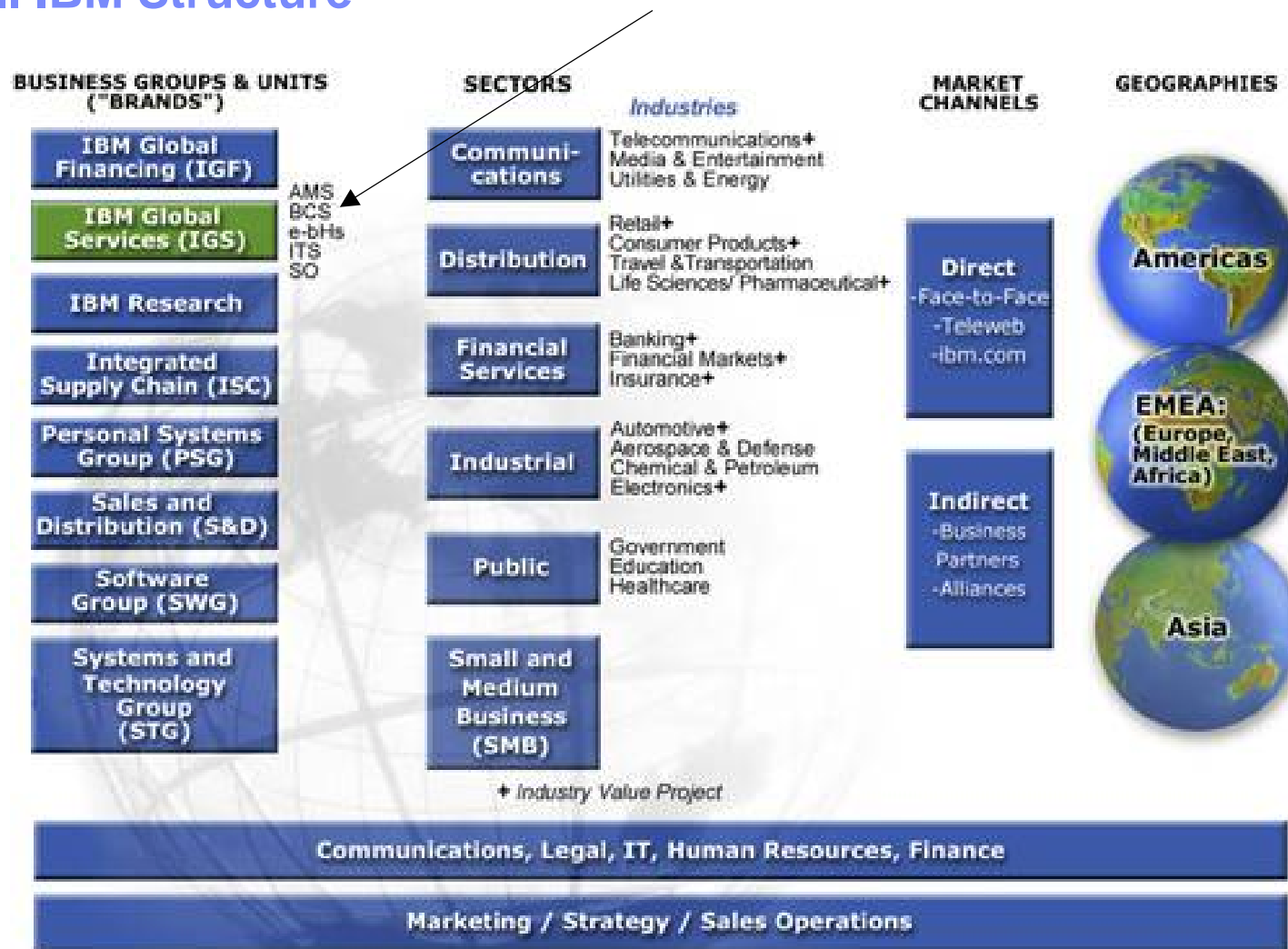
## Agenda

1. IBM/BCS "Go To Market" struktur
2. Trender/utmaningar
3. IBM/BCS lösningar
4. Exempel på projekt

## Agenda

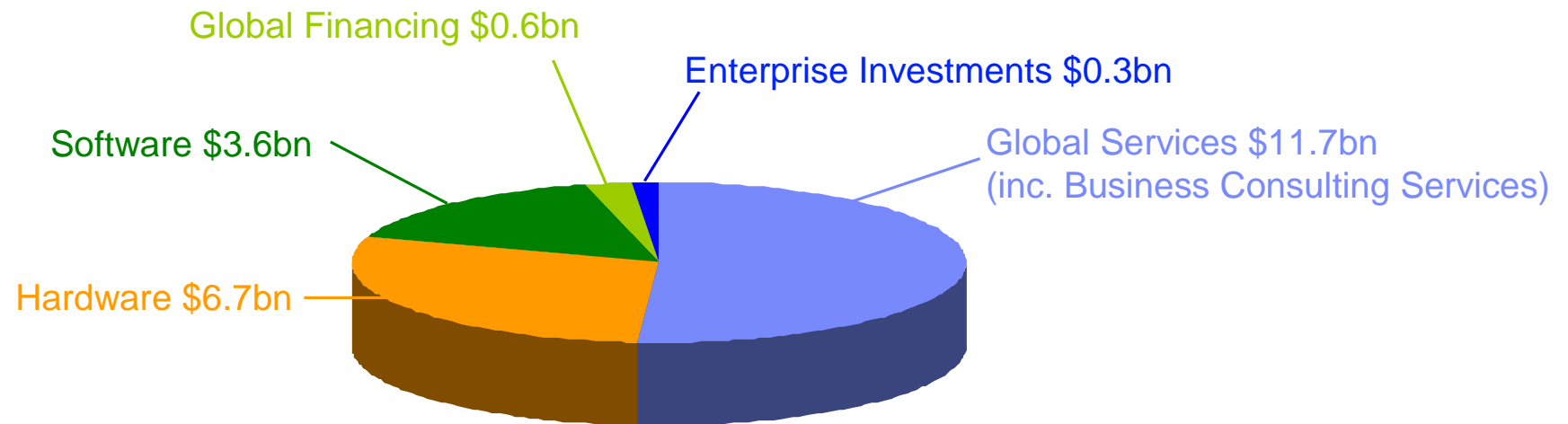
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# Overall IBM Structure



## IBM 2005 First Quarter Results

IBM Q1 2005 Results\* - \$22.9bn



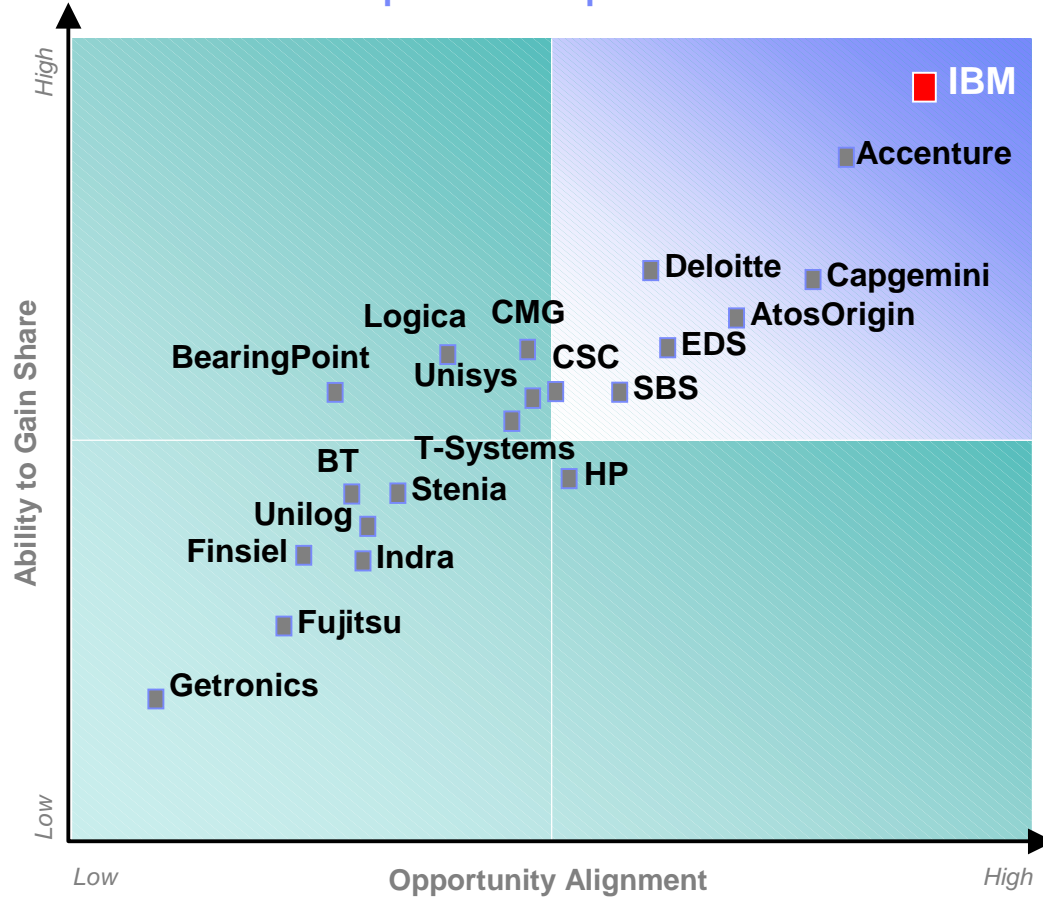
\* From continuing operations

## IBM Business Consulting Services

- The world's largest consulting organisation
- Over 60,000 professionals in 160 countries
- Deep experience and expertise in 20 industries
- Broad set of solutions spanning strategic change, customer relationship management, supply-chain operations, financial management, human capital, IT, and business-process outsourcing
- Access to the global capabilities of IBM, including integrated technology services, application management services, strategic outsourcing, learning services, and global financing
- \$5 billion annual investment in technology and business research

