

SELLING IBM SOFTWARE SOLUTIONS
Profitability Review of IBM Software
Business Partnerships



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Executive Overview

For its large and varied customer base, IBM offers hardware products, software products, and diverse technology and business services. Many of IBM's products are purchased through a network of business partners. IBM Business Partners in the Software Program, the focus of this study, sell and influence the sale of IBM software in categories ranging from application development, Internet development and deployment, database, system management, security, middleware and transaction management, to messaging and collaboration, multimedia and speech recognition. IBM relies on a large network of partners to deliver value-added solutions to customers in all industries. Over time, the needs of IBM's customers, large and small businesses around the globe, are changing, and, as a result, IBM's business mix is changing to meet those needs. As e-business, including e-commerce and other Internet-deployed solutions, grows in importance, IBM's partners are helping to meet those needs with value-added consulting, development, and training services, as well as complementary products.

Reasons for the Study

1999 was the first year for a profitability study of IBM Software Business Partners. The study was conducted via the World Wide Web with a purpose of providing existing and prospective partners with valuable benchmark information on the characteristics, business economics, and profitability models of IBM Software Business Partners worldwide. This initial study considered IBM Software Business Partners as a whole; it is a benchmark against which future studies can be developed and focused to provide greater insight into the similarities and differences between groups of partners in specific software areas. Over 38% of this year's study sample were also Lotus Business Partners in addition to participating in IBM's Software Business Partner Programs, and of those, 63% were Premier partners in both the IBM and Lotus programs.

This study offers prospective partners an inside look at the facts and figures behind being an IBM Software Business Partner, as well as the average investments required of and opportunities available to those who choose to become an IBM Software Business Partner. In addition, the study is designed to help existing IBM Software Business Partners by presenting comprehensive and strategic data on how others within the IBM Software Business Partner community are maximizing their success through expansion into new markets and technologies.

Survey questions were targeted to obtain key metrics on the following areas of business:

- DEMOGRAPHICS
- PROFITABILITY
- GROWTH RATES
- SALES CYCLE TIMES
- START-UP COSTS
- SPECIALIZATION

Methodology

Meridian Technology Marketing, a Boston-based strategic marketing consulting firm, conducted this survey in late 1999 on the World Wide Web, using a site in the United States. Survey questions were translated in three languages: French, German, and Spanish. Email invitations were sent to IBM Software Business Partners worldwide. Countries represented in the survey sample include the United States, Italy, Canada, Australia, New Zealand, Brazil, Czechoslovakia, Germany, Norway, and Portugal. The information presented here represents data collected and compiled from ninety-nine IBM Software Business Partners who were able to respond by our target date.

Study Highlights

IBM SOFTWARE BUSINESS IS A HIGH-GROWTH OPPORTUNITY FOR PARTNERS

- IBM Software Business Partners are optimistic and expect growth in IBM software to track closely with expected growth in total revenue. Most partners expect comparable growth of 60%.
- IBM Software Business Partners are riding the Internet wave, with significant focus on solutions related to e-commerce, database, and workflow applications.
- IBM software has a reliable sales cycle, with 60% of respondents closing the first \$100,000 in sales to a single account in less than one year.
- IBM software sales drive additional business and growth. 35% of partners' new business is derived from IBM software solutions.
- In 1999, every dollar spent on IBM software generated for partners an average of \$19.75 on related software, hardware, and services, with over 50% attributed to services — some of which were high margin services such as consulting.

IBM SOFTWARE BUSINESS PARTNERS ARE PROFITABLE

- IBM software produced profit margins of 22% and represented close to 30% of partner revenues and total partner profits.

SMALLER PARTNERS ARE SUCCEEDING AND GROWING

- Strong growth is found even among the smaller IBM Software Business Partners. Partners with less than \$1M revenue reported that over 38% of their revenues and 35% of their profits were driven by IBM software, and that they expected an annual growth rate of 67% in their IBM software-related business over the next 3 years, compared with 60% for respondents overall.

THE IMPORTANCE OF SMALL AND MEDIUM-SIZED BUSINESSES IS INCREASING

- Small and medium-sized businesses (a large and growing market segment) are important customers of IBM Software Business Partners, representing 66% of sales. The small business segment is important to both small and large business partners, representing a somewhat higher percentage (79%) of the small partners' business.

