



## *Opinion*

### **How and Why IBM Is Taking Control of the Business Analytics and Optimization (BAO) Marketplace**

#### ***Introduction***

In 2006, IBM forecast significant acceleration in the business analytics and optimization marketplace and started planning a major foray there. The company started by aligning its hardware and software products — and has subsequently packaged integrated, turnkey, optimized business analytics systems (see last month’s Pund-IT Review on “IBM’s Smarter Systems” for more details). Additionally, the company allocated \$4 billion for software acquisitions to expand and deepen its BAO product offerings (important analytics acquisitions include SPSS, Guardium, and National Interest Security Corporation). IBM also opened a BAO center of competency — as well as seven analytics solutions centers worldwide. Further, the company embarked on a hiring spree in professional services — seeking out industry experts who could help carry the company’s BAO message to business executives as well as help deploy BAO solutions.

Now, IBM’s investment in new technologies and in the expansion of business analytics professional services is paying off with the company outperforming its competitors in several categories within the business analytics marketplace — including faster-than-market growth in:

- Business intelligence platforms (market growth: 4.8% — IBM growth rate: 16%);
- Analytic applications and performance management (market growth: 2.3% — IBM growth rate: 9.4%); and in
- Corporate performance management (market growth: 3.6% — IBM growth 7.4%).

Further, IBM expects that the business analytics market segment will continue expand, noting that in 2009 the business analytics market generated about \$140 billion in revenue — but, according to the company’s own market analysis this segment will grow to \$205 billion by 2015 (a 7% compound growth rate).

#### ***Why Clabby Analytics Is Interested In IBM’s BAO Strategy***

Clabby Analytics is particularly fascinated by the competition evolving in BAO. For vendors to compete in the business analytics segment of this market, they need to build products or partner with key independent software vendors (ISVs) to deliver analytics solutions to their buyers. And, for vendors to compete from an optimization perspective, they need control of hardware, operating environment, and database resources — as well as the ability to tune BAO applications. And, to compete with IBM in this segment, competitors need industry experts with business analytics backgrounds (which means they have to hire their own business analytics consultants or rely heavily on professional services partners for that expertise).

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As near as I can tell, from a competitive perspective no other vendor is positioned to serve the BAO marketplace like IBM. Thanks to its acquisition of Sun, Oracle now has systems and storage expertise — and owns its own database and infrastructure products (which gives Oracle the means to tune and optimize business analytics systems). But Oracle does not currently have the breadth of business analytics offerings, nor an equivalently sized and trained professional services organization capable of pushing BAO solutions. Microsoft, on the other hand, has business analytics products — and owns its own operating environment and database — but does not have hardware resources or the necessary professional services element.

How about other competitors? Hewlett-Packard (HP) makes hardware and operating environments — but doesn't own a major database and is lacking in business analytics applications depth. HP does, however, own a large professional services organization (thanks to its EDS acquisition) — but, so far, I haven't seen the strategically align these resources to compete on the same level with IBM in the BAO marketplace. SAP could possibly be considered a business analytics competitor (because it has captured vast amounts of corporate data that is ready to be analyzed) — and SAP has a large professional services organization with industry expertise — but SAP does not appear to have the business analytics product depth nor the same ability to optimize systems that IBM has. Interestingly, however, it may be possible for SAP to leverage IBM's solid position in BAO to its own benefit (selling a one-two punch of solid business applications integrated with best-in-class business analytics solutions). When all is said and done, at this juncture IBM appears to be the early market leader as the BAO market continues to grow.