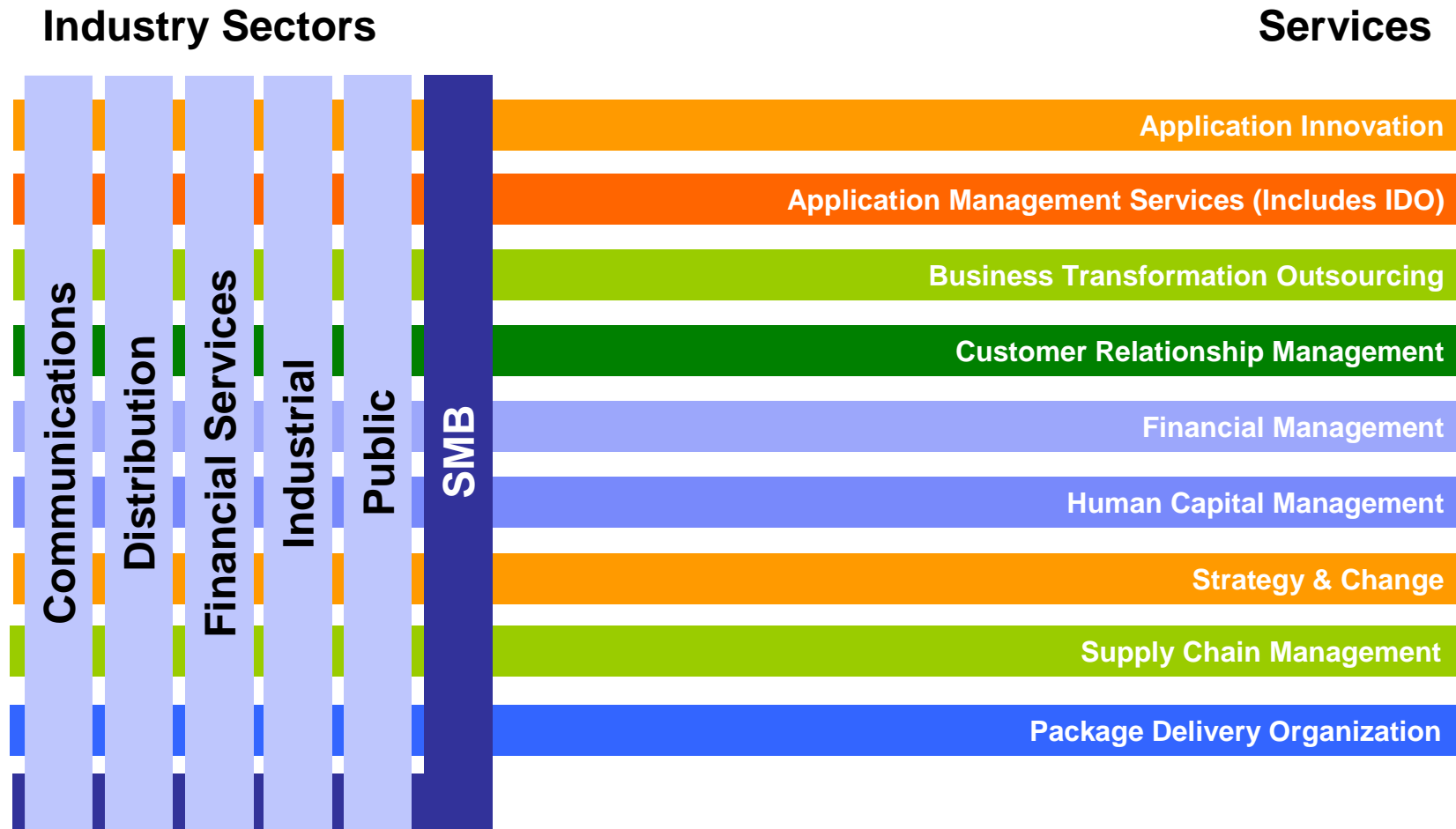
The European analysts see IBM BCS as THE market leader...

IDC 2004 Leadership Grid: European Solution Services Mkt



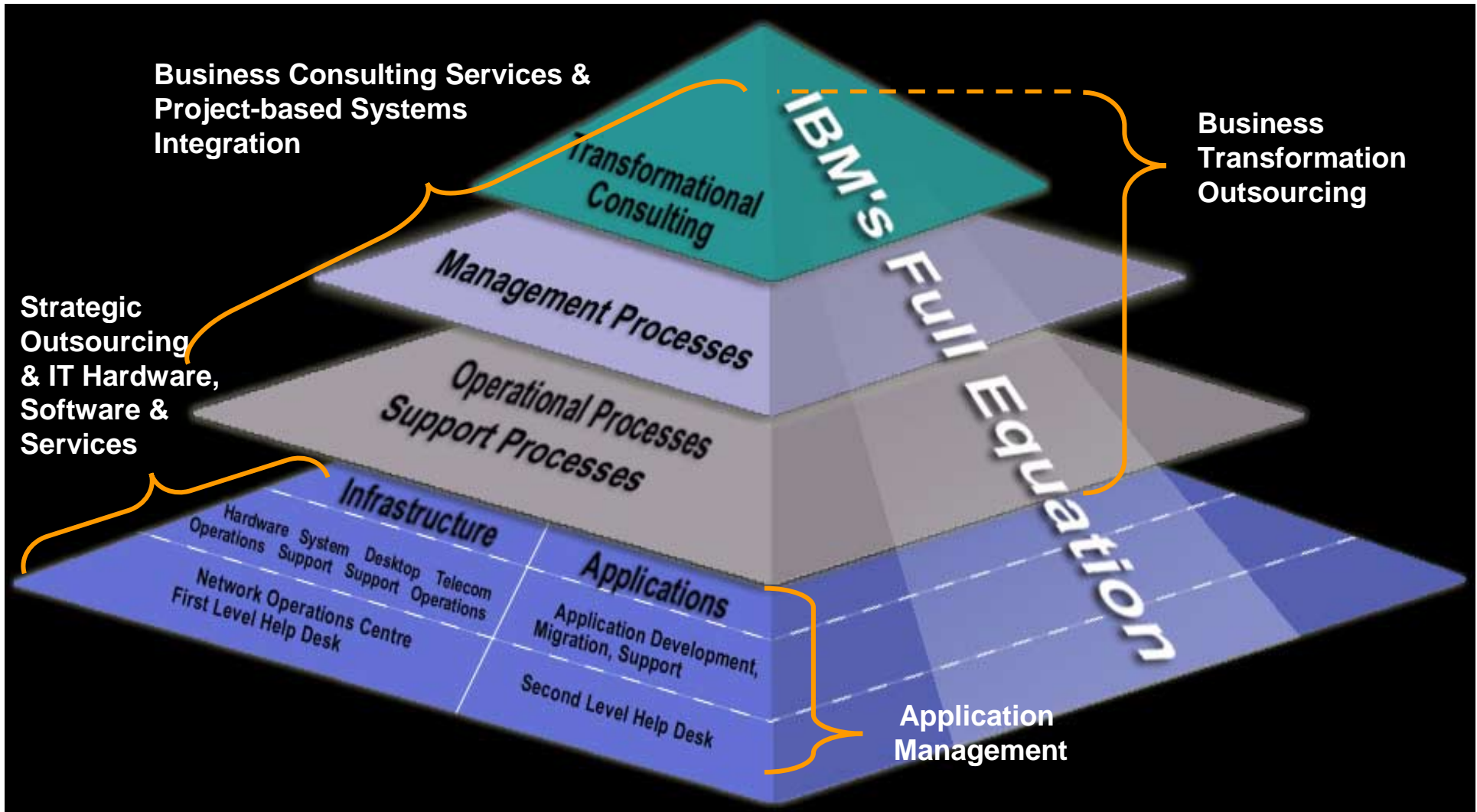
- IBM leads in [Forbes's](#) 2004 European SAP Project Leadership Quadrant
- "BCS' progress in developing and field testing CBMs has been impressive" – [Meta](#), Jul '04
- IBM's \$250m bet on RFID: "Bold & Right" – [Forrester](#) Sept '04
- BCS leads [IDC's](#) European SCM Services Forecast Update 2002 – 2007 – Sept '04

## Industry and services summary



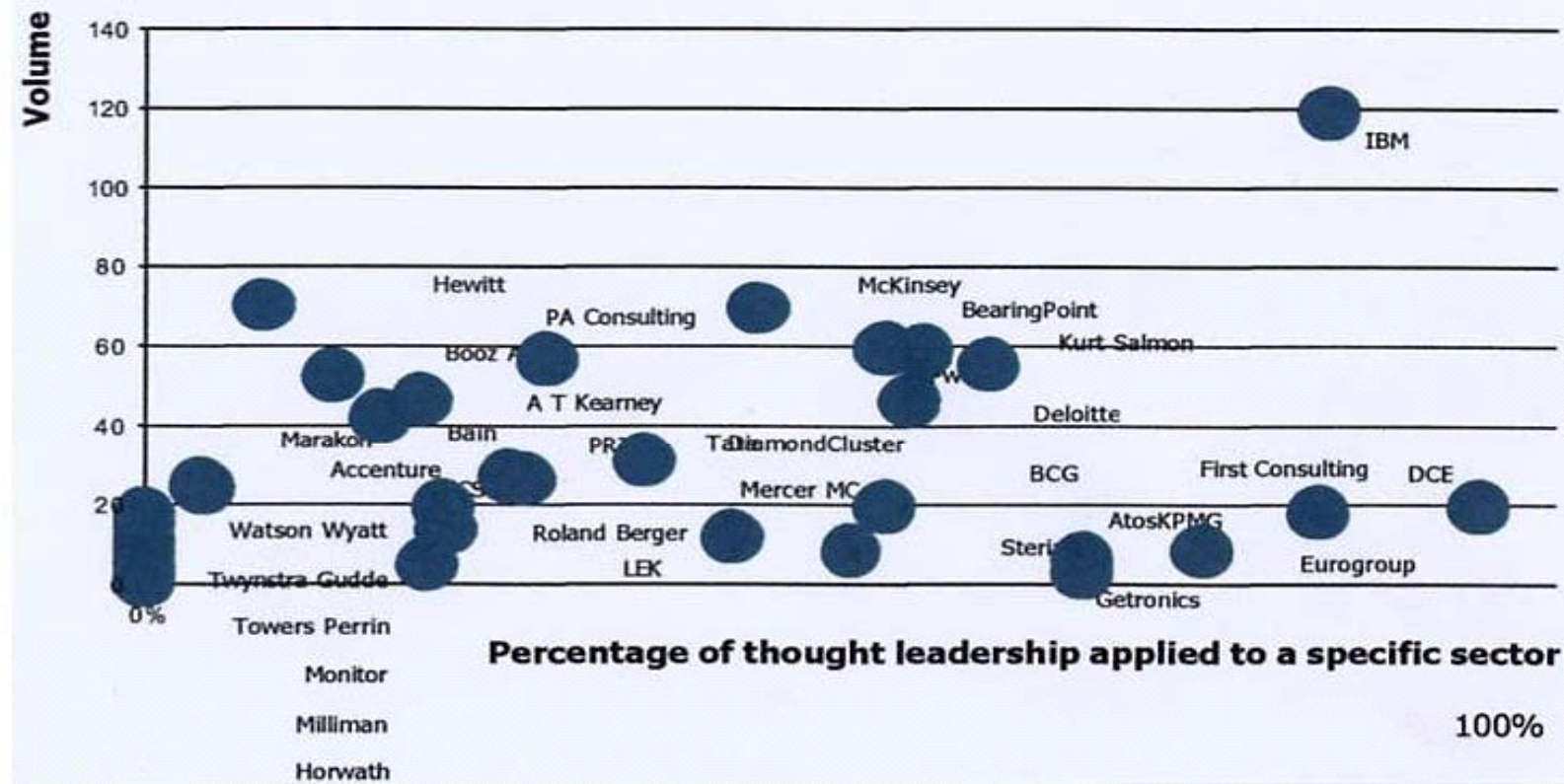


# BCS as part of IBM Global Services, can deliver the “full equation” from consulting to strategic outsourcing!



## Thought leadership and innovation

**Figure A: Comparing the volume and positioning of the thought leadership output of leading consulting firms**



## We make significant investments in order to bring new and innovative thinking



### Industry points-of-view

- Comprehensive future-oriented points-of-view
- Recommendations for client-specific actions to generate success.

### Strategic Insights

- The world's second-largest strategic change practice, with over 3,000 professionals globally
- Institute for Business Value, staffed by full-time professionals in North America, Europe, and Asia
- Over 100 in-depth strategy studies and related publications annually
- Focused client membership programs, including up to 20 client events per year.

### Technology innovation

- World's largest industrial research group
- \$5 billion annual budget and five Nobel prizes

### Academic partnerships

- Collaborative research with leading institutions, around the world
- Professional staff with teaching positions at key institutions
- Joint publications and industry forums.


