The Servitization of Manufacturing: An Empirical Case Study of IBM Corporation

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Abstract
The aim of this article is to describe how IBM managed to transform from a hardware manufacturer to a Service-ware corporation. IBM (International Business Machine) was established in 1911 as an organization which was producing hardware products such as servers and other storage devices. It was the first company who introduced to the market the personal computer in 1975 but the sales were disappointing. Five years later IBM tried again to crack the personal computers in the market but till then many other companies had also introduced their machines and IBM was unable to react and take control of the market in order to gain control. This situation caused several problems to the organization. By 1991 IBM’s stock has reached the lowest point since 1983 and in 1993 had taken $28 billion in charges. In January the same year, Louis V. Gerstner was appointed as the new CEO of the following year. During his first weeks at work he tried to find out the company’s biggest problem and vulnerabilities. He identified that IBM had stayed with its old strategies for very long time when thousands of new companies was in the market offering computer products in lower prices which attracted most of the customers. Gerstner managed to respond to market needs by understanding the customers demands and he recognized that the application of technology could be the key drivers of IBM not its invention. These outcomes led IBM to exit the pure hardware business in order to enter the services and the software business. After this change, from Sam Palmisano to today’s IBM CEO Virginia M. Rometty IBM is the world’s leading computer and technology and today has revenue of $107 billion while more than 90% of its profit comes from software, services and finance. In order to adopt this changes, IBM needed to make some transitions in its processes, research and development, procurement, production, sales and marketing and after sales. Furthermore Gerstner followed a certain change process for its successful servitization of business. He created a service vision, he adopted strategy in which services is a considerable component, he turned his direction to the overall IBM team and rebuilt the leadership, except from group meetings he started meeting individuals to discuss their ideas and opinions for change that matters and last but not least he focused on eight new principles: marketplace, commitment to quality, measuring success through customers’ satisfaction, focus on productivity, strategic vision, act with a sense of urgency, work together as team and be sensitive to the needs of all the employees. Transforming one organization’s culture is one of the most challenging changes
as people tend to hold on whatever seems familiar to them and this article explained how IBM managed to do such a transformation successfully.

**How it is related to Virtual Organization in a Dynamic Context**

Organizations are continuously changing either because of the market’s need or because they are going through phases and need to adopt new strategies and principles. In this course we are studying the relationship between the organizations and the dynamic context of the society and how organizations need to adopt the changes as the society itself never stays the same. Customer needs, ideas or interests differ from time to time and firms should be able to respond so that they can stay in the competition and most important not to sink. This article explains how IBM managed to understand market’s needs and transform its culture from hardware business to software business. It is a representative article on how an organization managed to adopt a change due to society’s dynamic context.