ISV (SOLUTION DEVELOPER) STRATEGY

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AUGUST 7, 1995

Exb. 96

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DEFENDANT'S EXHIBIT 642

IBM Solution Developer Strategy

This paper will answer the five specific questions that resulted from the Software Group strategy document within the context of the Solution Developer Strategy. The five questions were:

1) Name the top five software companies in terms of ISV support.
   - What specifically does each of them do? $ spent? How spent? programs, support, etc.
2) What specifically does IBM currently do in each area? What are our plans? How much will the changes cost? Who is going to lead? What are the milestones?
3) Why do we not have a single IBM ISV organization today?
4) What do ISVs say is our greatest weaknesses(es)? (source)
5) What are our specific pragmatic targets for the next eight quarters?

I. Background

IBM's Solution Developer Operations was announced in November, 1994 with the mission to make IBM a leading worldwide provider of technologies for commercial software developer solutions, by delivering targeted and integrated programs and services that increase developer loyalty and satisfaction.

Existing developer support functions were consolidated from the RS/6000, Personal Software Products, and Power Personal divisions, and the US M&S Software Vendor Operations into one operational unit as the first step in implementing an IBM wide developer support strategy. This decision was made based on recommendations of a cross division task force which recommended a single IBM voice to solution developers. Further integration of other divisional ISV functions was held for a later date in order to ensure an intense focus on Intel/RISC clients and servers, and to ensure the successful phased integration of the initial programs.

Contract support relationships for NS and SWS, in place as part of the Solution Vendor Operations (US M&S), were extended into 1995, pending the full integration of these divisions' developer support functions by YE95. The primary focus of the unit for 1995 was defined as increasing the number of OS/2 and AIX applications available in the market and to re-engineer IBM's approach to solution developer support. Cross-functional teams are in place with the PowerParallel, AS/400, and S/390 divisions, dedicated to improving IBM's results with solution developers while eliminating redundancies. These cross-functional teams have worked, and continue to work, in such areas as the delivery of the 1995 cross platform Technical Interchange, the restructuring of SDO technical and marketing programs across all server platforms, the provision of cross divisional registration and support for solution developer associations, and the Eagle launch. Solution Developer Operations teams are in place in EMEA and AP, operating as logical members of the worldwide Solution Developer Operations Unit. An assessment is currently underway to

determine the best way to expand support in Latin America. Further detail on results to date are in attachment 1.

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Success of IBM's strategy for supporting solution developers depends on simplifying and improving developers' relationships with IBM, helping to reduce their cost to develop solutions on IBM platforms, and helping to improve their success in the marketplace. To meet these objectives, Solution Developer Operations (SDO) has established outbound relationship management (180) and technical support (60) for the largest developers worldwide. The relationship management function provides support for all IBM divisions, and focuses on ISV adoption of key IBM technologies, revenue share growth, and developer satisfaction.

Support for the thousands of other solution developers, including relationship management, is provided through electronic tools (i.e. Internet, CompuServe) for distribution of information and technical assistance, as well as telephone support and program delivery.

Goals and Objectives

To be successful in making IBM a leader in providing technologies for commercial software developers by 1997, specific goals and short term milestones have been established. Our three goals for leadership are:

1) Achieve solution leadership for each key technology. Leadership is measured by the quantity and quality of solutions available from independent solution developers utilizing the targeted IBM technology (e.g. the percent of industry software revenue on IBM operating systems/platforms, the number of developers using OpenDoc or the number of applications available on the RS/6000, or on OS/2). Specific year to date results of IBM technology initiatives are shown in attachment 2.

2) Improve developer satisfaction with IBM. Satisfaction with IBM spans topics from ease of doing business, simplicity of contractual relationships, quality and timeliness of technical support, and marketing assistance. Satisfaction will be measured by individual surveys of the top worldwide developers and by statistical sampling of the larger population of developers.

3) Improve developer loyalty to IBM. "Loyalty" is defined by continued development of solutions on IBM technology and platforms. Developers will continue to build solutions on IBM technology if we provide a strong development environment (e.g., tools and technical support) and if we help establish market demand for solutions using the specific technology. Developer loyalty will be measured by the percentage of R&D investment directed to IBM platforms versus competitors' platforms in the large accounts where we can obtain the appropriate data. Software release currency will be used as an indicator of continued development on IBM platforms in the broader population of developers. (e.g. the number of AIX developers who have migrated their applications to the latest release of AIX).