***Our People know your Industry and your issues***

## IBV's thought leadership deliverables are easily available for external and internal use

Clients can be directed to the external IBV website at:  
[www.ibm.com/iibv](http://www.ibm.com/iibv)



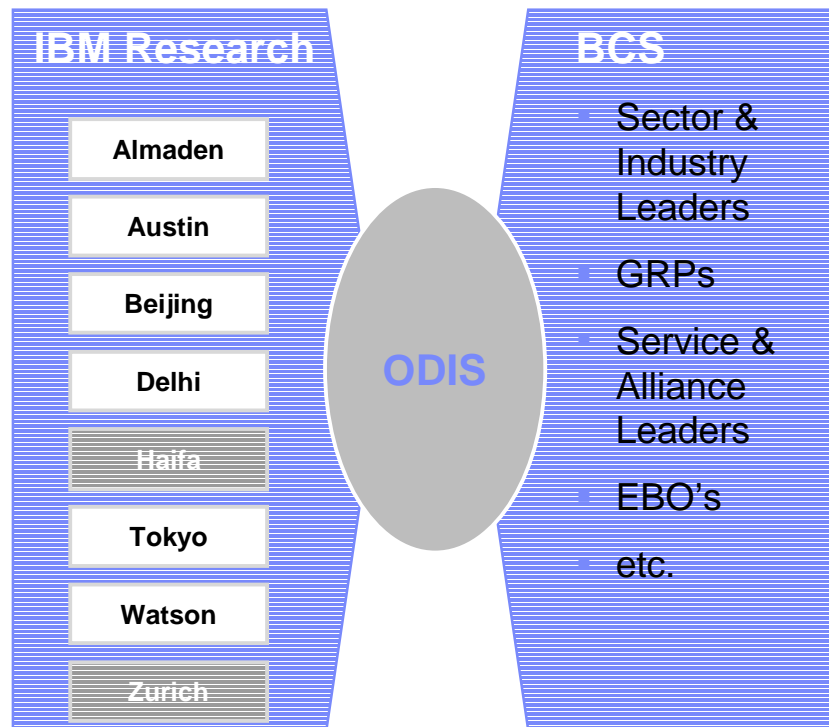
BCS practitioners can access all IBV content through the IBV intranetsite:  
[w3.ibm.com/services/bcs/ibv](http://w3.ibm.com/services/bcs/ibv)



- Send a note to [IBV@us.ibm.com](mailto:IBV@us.ibm.com) to receive the IBV Quarterly Newsletter
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## On Demand Innovation Services (ODIS)

### ODIS Set-Up

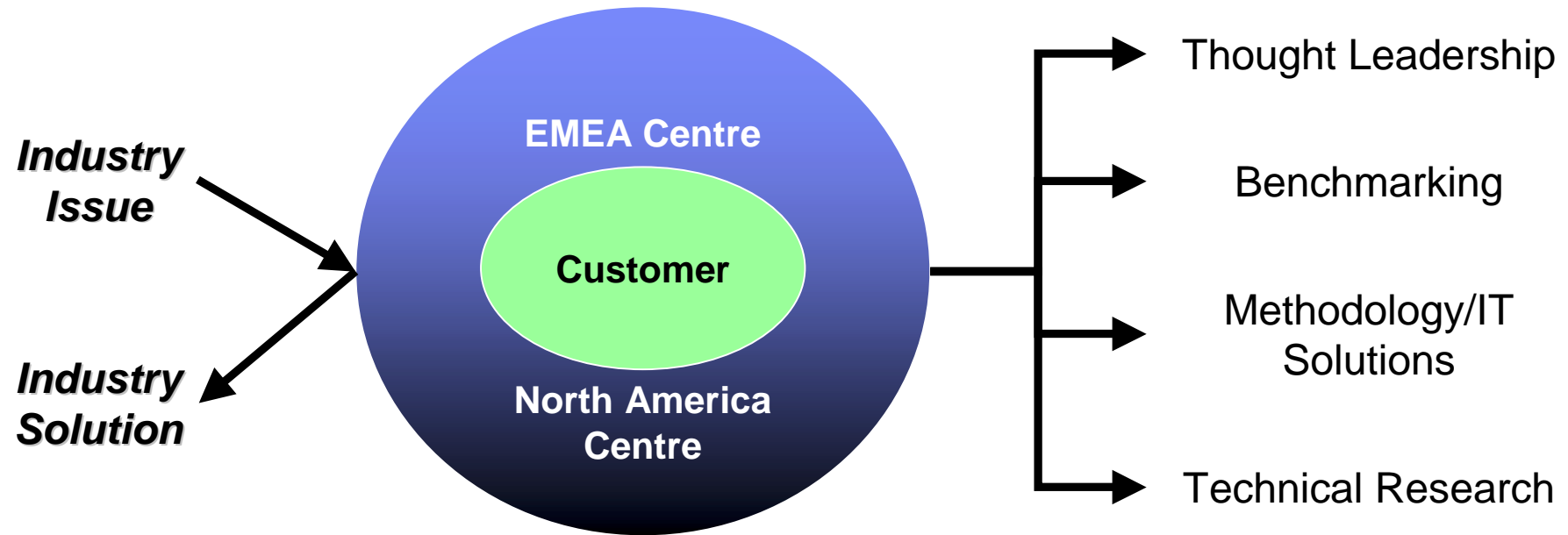


Research Labs in EMEA

### Mission of ODIS EMEA

- Create value add for customers through Innovation
- Provide leading edge subject matter expert know-how
- Help to transform businesses and to design new business models and processes based upon advanced technologies/ algorithms
- Assist customers to plan and manage their innovation process and run innovation councils

## Industry Driven Innovation Forest & Paper Innovation Centre



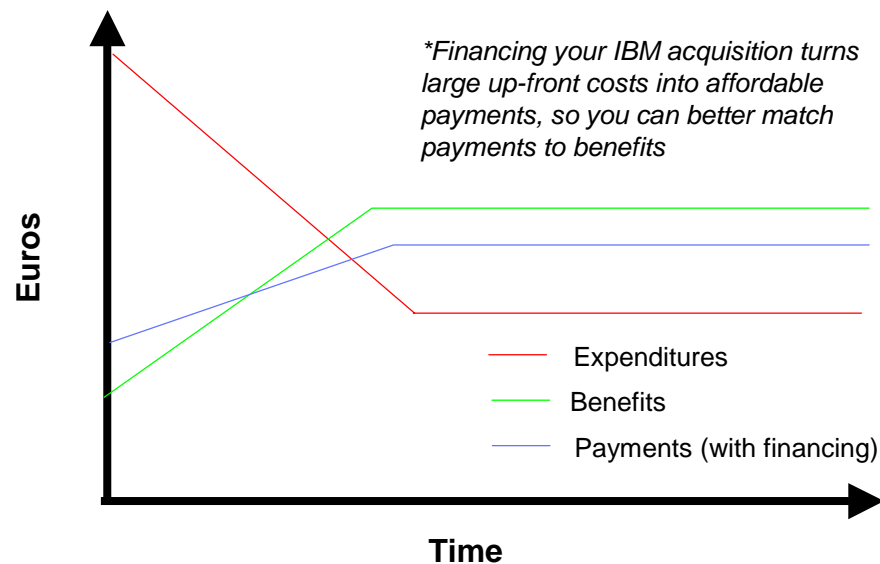
Innovation

*FPIC will manage the innovation cycle – the process of analyzing industry issues & needs and developing innovative solutions*

## IBM Global Financing - Project Financing

- Provides one-stop financing for the business transformation projects initiated through IBM Business Consulting Services.
- Facilitates project approval, preserve cash flow and credit lines, better match costs with expected benefits and enable self-funding.
- This facility allows IBM to fully partner with clients, sharing risk and aligning interests through the transformation period

### A Services Project – How Project Financing Can Benefit



- Improves Budget Management with predictable costs
- Aligns payment streams with expected benefits
- Facilitates control and tracking of project costs
- Clients can more effectively manage Capital and Revenue budgets
- Individually tailored solutions allow even greater strategic flexibility

## BCS Industrial Sector Organisation

Sector Leader  
Peter Pohl

Automotive \*)  
Christian Bengtson

Chem. & Petrol  
Vacant

Electronics  
Peter Pohl

Ind Prod's incl.  
Forest & Paper  
Lars Husberg

FPIC  
T Doak-Dunnelly

AB Volvo C Bengtson  
Volvo Cars C Bengtson  
Scania U Weibahr  
Saab Vacant

\*) Ext team: Mike Woodward/  
Ashley Fernihough

Statoil Arne Matre  
Norsk Hydro Arne Matre  
HydroTexaco Arne Matre  
AkerKvaerner Stig Johansen  
Vetco Aibel Stig Johansen

Nokia S Glead  
Ericsson Marie Dubois-J  
SonyEricsson Marie Dubois-J  
Electrolux Peter Pohl  
ABB R Horvath

Tetra Pak Claus Madsen  
Outukumpu Giorgio Danesi  
Sandvik Lars Husberg  
Atlas Copco R Horvath  
Metso Giorgio Danesi  
Rautarukki Giorgio Danesi  
SKF R Horvath  
Stora Enso Ulf Weibahr  
M-Real L Husberg  
UPM Giorgio Danesi  
SCA N Edqvist  
Norske Skog Stig Johansen  
Trelleborg  
Alfa Laval

T Doak-Dunelly  
A Grignon  
J Kallela  
S Pajari

Industrial DK  
S Helsted

B&O S Helsted  
Danfoss S Helsted  
Grundfos S Helsted  
Lego S Helsted

Transformation Consulting

ERP/SI

AMS



## Agenda

1. IBM/BCS "Go To Market" struktur
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## 2. Trender/utmaningar

- Globala - exempel
  - Innovation
  - Konsument beteende
  - Geografi
  - Offshoring
- Branscher
  - Automotive
  - Chemicals & Petroleum
  - Electronics
  - Forest & Paper

## Innovation – key to change - is different today

**Myth: Innovation means developing new products and services**

**↳ Reality: Business model innovation matters**

**Myth: Innovation is too critical and proprietary to involve outsiders**

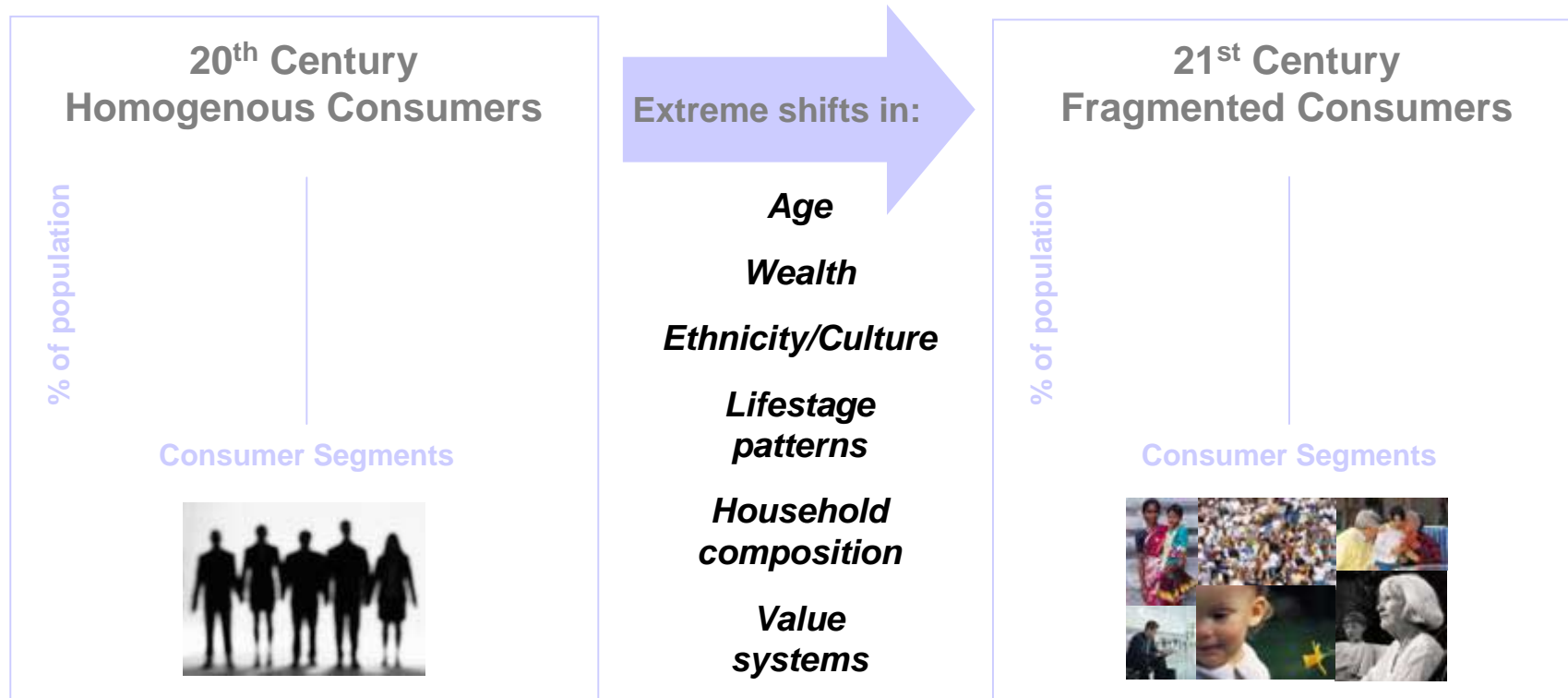
**↳ Reality: External collaboration is indispensable**