Business Partner Demographics

This study includes IBM Software Business Partners worldwide who represent a diverse mix of industries, expertise, and size. Demographic information provides detailed profile data on the kinds of companies participating and succeeding as IBM Software Business Partners.

The greatest segment of survey respondents was from partners with less than 50 employees and total revenues between \$1M and \$20M. Eight percent of surveyed partners are public. IBM Software Business Partners cover a wide-range of industries with the majority supporting financial services, manufacturing, banking, insurance, and high technology. Most striking is the fact that IBM Software Business Partners have branched out with nearly 60% of partners participating in five or more vertical industries.

With IBM's leadership in e-business it is not surprising that many IBM Software Business Partners specialize in horizontal applications focused on e-commerce and workflow-related activities.

For a given IBM Software Business Partner, the number of people dedicated and certified as IBM software professionals as a percentage of total company employees is one indication of the degree to which the partner is focused on its IBM software business. Small IBM Software Business Partners with fewer than ten employees company-wide are more focused on their IBM software business, with an average of 58% of their employees being certified vs. 32% overall.

Start-up Costs: Real but Finite

Of key consideration in evaluating any new business opportunity are the costs involved in getting started and maintaining the business. With that in mind, we have calculated survey data from this year's study (1999) to provide average investment estimations required for start-ups in the first year of business. They include the following categories:

Engineering Resources	\$102,450
Systems/Hardware	\$ 25,000
Education/Training/Certification	\$ 13,000
Software	\$ 2,800
Value Package	\$ 850

Total	\$144,100
-------	-----------

Out-of-pocket expenditures for established businesses tend to be lower than for new businesses, as engineering resources and systems are frequently reallocations of fixed costs.

Recommendations

While IBM Software Business Partners are diverse, and the factors that enable their success are necessarily varied and include issues unrelated to IBM and its products, we can draw some recommendations from this year's study.

OPTIMIZE BUSINESS MIX TO ADDRESS CUSTOMER NEEDS AND APPLICATION TRENDS

- As the bulk of IBM Software Partner revenue is derived from consulting and application development, business partners need to offer or expand these services in areas where customers have compelling needs (e-commerce, database, and workflow, for example). This strategy should increase the opportunity for software revenue as well as services revenue.

INVEST IN IBM SOFTWARE KNOWLEDGE AND SKILLS

- IBM Business Partners are demonstrating that investing in IBM Software product knowledge and skills pays off. A higher percentage of employees certified in IBM Software seems to correlate with higher growth.

SMALL IBM BUSINESS PARTNERS HAVE FOUND A MODEL FOR SUCCESS

- As was stated earlier, small IBM Business Partners have demonstrated that it is entirely possible for small organizations to succeed, achieving high growth and respectable margins. Small partners are succeeding by maintaining sufficient business focus on their IBM Software work, evidenced by their high level of investment in certifying their staff. Smaller organizations may also have an advantage when selling to some small or medium-sized businesses. Small partners have found a model for success and are able to perform as well as large IBM Software Business Partners who have more infrastructure.

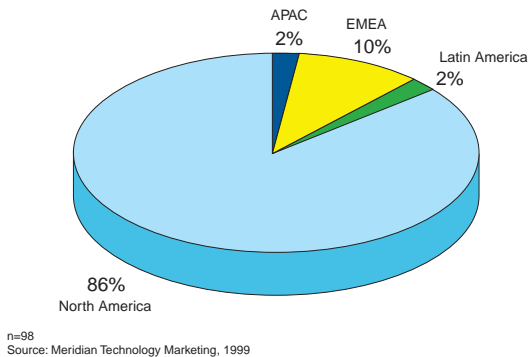
Study Results in Detail

This section examines issues regarding IBM Software Business Partners on a question by question basis. The details provided by this study will be useful to existing partners who want to maximize their IBM software business by gaining valuable insight into the success of other IBM Software Business Partner models. The study will also be valuable to prospective IBM Business Partners who want to understand the level of investment required to be a partner as well as the opportunities for success selling IBM software solutions.

Partner Profile

Figure 1 indicates the sample data for the study was predominantly from North America, which contributed 86% of the respondents. Europe, Middle East, and Africa (EMEA) represented 10% of the sample, with Asia Pacific accounting for 2% and Latin America the remaining 2%.