### *A Closer Look at IBM's BAO Product Set*

IBM's BAO product offerings are part of a broader IBM strategy known as IBM's information agenda. Under this agenda umbrella IBM offers business intelligence and performance management products, advanced analytics and optimization products, enterprise information management products, and a group of enterprise content management products. In addition, IBM has over 500 business analytics-related service solutions focused currently on five market segments:

- **Financial Services**—This includes solutions for analyzing/predicting financial crimes, insurance risks and fraud and abuse, as well as advanced case management and services and operations planning
- **Public Sector**— Integrated airport operations, client insights, e-Federation, tax collection, crime info warehouse, customs risk management, government trusted identity, smarter borders;
- **Distribution** — market basket analysis, freshness analytics, store ops P&L, out-of-stocks management, SKU rationalization, inventory planning, PLI global location;
- **Industrial** — pricing models, predictive weather models, enterprise forecasting, intelligent asset management, location awareness, CO2 fleet management, smart fields; and,
- **Communications** — fraud analytics, warranty, digital supply chain, bad debt management, advertising analytics, mobile commerce analytics, network auto cell traffic, partner settlements.

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### *A Closer Look at IBM's BAO Strategy*

From a strategic perspective, IBM's BAO effort is taking aim at "C-class" executives (CEOs, CIOs, CFO, CMO, etc.) — and showing them how to exploit the oceans of data they currently have captured to create competitive advantages, serve their customers better, or operate their enterprises more efficiently.

IBM bases its BAO vision on survey research the company conducts annually with executives around the world. According to this year's survey of 1,541 CEOs, general managers and senior public sector leaders, "complexity" is the number one issue facing business and government leaders today. Interweaved, interconnected economies; sophisticated buying behaviors; new, advanced technologies; and complex business process flows between the business and its supply chain partners as well as customers are all contributing to CEOs concerns that they are not prepared to successfully manage their businesses.

Fewer than fifty percent of the executives interviewed in this survey believe that they are prepared to handle these complexities. But some, whose companies are performing very well — even in this down economy — have managed to find ways to circumvent and even exploit complexity by simplifying their information infrastructures, emboldening creative leadership, reinventing their customer relationships, and building operational dexterity — and many C-class executives are using business analytics products to do so.

*A closer look at successful executives shows that many have become masters at information management. Their systems provide up-to-the-minute enterprise performance data. Their business processes have been streamlined. And they are now starting to use advanced business analytics to parse the data that they have captured and are capturing. With the information that they glean from mobile devices, from Web usage patterns, from customer service engagements, from supply chain interactions, and from a wide variety of other sources, these executives are now able to make better-informed business decisions in real-time.*

### *Summary Observations*

First, it should be noted that IBM's BAO strategy is consistent with its overarching Smarter Planet initiative (an effort that calls on enterprises to operating more efficiently by managing information better, as well as by optimizing underlying information systems). This alignment with Smarter Planet is important because it makes BAO a strategic market for IBM — not simply an orthogonal opportunity in a growth market. And because BAO is deeply intertwined with this broader effort, IBM is funding its development and expansion at a steady and heavy rate to ensure that it becomes the BAO leader.

Secondly, I am intrigued by IBM's competitive positioning in BAO. To me, Oracle is the company best matched to compete with IBM in this space. But the Oracle/Sun acquisition is relatively new — and it is going to take some time for Oracle to catch-up in terms of packaging, integration, and services realignment if it chooses to compete with IBM in this space. Microsoft is also positioned to compete with IBM in this space — but Microsoft will need its various resellers to push Microsoft solutions and finely tune their hardware if the company wants to go head-to-head with IBM in business analytics. I can see Microsoft

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doing this in small and medium-sized businesses — but I don't see the positioned at present to compete in business analytics among large enterprises at the same level as IBM.

Finally, it is important to note that BAO has been a nascent market to date — and with good reason. At the C-level, business executives have been overwhelmed trying to keep their companies afloat in tough economic times. Cost cutting in IT has reigned — making it difficult for BAO projects and other emerging technologies to get off of the ground. And other, arguably more important initiatives such as compliance and security have taken precedence over BAO. IBM's strategy, however, repositions business analytics as something business executives can now do to improve security, reduce fraud, improve compliance — while also getting access to real-time data and intelligence that can help them run their organizations more efficiently and effectively. And, accordingly, I expect that IBM's BAO strategy will help business analytics to bust out and become a mainstream activity in enterprises that recognize the critical value of better leveraging their information assets...

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