**Myth: Innovation is the job of R&D, brand and product managers**

**↳ Reality: Innovation must be orchestrated from the top**

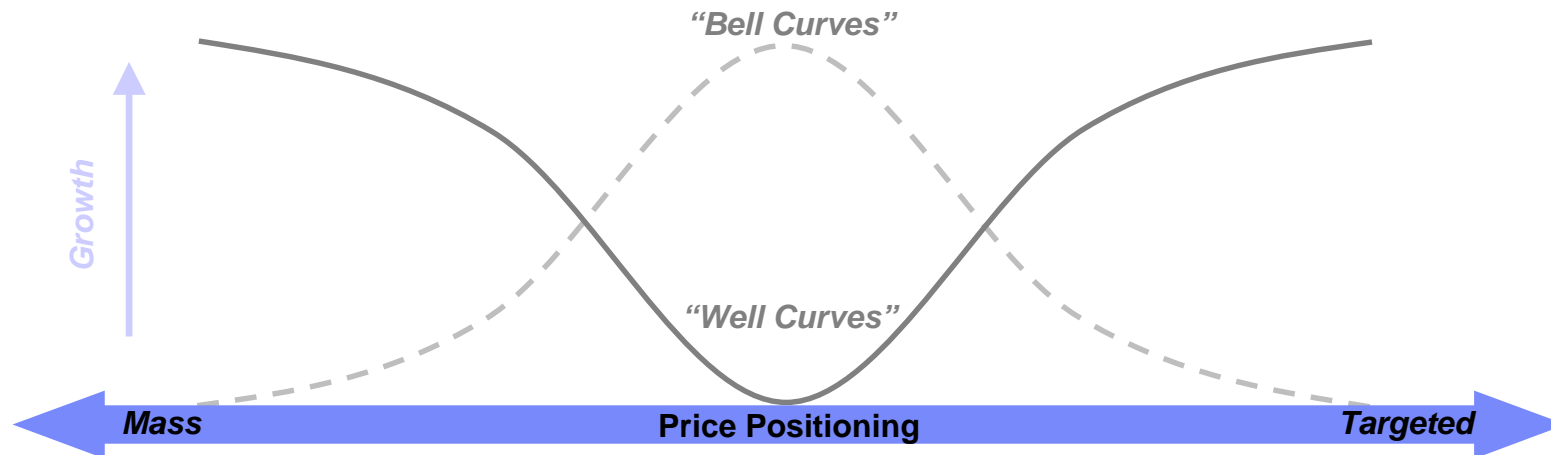
Source: CEO Study 2006

Consumer segment fragmentation is proliferating and therefore consumer behavior is becoming harder to predict and product requirements more diversified



Source: "Consumer Products 2010: Executing to Lead in a World of Extremes" 01 may 2004 Institute for Business Value

In particular, the market is increasingly characterized by bifurcation between mass and targeted propositions



Consumers are seeking to maximize their buying power for basic goods with low emotional investment

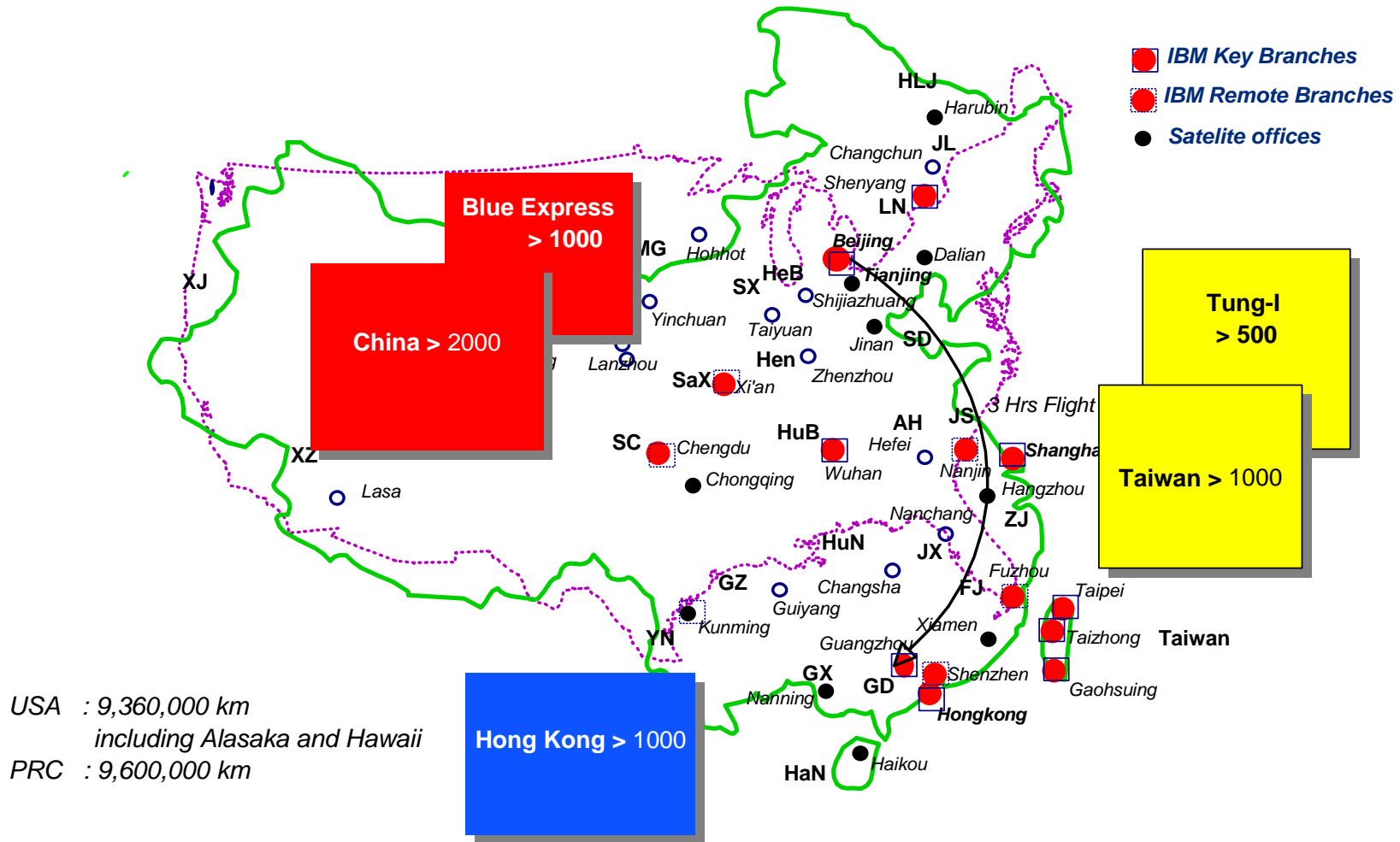
Mega-players are rapidly capturing dominant market share by delivering “good enough” value at very low prices

*Industry competitors must have highly focused, relevant value propositions to grow in a world of extremes*

Consumers are seeking to maximize “personal value” when purchasing goods with high emotional importance

Differentiated specialists are building profitable, high-growth niches by delivering unique, relevant value to targeted groups of consumers

## IBM Global Services in Greater China



USA : 9,360,000 km  
 including Alasaka and Hawaii  
 PRC : 9,600,000 km

## Global Delivery



- Global Solution Delivery
- Near Shore Strategy
  - Romania
  - Lithuania
- Global Delivery
  - India

## The Automotive Ecosystem in Sweden is extensive and most big players are existing IBM customers

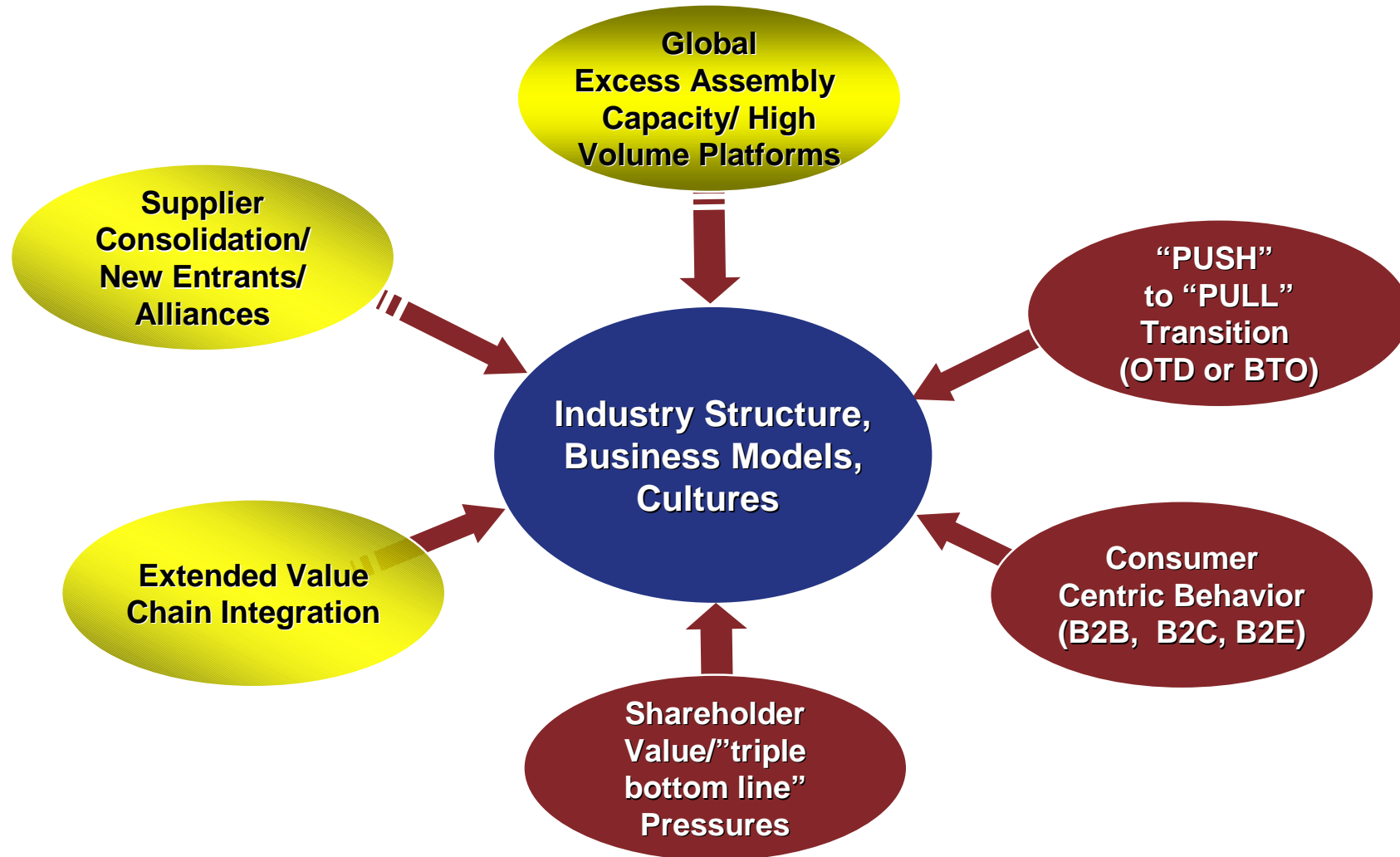


- **Swedish automotive manufacturers, including suppliers to the industry, employ about 140,000 people<sup>1</sup>**
- **Exports of motor vehicles and automotive parts amounted to about 125 BUSD in 2003. 15% of the total Swedish exports<sup>1</sup>**