Figure 1
IBM Survey Demographics



The greatest segment of survey respondents was from partners with less than 50 employees and total revenues between \$1M and \$20M. Figures 2a and 2b illustrate the majority of partners have been in business for less than ten years and most have two to six years of experience as an IBM Software Business Partner. Figure 2c shows that most IBM Software Business Partners who responded in this year's survey were small with less than fifty employees.

Figure 2a
Number of Years in Business

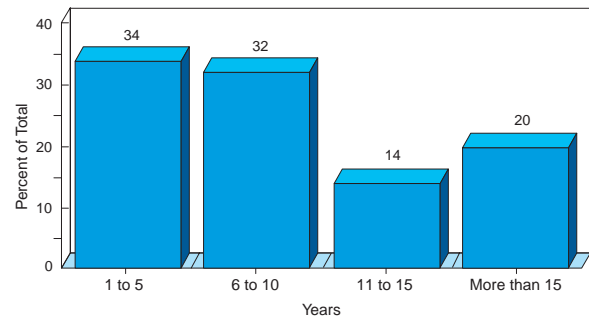


Figure 2b
Number of Years as IBM Partner

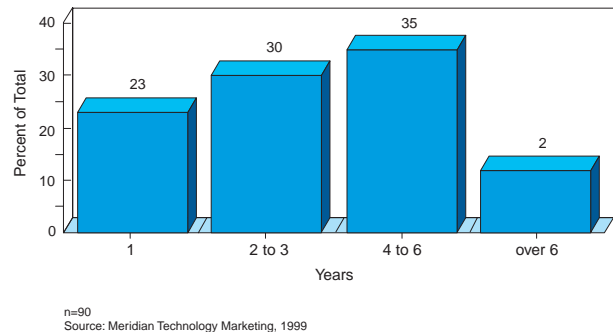
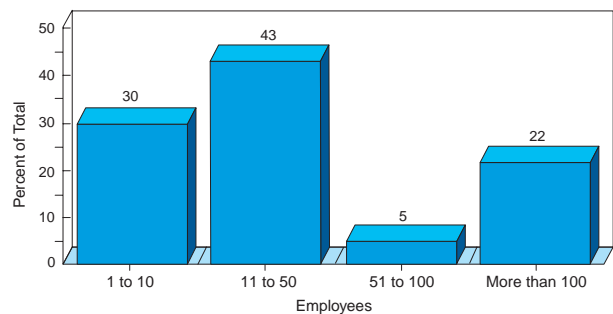


Figure 2c
Number of Employees



A Dedicated, Certified Workforce Makes a Difference

Figures 2d-2e illustrate that the majority of partners have up to ten employees dedicated to selling and supporting IBM software solutions, with over 70% having up to five employees who are certified as IBM software professionals. The figures are in line with the majority of respondents being small business partners with fewer than fifty employees.

The number of people dedicated and certified as IBM software professionals as a percentage of total company employees shows how focused and directed a partner is to its IBM software business. Figure 2f shows that smaller partners are more focused on selling IBM software solutions. IBM Software Business Partners with fewer than ten employees company-wide are highly focused with an average of 58% being certified.

