



**Ptak Associates**

*Informed opinion for savvy IT*

# PREPARING FOR LENOVO'S ACQUISITION OF IBM'S X86 BUSINESS

*A Smart CIO Plans for Change!*

[This document discusses the sale of IBM's X86 server business to Lenovo. It focuses on customers and answers common questions that they might have. In addition, it recommends actions that customers need to take as a result of this sale.]

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## I - INTRODUCTION

Lenovo's plans to purchase IBM's X86 server business were announced January 23, 2014. The announcement was welcomed by many, questioned by some and uncertain in the minds of others. Ptak Associates believes this is an all-around winner. Though unlikely to consummate quickly, we think the deal will go through with little controversy.

However, during the interim competitors will scramble to increase sales. IT purchase decision makers will be the target of concentrated campaigns to switch existing POs and issue new ones for competitor X86 platforms. The tactic will be to raise fear, uncertainty and doubt about the X86's future with Lenovo to force justification of existing commitments and orders. Conversations with customers reveal the effort has already begun.

The last thing IT staffs need right now is additional work justifying good decisions already made. In our experience, IT staffs worry most about product lifecycles, support reliability, quality of service and commitment to the future. With an outsider's view of the situation, we expand on our earlier [BOLO](#)<sup>1</sup> with analysis and advice to aid in understanding the sale and what is underway to assure it succeeds. We also recommend what to do to avoid unnecessary distractions and justification efforts. Section II examines the potential benefits to all parties. Section III answers questions about what to do during the transition. Section IV addresses concerns, real and contrived, that may surface. Section V addresses planning.

## II - BENEFITS TO CUSTOMER/IBM/LENOVO

### 1. The customer view

Customers have the potential to benefit in a number of ways. Open questions about the X86's future are settled. Investments made by IBM are preserved intact even as research and development for new versions continue unabated. All of the necessary business, support, marketing, research and sales infrastructure transfer to Lenovo. A reliable company with proven business acumen, experience, infrastructure and success at handling hi-volume, thin margin server sales will take control once the transaction closes. The personnel providing these business services for IBM will move to Lenovo's recently expanded real estate holdings in Research Triangle Park upon the close of the transaction.

IBM's support and service infrastructure complements the existing Lenovo infrastructure. Lenovo's scale and operational style strengthen manufacturing by adding flexibility and increasing efficiency due to the increased size of operations. This all benefits Enterprise and SMB customers as well as an expanded network of partners and channel suppliers.

In a recent interview, Adalio Sanchez, GM of IBM X86 servers, said: "Lenovo will acquire the service and support contracts for the in-scope products. That means they will be responsible for the pricing, offerings, and that kind of thing. The service delivery will be done by IBM for at least five years." With the same 5-year IBM commitment for the PC, nine years later, Lenovo continues to leverage IBM's support.

All X86 contracts and commitments transfer to Lenovo; IBM professional services contracts except those for X86 maintenance remain with IBM. IBM continues development of software for X86 servers. They will also continue to provide solutions based on the X86 platform. Customers are assured access to leading edge

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<sup>1</sup> <http://ptakassociates.blogspot.com/2014/01/bolo-as-lenovo-purchases-ibm-system-x.html>



technology and solutions with the support and quality they want from a company with the proven ability to meet their needs.

## **2. IBM's view of the process**

During its 100+ years, IBM changed products, business models and services as markets evolved. Focused on the enterprise, IBM's structure is best for delivering high value-added services and solutions. The cloud and demand for fully integrated solutions offer a better fit with more opportunity in the enterprise for IBM. SMB and volume server solutions are harder to fit into IBM's business model. The recent announcement of their intent to become IBM-as-a-Service moves them even further away from such sales. Infrastructure remains important but it is less visible to the customer. IBM will keep Power, mainframe, and PureSystems integrated systems, all of which better match enterprise-oriented service delivery.

IBM's plan is to continue business as usual during the transition. Both companies are legally bound to operate as independent companies until the deal is settled. Then, the plan is for support contracts go to Lenovo. As noted, IBM will support Lenovo for at least 5 years. All IBM X86 staff including development, sales and marketing, finance, legal, IT, manufacturing, integrated supply chain, operations, service and support (maintenance) go to Lenovo.

IBM is going to keep its enterprise systems portfolio and staff. This includes System z mainframes, Power Systems, Storage Systems, Power-based Flex servers, and all models of PureApplication and PureData integrated systems. Any needed X86 components, e.g. hybrid PureFlex or PureApplication solutions, will be purchased from Lenovo.

With this deal IBM will leverage market-oriented software solutions development and integration. Lenovo will leverage its volume sales, marketing, manufacturing and delivery systems. Customers will get the advantage of the strengths of each company. They will have access to leading edge technology and solutions with the best support and quality even as IBM and Lenovo will continue to invest and work together.