<sup>1</sup> Source: Swedish Institute, October 2004

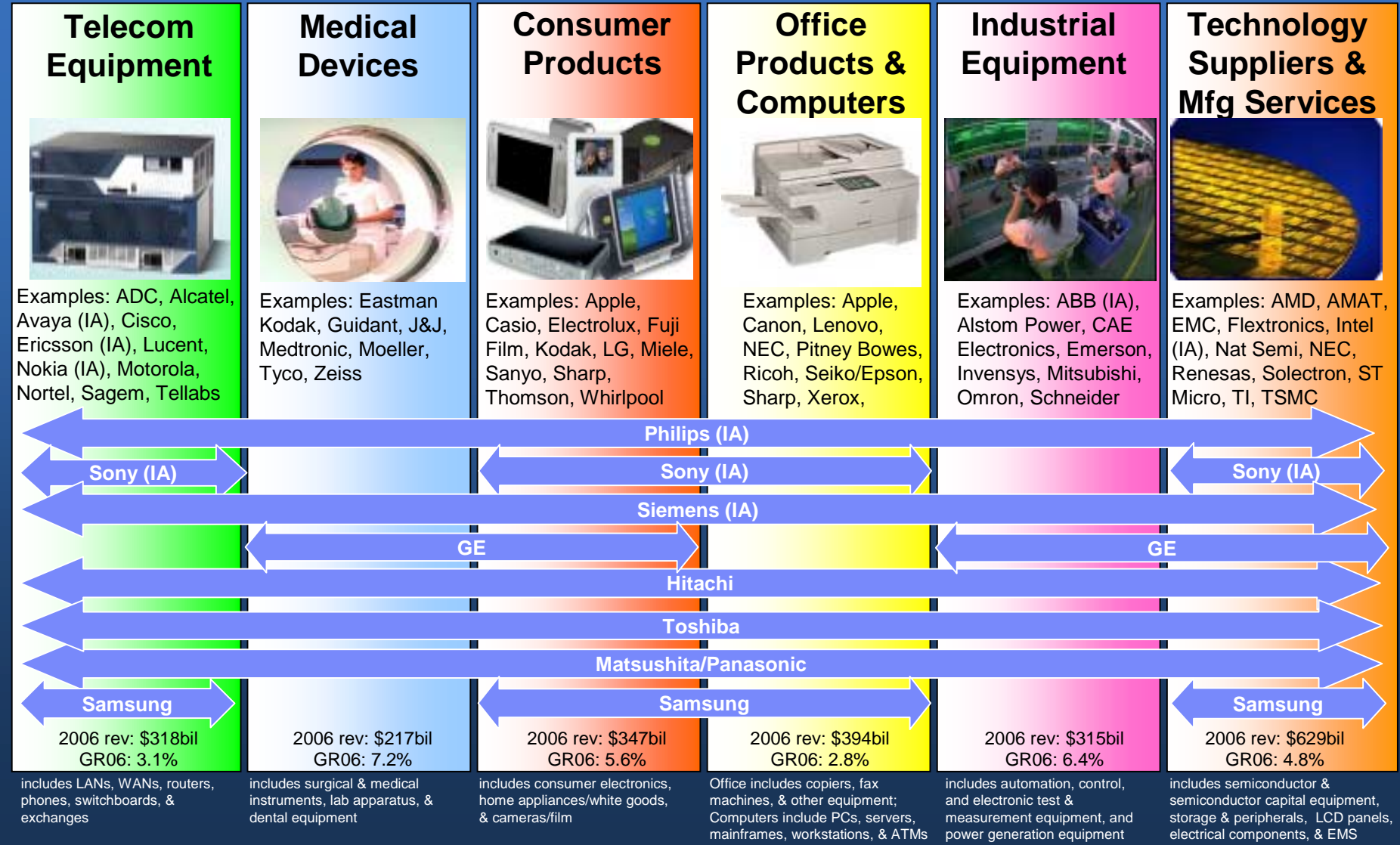


## Automotive: Six major industry drivers of change will lead to new business models, cultures and processes



# Global Electronics Market Segments

Many of our larger clients have businesses in multiple segments



## Example: Telecom Equipment Manufacturers Business Priorities

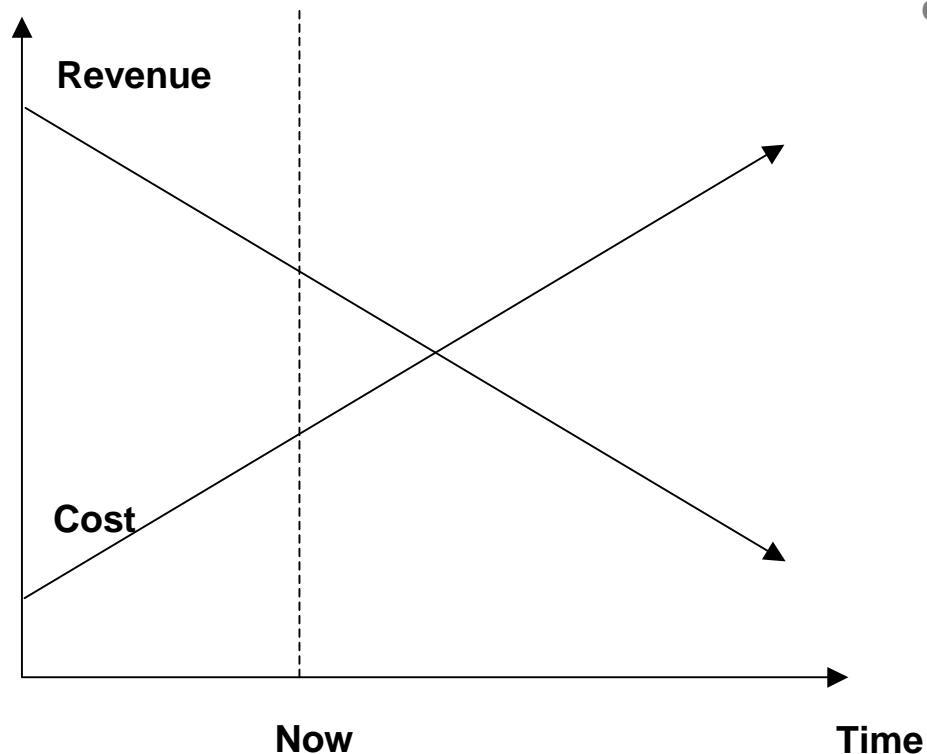
### Market forces are putting pressure to rapidly:

- Increase R&D (and SCM) efficiency to decrease product cost in order to be able to maintain margins while prices are under severe pressure.
- Develop towards SW business model
- Drive for Operational Excellence

### Market dynamics and assumptions:

- Maintain/gain market share & revenue of mobile system
- # worldwide mobile subscribers is supposed to grow with same pace in 2006 (5-10%).
- Dependancy on promptly decisions in China in 1H 2006 on which operators will get the 3G licenses and which standards to be used.
- Limited in-road into traditional telecom by IP telephony thru Skype, Google and Microsoft.
- Price erosions should not lead to need for overall cost cuts of more than 10% to maintain margins.

## White Goods: Continued commoditisation and increased competition combined with escalating material costs severely impacts the profitability of the White Goods industry



The market for white goods is a rather mature market characterized by stagnant growth and little development – and fierce competition

- **Price deflation**

Consolidation of the retail industry and entry of low-cost producers from Asia and Eastern Europe into the market contribute to strong bargaining position of retailers

- **Commoditization of products**

Products age quickly in this category, me-too products appear fast and therefore continuous product innovation and short time-to-market and time to volume in this fast-moving market is essential to keep margins up

- **Fragmentation of market**

with many brands from many competitors, some of them of only local value as a heritage from a long streak of acquisitions in the past.<sup>3</sup> The top 6 manufacturers in the world rack up a market share of just above 41%.

- **Limited growth**

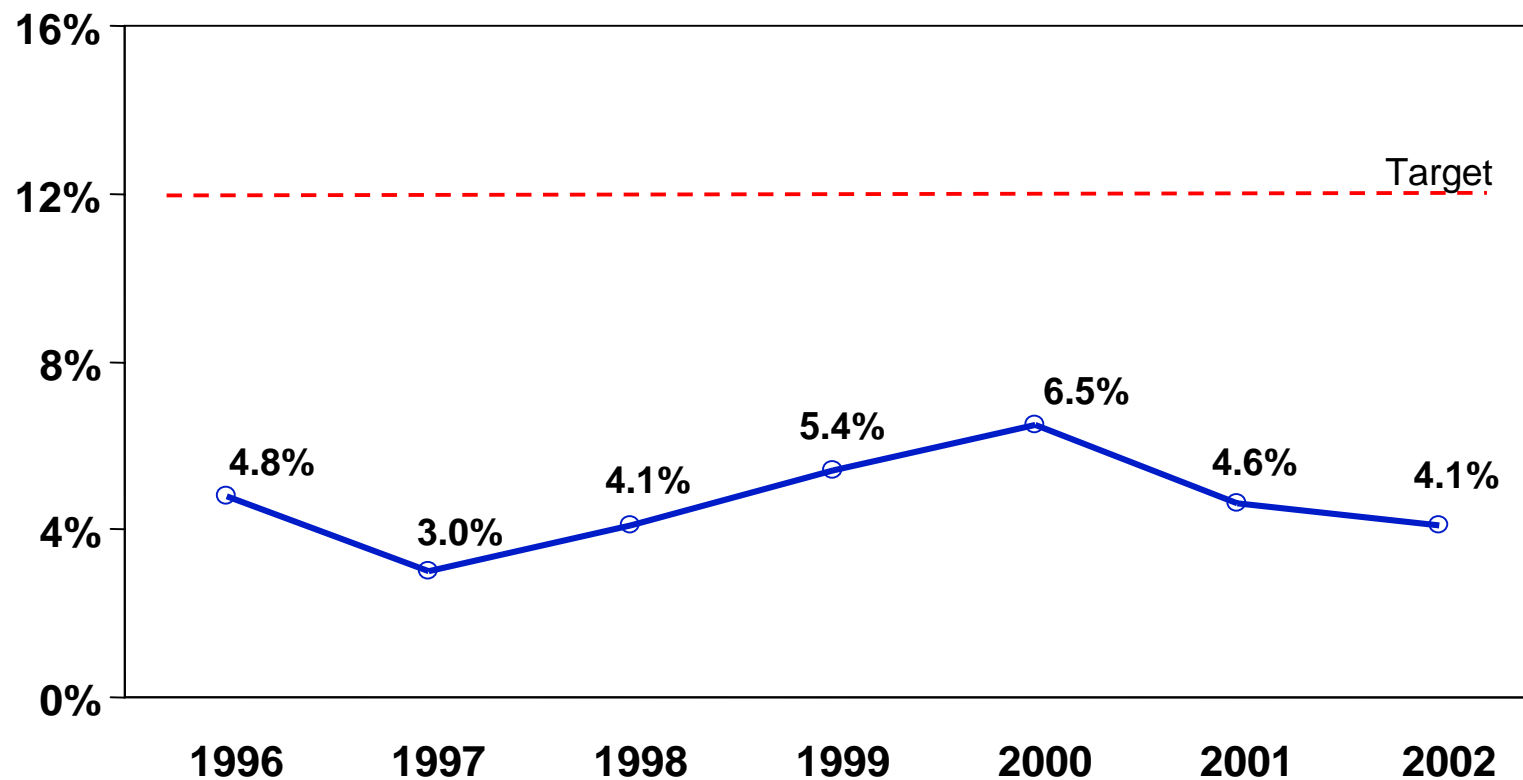
in the past of approx. 1.6% p.a since large part of demand is driven by replacements.<sup>5</sup> Eastern Europe and Asia continue to be drivers for growth with the worldwide market projected to be worth 127 billion US-\$ in 2008