Delivering Value

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In order to achieve these goals, we must address the developers' needs and deliver value to them. We will accomplish this by improving their capability to use IBM technologies, providing tools and support that lower their cost of development, and providing marketing programs that help them sell their IBM-based products. An assessment of developer needs and decision criteria has been completed based on research conducted by IDC, Dataquest, Redbrook Technologies, as well as direct input from developers to IBM.

Each developer's decision to build a solution on a particular vendor's hardware or software platform is driven by the following criteria or need:

1) The developer looks at the size of the market opportunity available for him to sell his solution into as the primary criteria. (The size of the Windows install base vs. OS/2 is a major reason why more solutions are developed for Windows.)

2) The developer wants IBM to present a clear vision and strategy for the technology and communicate both the market opportunity and how IBM will develop that market to provide opportunity for his solutions.

3) The developer wants support programs that reduce the costs of developing and supporting a solution on IBM technology, and the marketing programs that assist in launching the solution developer's product on IBM technology.

4) The developer wants timely and early access to information, technology, and tools, so that the solution developer can get to market quickly.

5) The developer wants joint marketing programs that support the solution developer in the market (e.g. joint advertising, market development assistance, participation in business shows).

6) The developer wants joint selling opportunities and support as appropriate (e.g. retail distribution options, pre-load and BonusPak's for PC software, access to channel programs and most importantly lead sharing).

7) The developer wants help in gaining access to new markets, either emerging markets like China, or markets where he has not done business (e.g. in the US for a European developer).

8) The developer wants IBM to be easier to do business with, providing faster decisions and less complexity in dealing with multiple divisions.

9) The developer wants worldwide relationships and loyalty from IBM and other vendors.

We have completed a competitive assessment of how IBM meets these needs and compared our execution with Microsoft as the accepted best of breed competitor in the industry. Against this set of needs and decision criteria, Microsoft today has a competitive advantage in every category except worldwide relationships and the ability to help developers in emerging markets.

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We have selected four of these criteria as our highest priorities to improve IBM's competitive position with solution developers. The four are:

1) To present a clear strategy for specific technologies
2) To improve access to information, technology and tools
3) To provide support that reduces the solution developers cost of developing, launching and supporting his product in the market
4) To provide joint marketing and selling opportunities that support the developer in the market

Action plans are being put in place to focus our efforts on these four highest priority needs as we re-engineer IBM's developer support. These plans are reviewed in the Program Initiatives section on page 7, with additional detail provided in attachment 3.

We must consistently support developers across all platforms on a sustained basis to ensure leadership. Many of our past initiatives have been worthy, but were not sustained, leaving many developers skeptical about IBM's commitment to them. Key to our success will be driving all technology initiatives toward consistent and consolidated programs across all product divisions.

The Competition

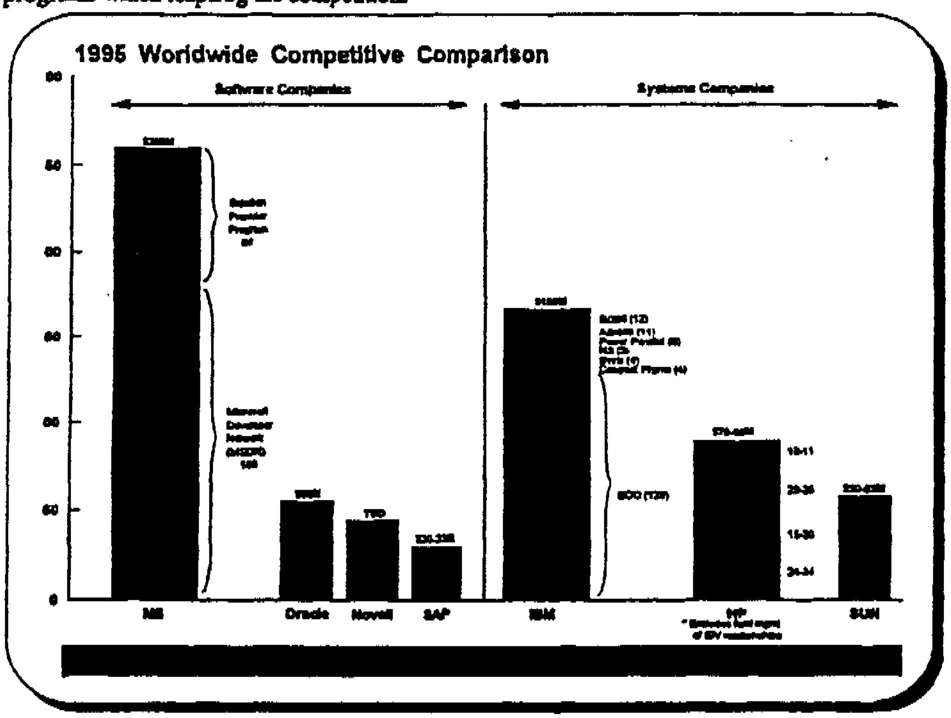
An assessment of how the developer needs are met by competition and how much is being spent in relation to overall company revenue has been completed. The software companies evaluated included Microsoft, Oracle, Novell (Novell's spending is still being researched), and SAP AG. The systems companies evaluated included HP and SUN. Microsoft and HP are viewed as the industry leaders in meeting developer needs.