## **3. Lenovo view of process**

For the last several years Lenovo has been on a growth trajectory. It is now #329 on the Fortune 500 up from #450 in 2011. From Lenovo's viewpoint, the IBM acquisition will accelerate its growth possibilities by as much as five years. Lenovo sees strong synergy between their existing businesses and the IBM X86 server business. This synergy is also strong between the two companies. Lenovo plans to acquire IBM's X86 salesforce, R&D facilities and manufacturing infrastructure. Therefore, Lenovo will maintain continuity for IBM customers. Lenovo plans to follow IBM's roadmap for servers just as they did IBM's PC roadmap. With Lenovo's past successful experience with IBM and other acquisition, they should be well prepared to deal with this one. Key to Lenovo's success is the lack of any disruption to the salesforce as they will continue to sell the same product portfolio. This also allows them to maintain continuity in customer delivery. Lenovo has a strategic relationship with IBM to continue to deliver IBM solutions. Customers will continue to get the same maintenance on their systems as they have enjoyed from IBM in the past. Finally, Lenovo plans a major new campus<sup>2</sup> in the Raleigh area to house both the existing Lenovo staff and the new IBM people. Lenovo expects to add about 2000 IBM employees locally in RTP, and some 7,500 worldwide.

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<sup>2</sup> <http://www.bizjournals.com/triangle/blog/techflash/2014/03/leaked-lenovo-email-highlights-bullish-sales.html>



### III – Business as usual during the transition

The transition period will likely take six to nine months during which the two companies must operate as independent entities. They cannot coordinate or consolidate business functions. IBM will continue announced X86 investments and development efforts. During that time, customers and partners will be targets of claims as competitors attempt to switch them to a new X86 supplier. This section addresses such potential distractions.

#### 1. What to do about IBM X86 equipment on-order and new contracts?

Don't make hasty decisions. Be prepared to deal with 'panic-driven' efforts to delay or cancel orders. The best way to handle these is to respond with facts. Keep track of what is happening by following public statements by the principles. Make sure you understand what equipment will go to Lenovo and what will remain with IBM. Know the details of existing orders and in-place equipment. Check service contracts for extraordinary T's & C's; speak with your sales rep to verify that these will go to Lenovo with no change. There is no reason to second guess previous decisions that were made based on prudent processes and facts. If you are concerned, speak with your IBM sales and support staff. Do keep in mind that both parties are legally constrained in what they can discuss during the transition period.

Don't put off or delay purchase decisions, don't increase the risk of introducing capability or capacity problems due to misplaced concerns. Follow normal processes to make the best business and technical decision. Both IBM and Lenovo executives have stressed that once the transaction closes, they will work to assure the transition is smooth and 'drama-free' for customers.

#### 2. What if the acquisition fails?

From a business perspective, the likelihood of failure appears to be low. Not only based on history but also because 'red flag' conditions just don't appear to exist. The arena is and will remain competitive with numerous participants. It doesn't close or freeze the arena to competitors. And, it makes more sense in business and technology terms than some other suggested sales.

From a preparation perspective, both IBM and Lenovo have significant experience with acquisitions. Do we need to mention the number and size of acquisitions that involved IBM in the last 10 years?

IBM and Lenovo stated that they have been and will continue to consult with experts in the objections that government entities may raise. The acquisition teams are aware of and will take pains to eliminate any concerns and avoid conditions that could cause problems.

#### 3. Are the X86, BladeSystem, Flex System, NeXtScale, etc. server businesses of declining value?

These products are designed to meet the needs of a roughly \$45B segment. Lenovo's volume, service- and commodity-oriented business model aligns perfectly with what that segment demands. IBM just recently introduced a full range of new and enhanced products based on the latest X6 technology. We think the products have market leading capabilities and performance. They are the result of IBM's multi-year, multi-billion dollar investments to enhance and extend the platform which Lenovo will exploit. IBM announced new software solutions for these platforms for today and into the future targeting specific industry needs. Practical experience demonstrates that for reasons ranging from security to reliability to availability, cloud is unlikely to drive stand-alone systems from the market. IBM's recent investments in its X6 architecture yielded many industry leading architectural features. See the discussion of X6 on the [IBM website](http://www-03.ibm.com/systems/x/x6/)<sup>3</sup>. Also at the site, view the results of industry standard Performance Benchmarks IBM ran on its X6 systems, especially note the SAP results.

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<sup>3</sup> See <http://www-03.ibm.com/systems/x/x6/>



**4. Does IBM remain in the integrated system business after the acquisition closes?**

Yes. IBM has stated its continued commitment to the PureSystems family of integrated systems as an accelerator for Big Data and Cloud solutions. After the sale closes, IBM plans to continue to develop, market, and support the IBM PureSystems family as a strategic offering in their integrated systems segment. Specifically, this includes the PureApplication System, PureData System, and Power and Power/X86 "Hybrid" models of Flex System and PureFlex System. IBM will continue to feature its roadmap going forward for the PureSystems family. The table below will make it more clear how the situation will appear once the transaction closes.