- **Increase in raw material costs**

steel prices at all time high

## Forest & Paper Industry consolidating do not show economies of scale

High Level Results - Current State  
ROCE of Top 100 Companies



## Forest & Paper

### Several Key Issues and Pain Points are driving change

#### Industry Pain Points:

- Significant **process redesign** needed in:
  - end-to-end supply chain
  - strategic customer relationships
- Significant organization redesign and training needed to **enable process changes**
- Legacy **IT architecture**, especially for companies that have grown by consolidation
- Significant **IT enablement needed** to achieve supply chain and customer relationship transformation
- Need to capture **value / synergies** on integration of acquisitions
- Strategies for **low growth segments**
- Continued **need to reduce all costs**
- Need to **segment customers** based on long-term profitability
- Continued need to **manage volatility of currency** and input costs
- **Need to capture information from across enterprise** to enable decisions on above issues

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2. Trender/utmaningar
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4. Exempel på projekt

→

<p>Generiska – ex.</p> <ul style="list-style-type: none"><li>• On Demand</li><li>• CBM</li><li>• SOA</li></ul> <p>Branschlösningar – ex.</p> <ul style="list-style-type: none"><li>• Automotive</li><li>• Electronics</li><li>• Forest &amp; Paper</li></ul>
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## On Demand case study: Lam Research is responding to turbulence in the semiconductor equipment industry

Overcapacity and commoditization of the semiconductor industry  
 Continuing – and deepening – cyclicity of the semiconductor equipment sector  
 Fragmentation of the semiconductor equipment market  
 Increased consolidation of equipment manufacturers and customers



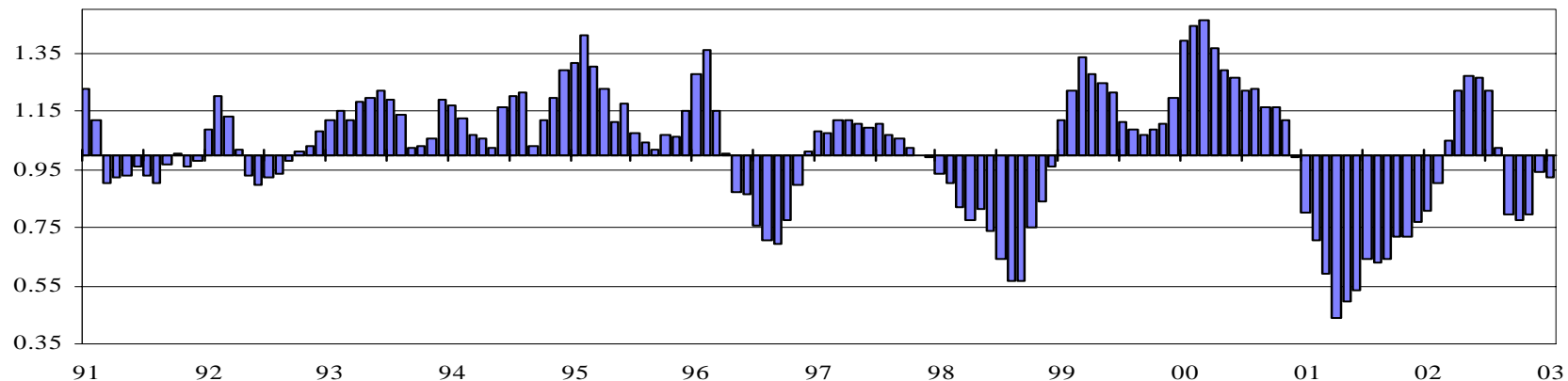
### ***Focus on differentiating competencies***

Shift from fixed to variable costs through outsourcing of non-core capabilities  
 Ramp back-end services with industry cycles  
 Devote management time to industry issues

### ***Address consolidation proactively***

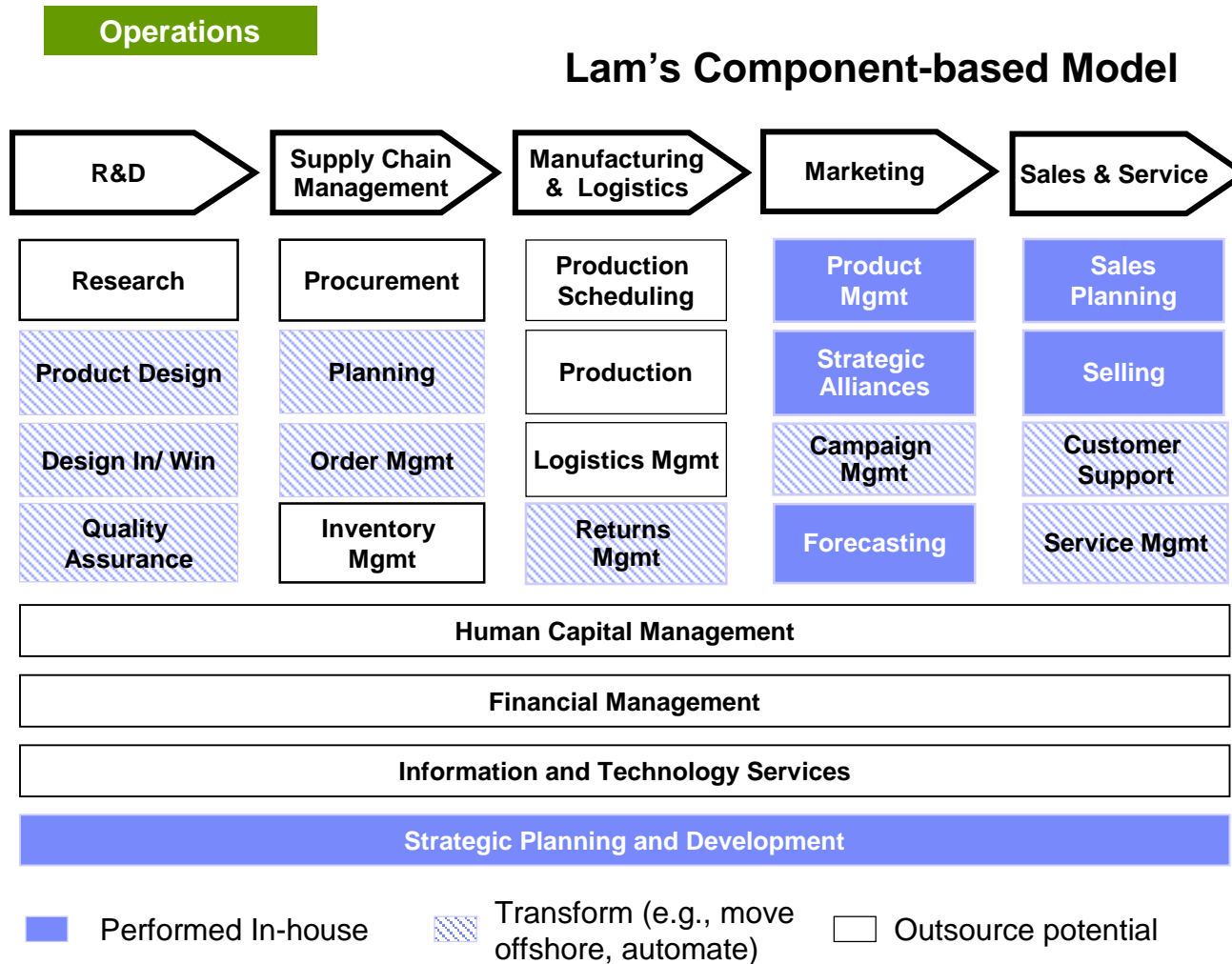
Increase industry collaboration  
 Drive increased process standardization  
 Facilitate merger integration

**Total US Semiconductor Equipment Book to Bill ratios (1991-2003)**





## On Demand case study: Lam reduced and began to vary costs through outsourcing and building a virtual extended value chain



*Through outsourcing Lam:*

- **Reduced its overall cost structure and created outsourcing contracts that enabled them to vary costs**
- **Freed up capital to re-invest in differentiation**
- **Achieved best-in-class capability in non-differentiated areas with a limited investment**

## On Demand case study: Lam's strategy to create a "variable virtual company" is having a positive financial impact – and is being noticed

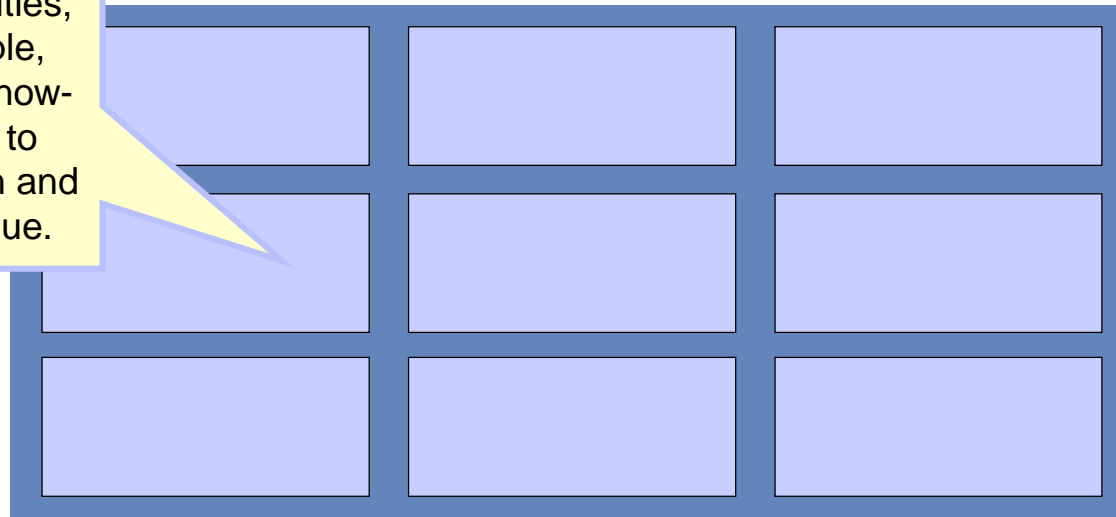
	Peak Current Quarter Change			
	Revenues	Op Expense	Property & Equipment	Index
AEIS	-31%	23%	81%	-135%
BRKS	-5%	54%	48%	-106%
CMOS	-80%	-15%	18%	-83%
AMAT	-50%	-23%	29%	-57%
ACLS	-51%	-21%	27%	-57%
VSEA	-58%	-9%	7%	-56%
VECO	-43%	-7%	18%	-54%
PLAB	-10%	16%	23%	-49%
MYMI	-17%	21%	7%	-46%
MKSI	-17%	10%	17%	-44%
TER	-61%	-21%	2%	-41%
KLAC	-30%	-18%	29%	-41%
MYK	-52%	-21%	3%	-34%
ASYT	-43%	-26%	6%	-23%
NVLS	-50%	-27%	-5%	-17%
CRTK	-36%	-18%	-1%	-17%
NEWP	-57%	-32%	-9%	-16%
A	-42%	-20%	-9%	-13%
DPMI	-22%	-12%	-5%	-5%
TEK	-37%	-27%	-5%	-5%
<b>LRCX</b>	<b>-60%</b>	<b>-42%</b>	<b>-52%</b>	<b>34%</b>
<b>Average</b>	<b>-41%</b>	<b>-10%</b>	<b>11%</b>	
From: Mark Fitzgerald of Banc of America Securities analysis				
Source: Company reports. Banc of America Securities LLC.				