Figure 2d
Number of IBM Software Employees

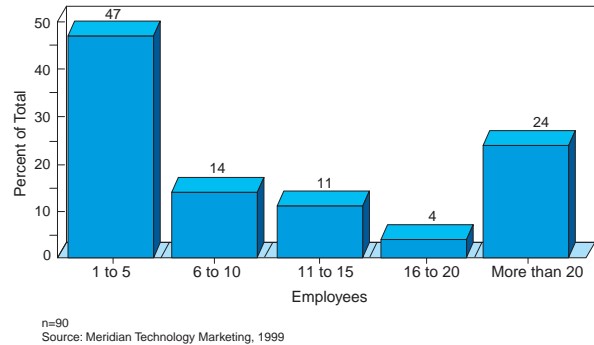


Figure 2e
Number of IBM Software Certified Professionals

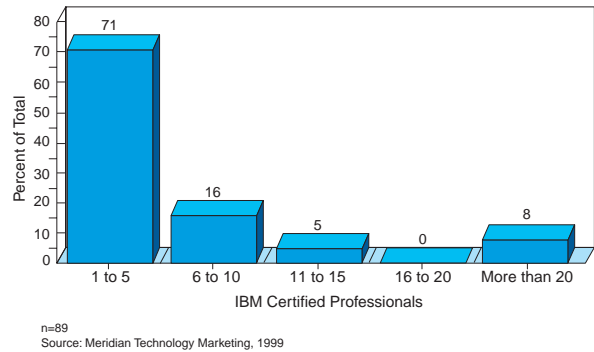
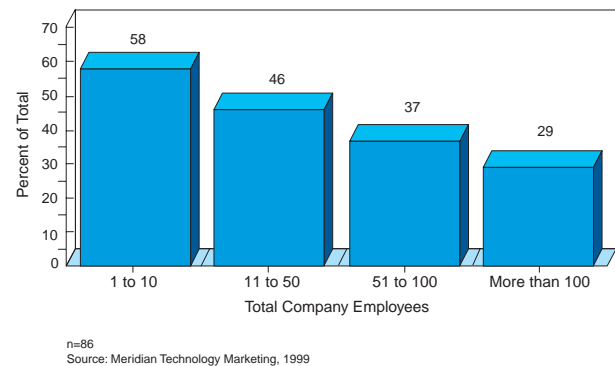


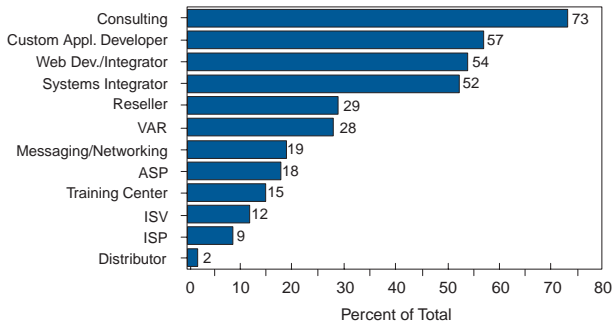
Figure 2f
Percent of IBM Software Employees that are Certified



Business Categories and Specialization

IBM Software Business Partners support a wide range of industries, employing advanced technologies, and applications to effectively meet diversified customer needs. Figure 3 shows the categories that best describe the business model of IBM Software Business Partners today. Many partners work in multiple areas. Consulting is the leading specialty for the majority (73%) of IBM Software Business Partners. Custom application development, Web development, and system integration follow as leading categories with 57%, 54%, and 52% respectively. The concentration of surveyed IBM Software Business Partners in these areas shows that partners focus on adding value with their services and knowledge expertise across vertical and horizontal markets.

Figure 3
Business Category

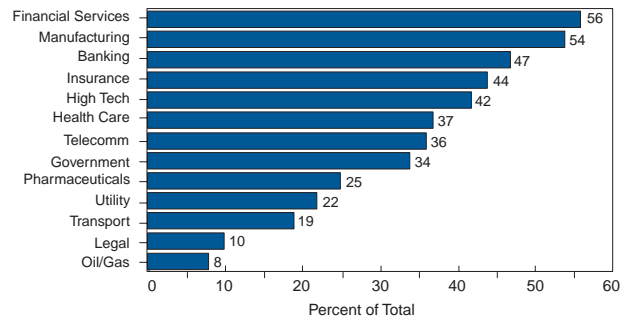


n=99
multiple responses accepted
Source: Meridian Technology Marketing, 1999

Figure 4 indicates that IBM Software Business Partners cover a wide range of industries with the majority supporting financial services, manufacturing, banking, insurance, and high technology.

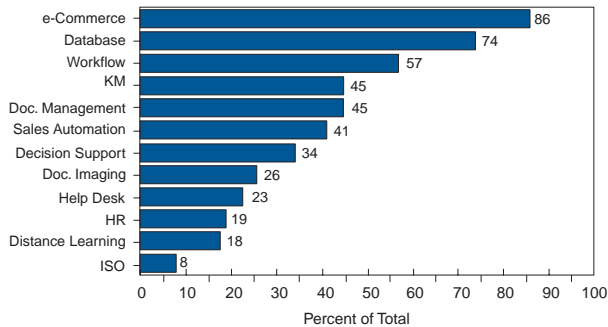
With IBM's leadership in e-business it is not surprising that IBM Software Business Partners specialize in horizontal applications (Figure 5) focused on e-commerce and workflow-related activities. Figure 6 illustrates that the majority of IBM Software Business Partners who responded to the survey did not see increased business this year from hosting services for IBM business applications.