A value discipline is a definition of customer value around which a company builds the delivery of its products or services. A company gains a leadership position by narrowing its business focus, building a cohesive business system that delivers superior customer value in their focused area, and raising customer expectations beyond their competitors' reach. A clear value discipline should naturally lead to those few success factors that are critical to a company's dominance in their marketplace.

Industry perception of Microsoft's value discipline is that their programs are low cost with access to a volume market. The highlight of Microsoft's support to solution developers are low cost and easy access to software development kits and device driver kits and their Solution Provider Programs through the Microsoft Developer Network. Extensive investment in roadshows, seminars (e.g. Win95 theater invitations), and trade shows (e.g. COMDEX, Window World) creates wide visibility of solution developer solutions to customers. Microsoft's success is based on the wide market opportunity of DOS/Windows' 80% market share position. In addition, Microsoft operates an effective lead sharing system, where business leads are shared with developers even when Microsoft has a competing application product. Microsoft creates the demand ($200M advertising for Win95) from which the solution developers benefit.

Industry perception of HP's value discipline is that they extend strong partnerships and are a technology leader. Highlights of HP's support to solution developers are the leverage of their field resources in support of the solution developers and the flexibility of the support they provide their top partners. HP is not known for having the most creative programs or attractive terms and conditions, but is recognized for the flexibility and loyalty they provide developers. HP's success is based on the in-depth partnership and commitment they share with their solution developers.

A challenge for IBM is that we have multiple value disciplines and portray varied core images to our customers based on the technology we are offering. Given that our desktop operating systems market share is in the range of 10%, developers do not see a waiting market for the application solutions nor an aggressive lead sharing program. Solution developers who choose to work with IBM still see IBM's wide industry focus and multiple technology platforms through multiple programs with different terms and conditions. Additionally, they find restrictions and long lead times to get IBM's newest hardware and software for development. IBM's success therefore, will be based upon first placing significant emphasis on consistency, consolidation, focus, leverage, and enhancements across platforms.. In 1996 we must focus on developing new and creative programs which leapfrog the competition.



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Microsoft spends approximately $260M in developer support with overall company (software) revenue at $5.3B. HP spends approximately $85M in developer support with overall company (systems) revenue at $25B. IBM is spending $169M with overall company (systems) revenue at $64B, and software revenue at $11.3B.

Technology Initiatives

Specific technology initiatives are in place across a broad range of divisions and technologies as depicted in attachment 2, Technology Initiatives.

These initiatives were defined by or with the respective product division and have as their objective either the recruitment of new developers or technology migration to new releases (for example the AS/400 application migration to a RISC architecture). Solution Developer Operations manages five key initiatives for the respective divisions: OS/2, Middleware, AIX, PowerPC, and OpenDoc/CommonPoint. The other technology initiatives are managed by the respective product divisions, i.e. AS/400 Division and System 390 Division. Emerging requirements and opportunities in the areas of the Eagle server initiative, IBM Global Network and Personal Communications Assistants are being evaluated and new initiatives will begin shortly to address these new opportunities.