Changes vs. peak quarter, as of Jan 20, 2003

## What is Component Business Modeling?

- **Component Business Modeling (CBM) is an IBM-developed technique for modeling an enterprise as non-overlapping components in order to identify opportunities for innovation and/or improvement.**

**A business component** is a collection of activities, resources, people, technology and know-how necessary to perform a function and deliver some value.



**A Business Component Map** is a logical representation of a business that reveals its essential building blocks.

*In the CBM view, an enterprise is simply a collection of business components that are 'networked' together.*

A business component has a discrete business purpose, and is comprised of a set of activities, and a collection of technical and non-technical resources

## The business component

A business component can be defined as the collection of the business activities it performs and its supporting people and systems requirements

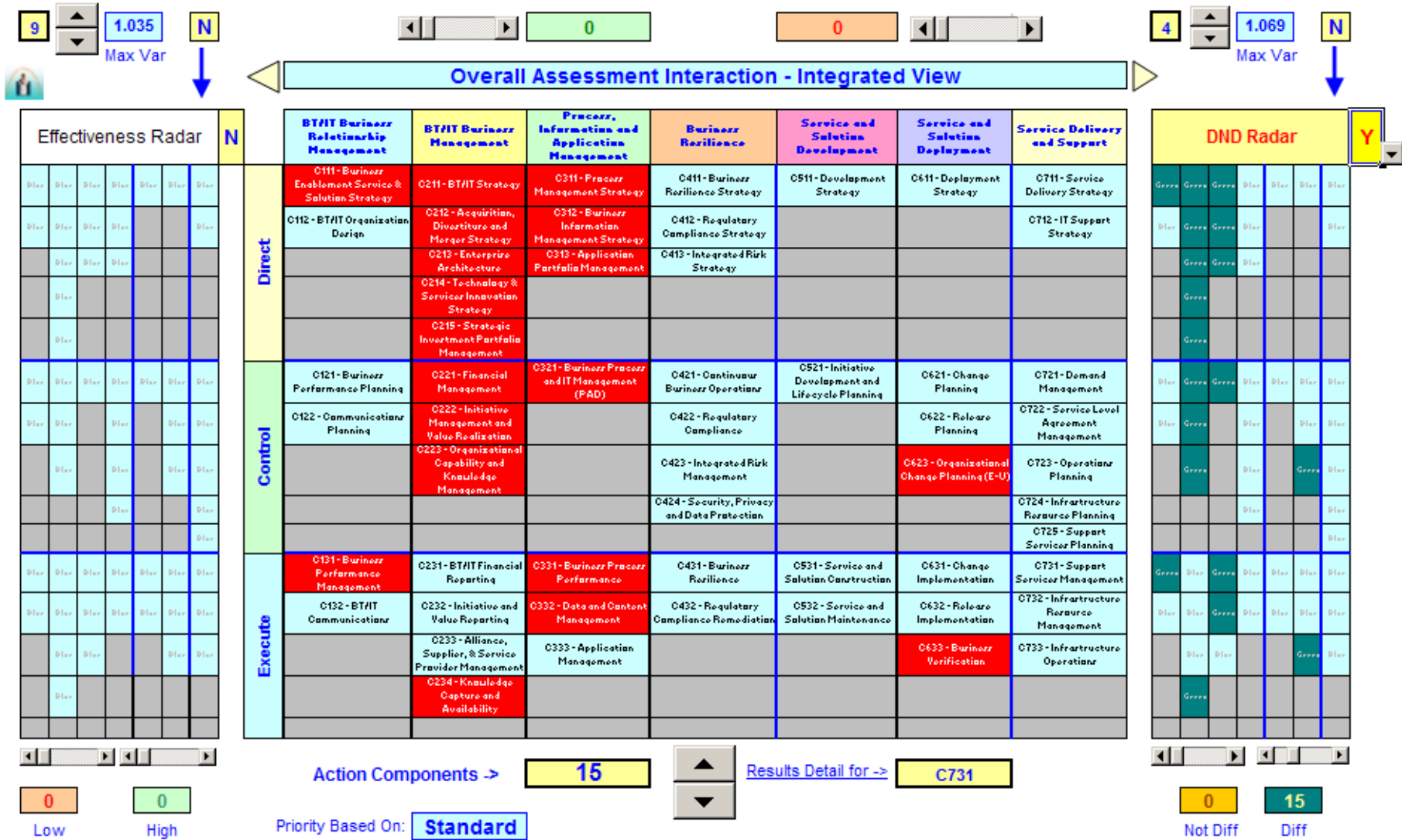


**A key attribute of a component is that it produces a definitive service, or set of services**

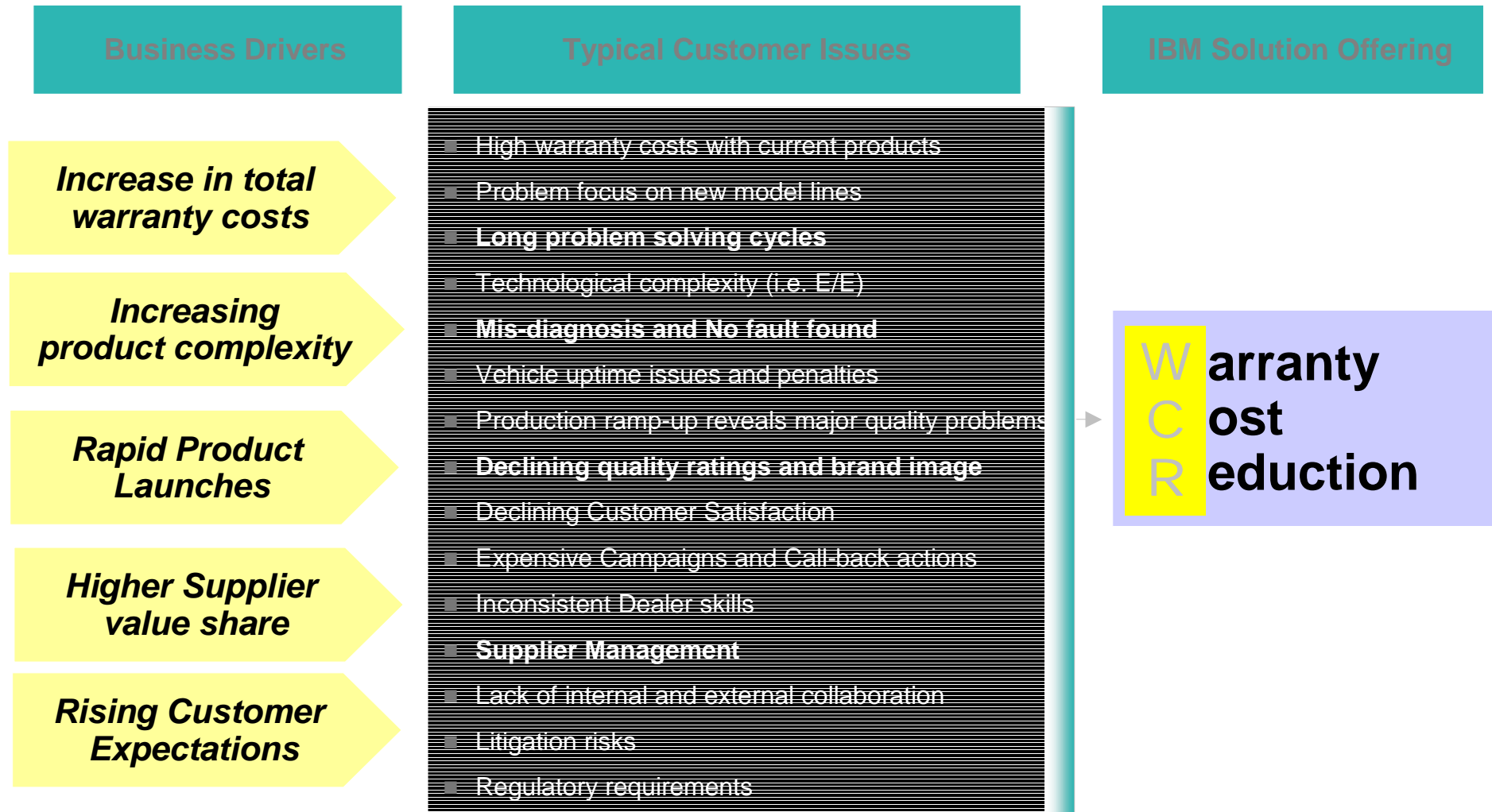
Component Business Modeling originated with component maps for analyzing industries and sectors, and IT was one of many components

	Consumer Relationship	Customer Relationship	Manufacturing	Inventory and Distribution	Business Administration
Direct	Category/Brand Strategy	Customer Relationship Strategy	Manufacturing Strategy	Supply Chain Strategy	Corporate Strategy
	Category/Brand Planning	Customer Relationship Planning	Supplier Relationship Management	Inventory Planning	Corporate Planning
			Production/Materials Development & Planning	Network & Asset Configuration	Alliance Management
Control	Brand P&L Management	Assessing Customer Satisfaction	Manufacturing Oversight	Distribution Oversight	Business Performance Management
	Matching Supply and Demand	Customer Insights	Supplier Control	Inbound Transportation   Outbound Transportation	External Market Analysis
	Marketing Development and Effectiveness	Account Management	Product/Component Manufacturing		Legal, Tax and Regulatory Compliance
	Product Ideation	Value-Added Services	Assemble/Pkg. Products	Distribution Center Operations	Organization and Process Design
Execute	Concept/Product Testing	Customer Account Servicing	Plant Inventory Management	Transportation Resources	Treasury & Risk Mgmt
	Product Development	Retail Marketing Execution	Manufacturing Procurement	En route Inventory Management	Financial Accounting & Reporting
	Product Management	In-store Inventory Mgmt			Indirect Procurement
	Marketing Execution	Customer Directory			Facilities & Equip Mgmt
	Consumer Service				Resource Development
	Product Directory				HR Administration
					IT Systems & Operations