Figure 4
Specialization by Industry



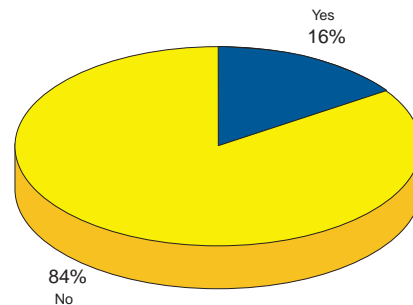
n=59
multiple responses accepted
Source: Meridian Technology Marketing, 1999

Figure 5
Specialization by Horizontal Application



n=74
multiple responses accepted
Source: Meridian Technology Marketing, 1999

Figure 6
Business Increase from Hosting



n=92
Source: Meridian Technology Marketing, 1999

Revenue Highlights

Figure 7 illustrates that North America accounts for the majority of revenue with 82% followed by Europe, Middle East, and Africa (EMEA) with 14%. The mix is a reflection of the sample demographics in the survey. Figure 8 and Table 2 show the relationship between size of customer and size of IBM Software Business Partner. Small and medium-sized

customers are important to large and small businesses alike. The slight correlation in size of customer and size of partner reflects the tendency of organizations to partner with and buy from organizations of similar size.

Figure 7
IBM Partner Revenue by Geography 1998

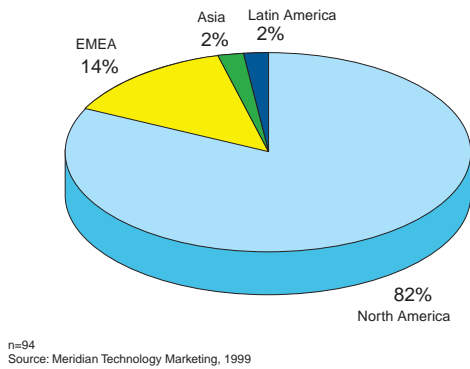


Table 1
Average Total Revenue 1998

	Average Total Revenue	% of Total Sample
IBM Partner with less than \$1M	\$303,054	31%
IBM Partner with \$1M to < \$20M	\$500,000	45%
IBM Partner with \$20M to < \$100M	\$38,188,000	19%
IBM Partner with \$100M or more*	\$133,750,000	5%

n=80
* One company with revenue of \$5.3 Billion not included
Source: Meridian Technology Marketing, 1999

Figure 8
IBM Partner Revenue by Customer Size 1998

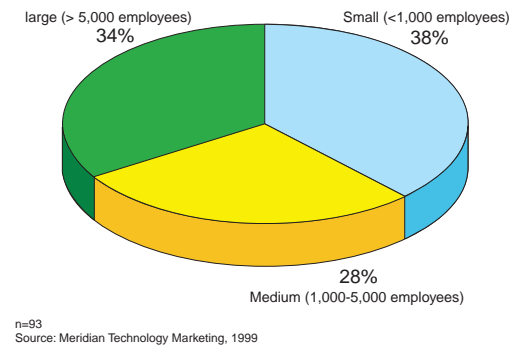


Table 2
Customer Size by IBM Partner Size

	Total Respondents	Total Revenue Less than \$1M	Total Revenue \$1M to < \$20M	Total Revenue \$20M or more
% of small customers (<1,000 employees)	38%	55%	28%	27%
% of medium customers (1,000 to 5,000 employees)	28%	19%	33%	36%
% of large customers (> 5,000 employees)	34%	27%	39%	37%

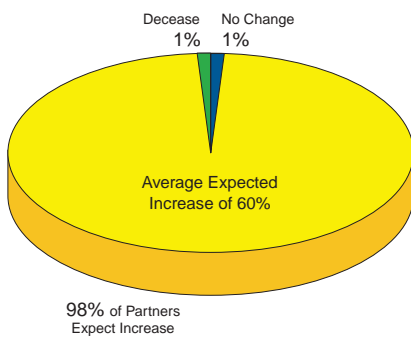
n varies per question
Source: Meridian Technology Marketing, 1999

Positive Annual Growth

IBM Software Business Partners are optimistic in their expectations of growth over each of the next three years. Expected growth in total revenue tracks closely with expected growth in IBM Software Business. Most partners

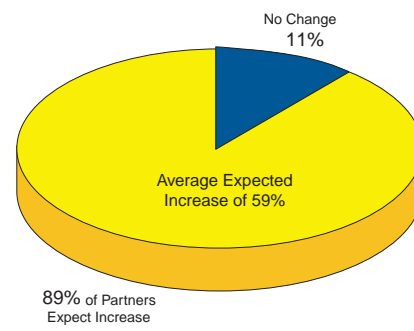
expect comparable growth of 60% (Figures 9-10). Table 3 provides an overall snapshot of key metrics from across the IBM Software Business Partner community.