System type	CPU type	Vendor owner	Situation
FlexSystem	All nodes X86	Lenovo	All marketing, sales, support and development will be handled by Lenovo. Maintenance may be subcontracted to IBM.
FlexSystem	Any Power nodes or mix of Power & X86	IBM	All marketing, sales, support and Power development handled by IBM. IBM will source any X86 components from Lenovo.
PureData System, PureApplication System	Power or X86 based models	IBM	All marketing, sales, support, development handled by IBM. IBM will source any X86 components from Lenovo
PureFlex	All X86 nodes	Lenovo	All marketing, sales, support and development will be handled by Lenovo. Maintenance may be subcontracted to IBM.
PureFlex	Any Power nodes or mix of X86 and Power	IBM	All marketing, sales, support, development handled by IBM. IBM will source any X86 components from Lenovo

**IV. Ongoing concerns**

In this section we will discuss issues and concerns that may continue after the deal closes.

**Will the government put on restrictions that hamper Lenovo/hurt customers?**

It is possible that the US government might restrict the use of Lenovo servers in certain sensitive government applications e.g. Department of Defense, CIA, etc. However, such restrictions would not unduly hamper Lenovo nor would they affect commercial customers. We do not think that the government would deliberately hurt customers since that would risk many jobs in the US. In today’s economic climate, this is very unlikely.

**Can we depend on fully China-sourced/owned products?**

Lenovo is an international company with headquarters in Beijing and North Carolina and shares listed and traded on the Hong Kong exchange. Five board members are and several CEO’s have been Westerners. In addition, parts of many electronics products are manufactured in China today. For example, many companies manufacture products in Chinese factories. From 20% to 100% of parts for PCs and Servers are sourced from China. Actually, Lenovo manufactures many products in its North Carolina plant. They plan to continue to be a reliable supplier and manufacturer of products in the US.



### **Acquisition succeeds but Lenovo may fail as a server vendor in the US**

There are no guarantees about the future in business. It is possible Lenovo may fail as a server vendor. However, this is an unlikely outcome. After its acquisition of the IBM PC business, Lenovo grew that business making it a huge success.

### **Service or product quality may decrease**

IBM will provide support for at least five years; therefore a service quality decline is unlikely. Lenovo has time to extend its current high quality support. The X86 team has every incentive to maintain service delivery quality.

### **Products that I depend on may disappear**

All existing X86 products, their Design, Manufacturing, and Support teams will remain in place. Lenovo has every incentive for a smooth transition to future replacements. Lenovo plans to follow IBM's development roadmap.

### **Prices may increase**

Lenovo's business model and efficient supply chain may actually reduce costs. The X86 server business is very competitive.

### **What happens to my IBM contracts?**

When the deal closes, all existing IBM contracts move to Lenovo. Lenovo plans to honor all existing contracts.

### **Should I move to a competitor?**

After the deal closes, we recommend you allow Lenovo to compete for your X86 server business. You should get the same excellent support that you have from IBM. There is no reason to exclude Lenovo from consideration as a future supplier. Lenovo is in The Boston Consulting Group's list of most [Innovative Companies of 2013](#)<sup>4</sup>.

IBM recently invested in its X6 architecture. Many of its architectural features are industry leading. See the discussion of X6 on the [IBM website](#)<sup>5</sup>. Also at the site, view the results of industry standard Performance Benchmarks that IBM has run on its X6 systems, especially note the SAP results.

## **V. Need to develop a plan**

Competitors are calling on all levels of management in your organization. They intend is to use the transition period and any uncertainty to replace IBM/Lenovo as your supplier. Therefore, prudence dictates that you plan to deal with issues they may raise or you are aware of. Be prepared to proactively present your plan to senior management.

- Be sure to emphasize that you have reviewed the full IBM/Lenovo situation. Show that you are current on issues and are dealing with or ready to deal with any effects on your organization.
- Review the status of any on-order X86 servers. Be able to explain the justification for this equipment and the business process that you used to justify it.
- Explain how future procurements will be handled both during the transition and afterwards.
- Point out the status of any existing contracts that you have with IBM.
- Discuss any questions you have raised with IBM.
- Finally, discuss any other actions underway or to be taken.

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<sup>4</sup> See <http://tinyurl.com/n3vbst>

<sup>5</sup> See <http://www-03.ibm.com/systems/x/x6/>



## **VI. Summary**

This paper paints a fair picture of the results of the sale of IBM's X86 business. We have answered the most common concerns that customers might have. We have also clarified which products are moving to Lenovo and which are remaining with IBM. In particular, it is important to note that IBM will remain committed to its PureSystems family of integrated systems. In the same way, Lenovo is committed to the success of the X86 family. We have described the ways both companies plan to work together for a successful acquisition and the success of customers. Finally, we have suggested items to include in a plan of what to do during the transition as well as the period after the deal closes.





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Our analysts cover a breadth of areas that are ideal to bring you the "Big picture" on new technology trends across the industry. Whether it's Cloud computing, Mobile (BYOD), the Internet of Things, DevOps, Big Data, IT Operational Analytics, Workload Optimized systems or other new trends, Ptak Associates analysts cover these trends with a unique perspective that is both deep and broad.

Our clients include both industry leaders and dynamic newcomers. We help IT organizations understand and prioritize their needs within the context of present and near-future IT trends, enabling them to use IT technology effectively in solving business problems. We help technology vendors refine their strategies, and provide them with both market insight and deliverables that communicate the business values of their products and services. We provide all clients with an understanding of how their competitors are playing in their market space, and deliver actionable recommendations.

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