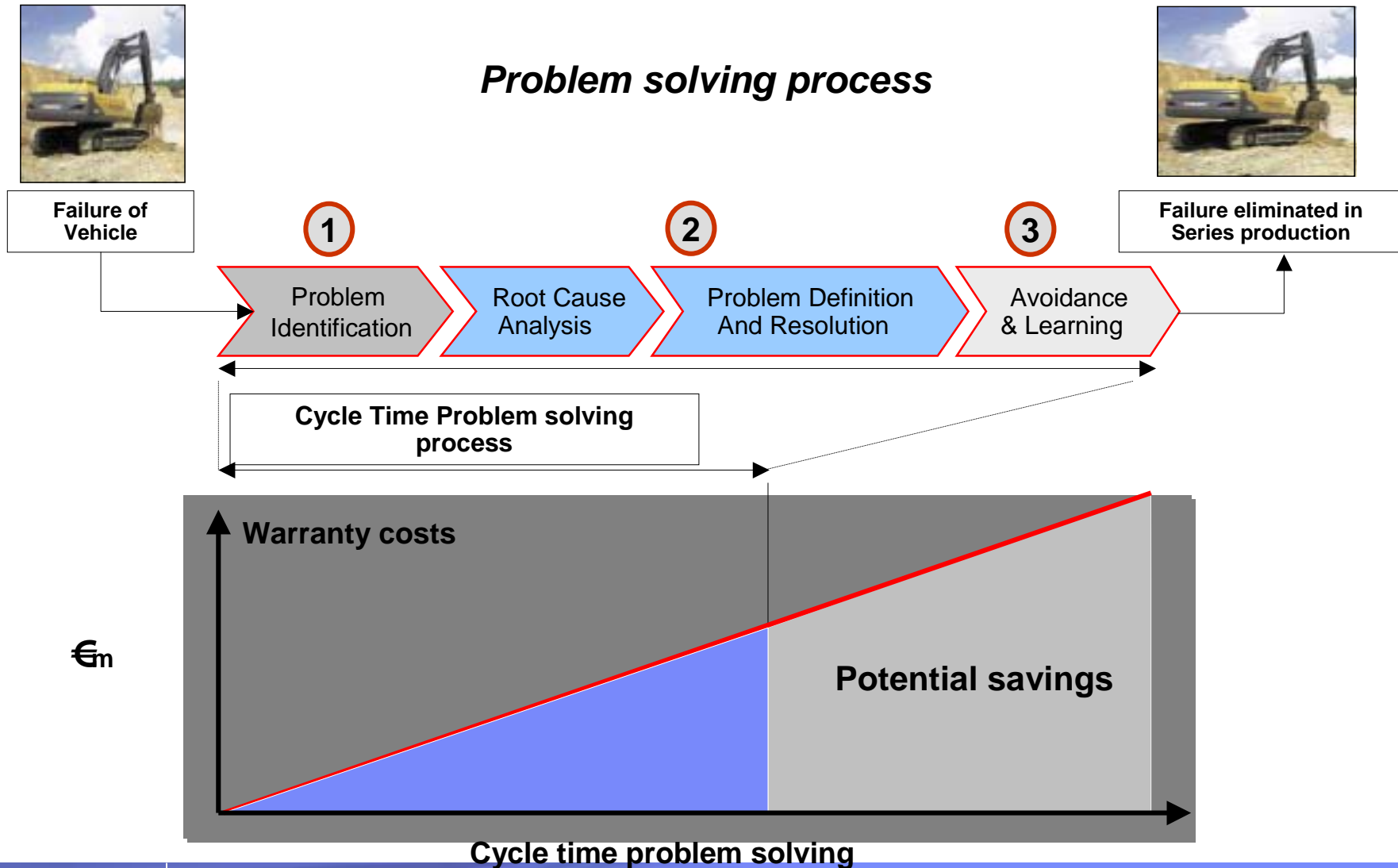
# CBM Heatmap Example: Most Differentiating



## Automotive Solution - Example: The IBM WCR Solution solves typical quality and warranty management issues

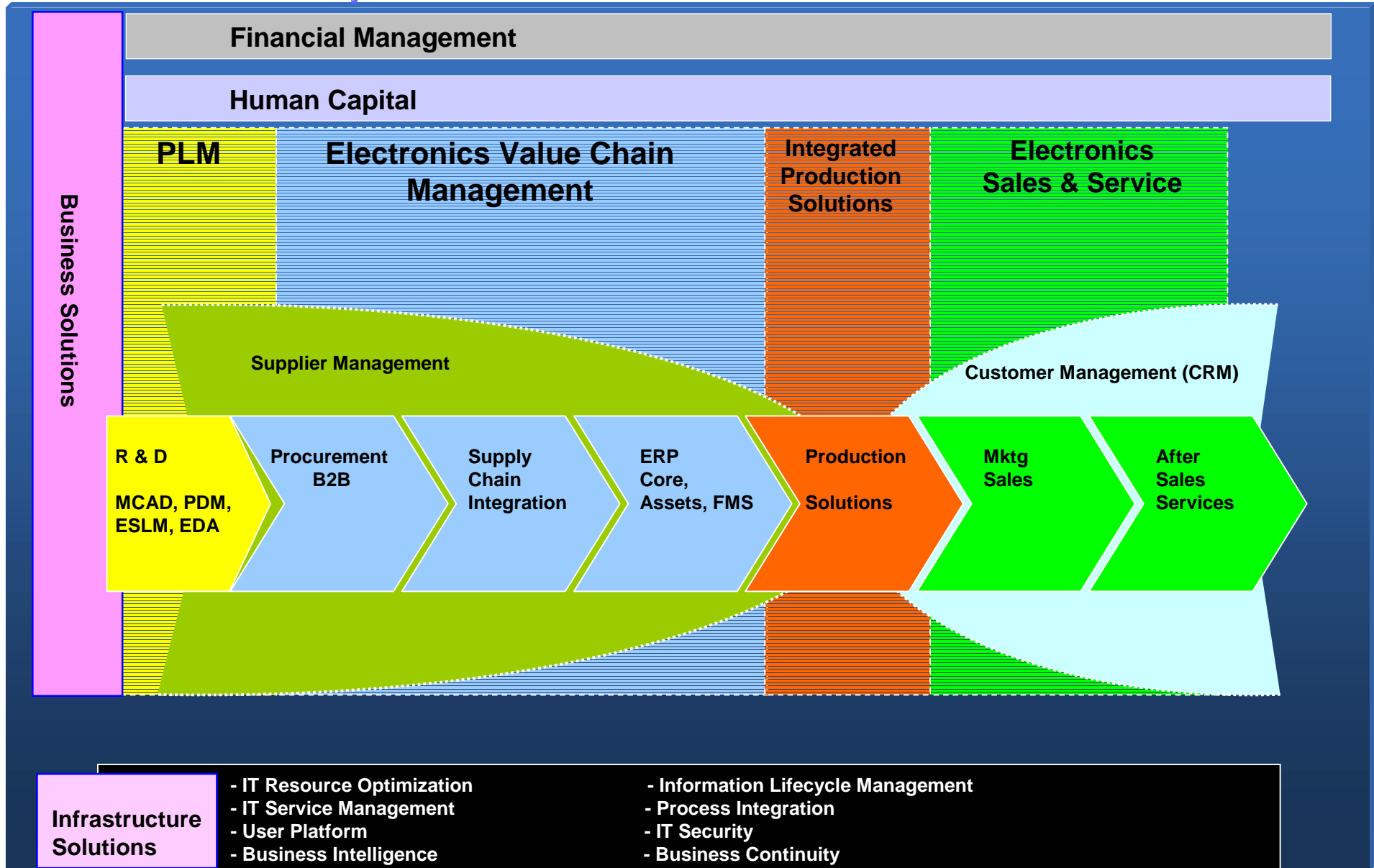


**Automotive Solution - Example:** The problem solving process encloses all steps from the early recognition of a problem in the field to fixing the problem in the ongoing serial production.

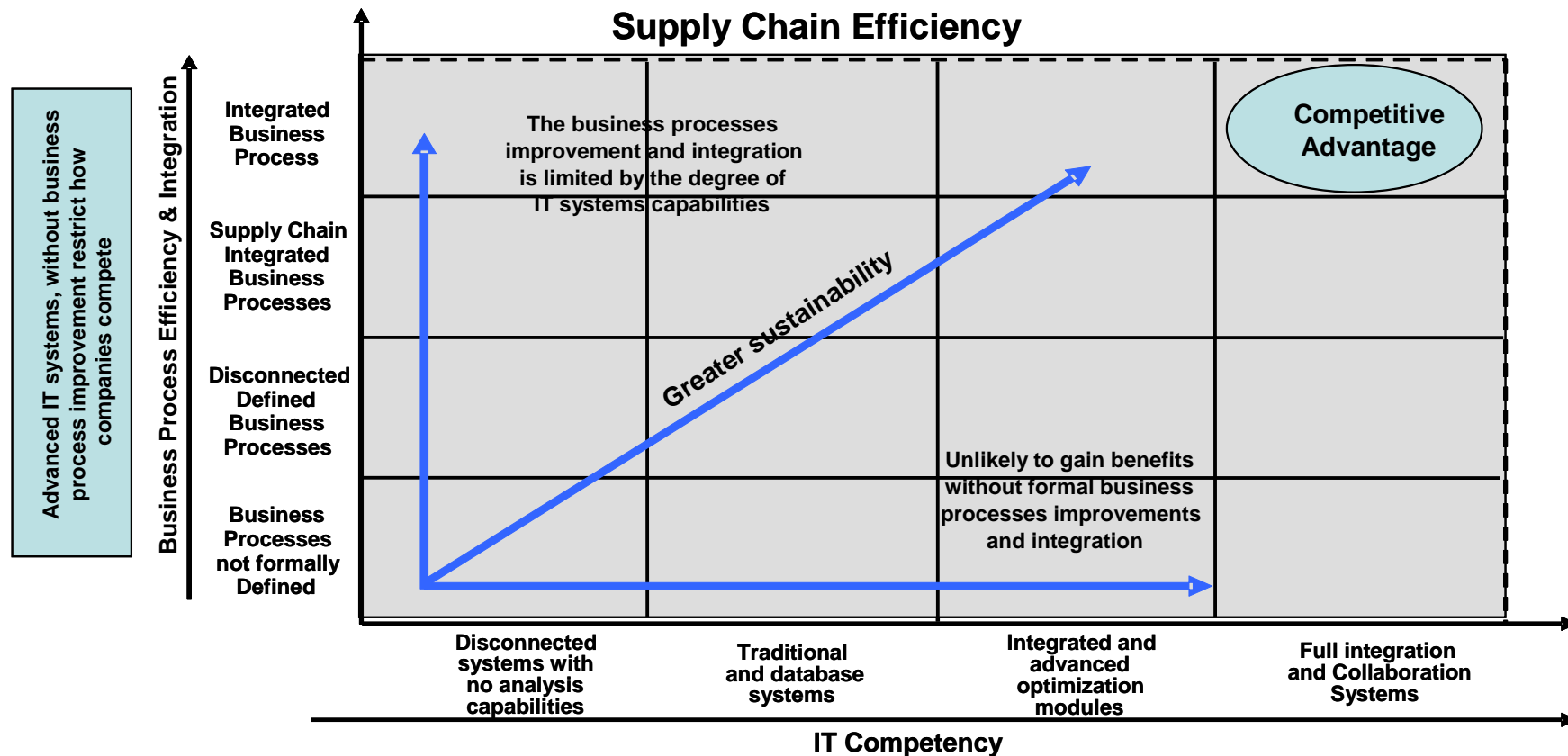




# Electronics Industry Solutions Portfolio



## Forest & Paper What Are Keys to Supply Chain Success?



Technology competence is a required enabler for SCM efficiency. Systems limitation can constrain business processes improvement.

## Our Supply Chain Principles

- It has been forecasted by the customer as promised
- It comes in within the promised lead time
- It gets scheduled at the right time at the right mill or distribution centre
- It gets manufactured / shipped within the correct tolerance
- It gets shipped by the most cost effective mode
- It gets billed and paid within the promised terms
- There are measures in place to track success
- Clear understanding of what is an exception
- Feedback loop in place to ensure exceptions are the exception

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## Exempel på projekt

### Företag

- Globalt skogs & pappersbolag X
- Globalt skogs & pappersbolag Y
- Internationellt Kemiföretag

### Exempel på projekt

Application Integration OnDemand  
Supply Chain Transformation  
Corporate Transformation