Figure 9
Partner Total Business Growth Expectations Next 3 Years



n=87
Source: Meridian Technology Marketing, 1999

Figure 10
Partner IBM Software Growth Expectations Next 3 Years



n=88
Source: Meridian Technology Marketing, 1999

Table 3
IBM Partner Key Metrics by Company Size

	Total Respondents	Total Revenue Less than \$1M	Total Revenue \$1M to < \$20M	Total Revenue \$20M or more
Average # years as IBM Partner	3.7	3	4	4
Average IBM Software revenue	\$482,421	\$197,850	\$668,714	\$513,405
Average IBM Software employees	21	6	19	45
Revenue/IBM employees	\$22,972	\$32,975	\$35,195	\$11,409
% Revenue from IBM Software	28%	38%	29%	14%
% Profits from IBM Software	30%	35%	28%	20%
% Margin from IBM Software	22%	19%	26%	20%
IBM Software Annual Growth Rate next 3 years	60%	67%	54%	63%
% of small/medium customers	66%	73%	61%	63%

n varies per question
Source: Meridian Technology Marketing, 1999

Timely Sales Cycles

Good news for IBM Software Business Partners is that sales cycles are tracking well and provide partners with the opportunity for predictable business as well as repeat business. Table 4 illustrates that over 60% of the time, IBM Software Business Partners close the first \$100,000 in sales for a given account in less than one year. In one-third of the cases, the time to complete the initial sale into a single account takes less than six months. The sales cycle trend implies that customers are satisfied with IBM Software as well as the partner's ability to provide real value-add in terms of solutions. It also indicates there is a sizable opportunity for partners to get repeat sales from customers and penetrate accounts for further business of IBM software as well as other sales of hardware, and services.

Table 4
Time to Complete \$100,000 Sales to Single Account

	Initial \$100,000	Next \$100,000
Less than 6 months	33%	36%
6 to less than 12 months	33%	33%
12 to less than 18 months	17%	9%
18 to 24 months	1%	8%
More than 24 months	16%	14%

n = 79
Source: Meridian Technology Marketing, 1999

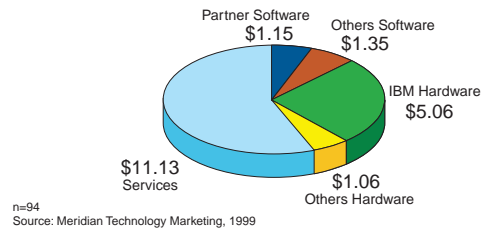
Additional Business from IBM Software Solutions

Existing and prospective IBM Software Business Partners should be aware of the significant opportunities for add-on sales associated with IBM software solutions. In 1999, every dollar spent on IBM software generated for partners an average of \$19.75 on related software, hardware, and services, with over 50% activities attributed to services — some of which were high margin services such as consulting.

Table 5
IBM Software Business Leads to Other Revenue

	1999
\$1 leads to other revenue	\$19.75

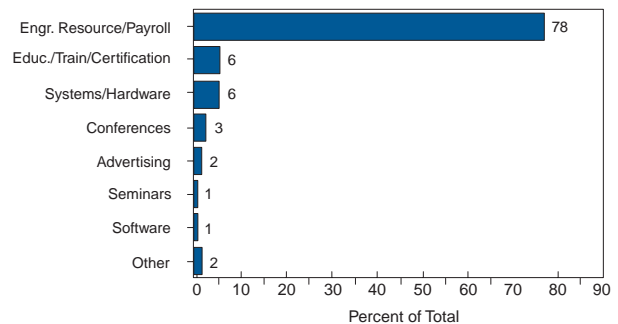
Additional \$19.75 by category 1999



Cost Considerations

Not surprisingly, IBM Software Business Partners indicated the leading driver of annual costs is engineering resources and payroll. Given the dependency on the quantity and quality of people in the equation of success as a partner, and the relative shortage of skilled software engineers, it makes sense that investment in people is the largest cost driver. (See Figure 11)

Figure 11
Annual Cost of IBM Software Business



Future Opportunities for Success

For customers, IBM Software Business Partners represent a significant resource for a variety of solutions in a variety of industries. For partners to initiate, maintain, or expand an investment in selling IBM Software, there must exist a compelling business proposition. This year's study provides an initial benchmark for understanding the businesses of IBM Software Business Partners, similarities and differences between partners of different sizes, and how their IBM Software business drives their success. It also provides a baseline for the design of future studies that can help us more closely analyze and present trends for IBM Software Business Partners. (Trend data is not available for this study, as there is no basis of comparison.)