As part of the Eagle server initiative to recruit and certify developers to the different Eagle server platforms, we will be expanding existing relationships and programs. The Eagle announcement is designed to strengthen IBM's position in the server market by announcing a family of integrated client server solutions. Solution developers provide client/server applications, and therefore, access to several Eagle markets. Selection of key developers has already begun, product disclosures and early (beta) code have been provided. In addition, a cross functional team has been established to work with the marketing team and technical support team to build value messages and justification for the developers. Included will be the business opportunity, competitive advantages and education roadmaps.

The IBM Global Network is providing a network-centric computing (NCC) platform which will enable solution developers to board, distribute, and bill for usage of their applications across a worldwide network. IGN is looking to SDO for assistance to identify the appropriate solution developer applications for the NCC platform, to negotiate terms and conditions with solution developers, and to provide the appropriate technical support for the solution developers as they tailor their application to be delivered on the NCC platform.

Technology initiatives are defined and agreed to as part of the fall plan process as they are dependent on delivery plans for new technology during the coming year. Targets and recruiting programs are put in place to ensure adoption of new IBM technologies or new releases of existing software technologies.

In 1996, the focus will be to continue gaining support for key technologies with an emphasis on application and tools coverage in the productivity and industry vertical segments that are specific

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to each technology initiative. Emphasis in 1996 will be placed on making significant inroads in the utilization of IBM technologies (e.g., OpenDoc, OO technology, middleware) by industry developers.

Program Initiatives

Based on the developers non-technology needs identified earlier, we have sharpened our focus to four areas in which we must make significant progress in differentiating IBM from our competitors. These focus areas are:

1) Presenting a clear and consistent technology strategy to the developers that they can use as a basis for their development decisions. We must articulate and sustain both server and software strategies that create compelling reasons for developers to build solutions on IBM hardware and software platforms.

2) Implement specific actions that help reduce the cost for a developer to bring his solution to the market. This initiative includes development tools like the OS/2 Developer API extensions that capitalize on commonality of API's between OS/2 and Windows to improve the amount of common source code between the two solutions effectively lowering the cost of the OS/2 applications. Additional tools are being added and programs designed to help the developer in bringing solutions to market.

3) Provide enhanced and timely access to information, tools, and technology needed by developers. This initiative includes information access through a developers' HomePage on the Internet, availability of leading edge tools like Visual C++ from IBM's Toronto Lab, and improved availability of development equipment through loaner programs and low cost technology leases.

4) Provide joint marketing programs that help developers reach the market opportunity, and wherever possible, engage in joint sales activities that are mutually beneficial. Creation of new electronic distribution channels, as well as clarifying relationships with IBM's direct sales force, will be completed as part of this initiative.

While these initiatives are still being finalized, initial milestones are identified in attachment 3.

Cost to be competitive in supporting developers

Today, IBM spends approximately $170M across all divisions in support of solution developers. EMEA and AP spend additional funds in support of local developers, since historically the product divisions have not funded developer programs and support outside the U.S. While additional synergies will allow us to be more effective, incremental investment will be required to become best of breed in attracting developers to all IBM platforms. A strong base has been established in 1995 that needs to be built upon in 1996 and subsequent years in order to achieve our goals and objectives by 1997.

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Initial discussions with the divisions has resulted in an outlook for 1996 (preliminary fall plan) to be within a range of $250M to $320M. Most of the divisions are anticipating significant growth required above the amount spent during 1995. This is a remix of SG&A in each area. The competitive chart on page 5 demonstrates that this is a competitive amount to spend, given the breadth of IBM's technology initiatives.

Next Steps

While our strategy to support developers has evolved rapidly over the last several months, there is a great deal of additional work to be done.

1) We must continue to execute with precision on each of the technology initiatives, and quickly show progress on the four program initiatives.

2) We must develop a competitive and efficient allocation model for investment and cost, that ensures the appropriate level of investment is achieved, and subsequently, is allocated appropriately.

3) We must consolidate most of the remaining solution developer support functions from the various divisions into one organization, specifically, SWS/NS, PowerParallel, and S/390. AS/400 remains separate, with integration deferred.

4) We must utilize the fall plan process, over the next 90 days, to interlock with the divisions on the technology initiatives and metrics for 1996, balanced with the funding provided.

5) We must expand our coverage to include system integrators.

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