IBM Software Business Partners are clearly growing and succeeding with solutions that combine services, software, and sometimes hardware. As expected, major areas of concentration include e-commerce, workflow, and database, with significant partner activity in consulting, application development, and systems integration. IBM Software Business Partners are also highly diversified, with the majority serving five or more industries. While an investment is required to become an IBM Software Business Partner, the investment in skills and certification clearly pays off as the partner is better able to focus and provide quality solutions.

Figures for projected growth reflect a very positive outlook for IBM Software Business Partners. For current IBM Software Business Partners who have found success with IBM software and related services, the messages in this year's study are clear:

- Develop offerings that take full advantage of increased customer demand for Internet-related applications such as e-commerce.
- Enhance high-end value-added services such as consulting.
- Continue to concentrate a critical mass of resources on IBM products.
- To avoid missing significant opportunities, develop sales efforts targeted at small and medium-sized businesses as well as larger ones.

ASSESSMENT

- Situation Analysis
- Needs Assessment
- Market Perception Audit
- Competitive Analysis
- Channel Assessment
- Market Research

STRATEGY

- Company & Product Positioning
- Market Segmentation
- Marketing Strategy
- Web Strategy
- Brand Equity Strategies
- Product Marketing Strategy
- Pricing
- Distribution Strategy:
- Channel Segmentation
- Channel Partner Profiling
- Channel Value Proposition Development
- Channel Conflict Management

IMPLEMENTATION

- Company & Product Launch
- Company & Product Naming
- Collateral Planning & Development
- Marketing Planning and Programs
- Advertising
- Packaging
- Channel
- Direct Marketing
- Tradeshows
- Events
- Organizational Advice & Counsel
- Budget Analysis & Planning
- Training & Skills Transfer
- Lead Management
- Agency Review, Selection, & Management
- Public Relations
- Web Design
- Channel Partner Qualification & Recruitment
- Channel Planning & Program Development:
- MDF
- Rebates
- Training
- Certification
- Channel Program Execution

ABOUT MERIDIAN

MERIDIAN TECHNOLOGY MARKETING IS A STRATEGIC MARKETING CONSULTING FIRM THAT HELPS TECHNOLOGY COMPANIES MAXIMIZE RETURN ON THEIR MARKETING INVESTMENT WHILE ACCELERATING EXECUTION OF AMBITIOUS BUSINESS PLANS.

MERIDIAN'S CLIENTS RANGE FROM STARTUPS ON THE LAUNCHPAD TO ESTABLISHED TECHNOLOGY ENTERPRISES TRANSFORMING THEMSELVES TO MEET THE CHALLENGES OF THE INTERNET ECONOMY. **MERIDIAN'S PROVEN APPROACHES ARE** BASED ON OUR CONSULTANTS' YEARS OF EXPERIENCE LEADING MARKETING EFFORTS FOR FAST-MOVING TECHNOLOGY COMPANIES. **LEVERAGING EXPERTISE IN CORPORATE** MARKETING, PRODUCT MARKETING, AND CHANNEL DEVELOPMENT, **MERIDIAN WORKS** WITH THE CLIENT'S MANAGEMENT TEAM TO BUILD AN INNOVATIVE MARKETING STRATEGY AND LEAD ITS PRACTICAL EXECUTION.

MERIDIAN'S CLIENTS HAVE INCLUDED COGNOS, ECREDIT.COM, FRICTIONLESS COMMERCE, IBM, NAVINET (A CMGI COMPANY), PLATINUM TECHNOLOGY, SYMBOL TECHNOLOGIES. **MERIDIAN WAS** FORMED IN 1993 IN BOSTON, MA, AND IN 1997 BECAME PART OF THE OMNICOM GROUP.





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