

WHO SAYS ELEPHANTS CAN'T DANCE?

Inside IBM's Historic Turnaround

LOUIS GERSTNER

LOUIS GERSTNER was chairman and CEO of International Business Machines Corporation (IBM) from April 1993 until March 2002. Before joining IBM, Mr. Gerstner (a graduate of Dartmouth College and Harvard Business School) served for four years as chairman and CEO of RJR Nabisco, Inc. and eleven years as chairman and CEO of the American Express Travel Related Services Group. Prior to that, Mr. Gerstner worked for McKinsey & Company, a management consulting firm.

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MAIN IDEA

In nine years as the chairman and CEO of International Business Machine Corporation (IBM), Lou Gerstner brought about a dramatic change in the company's fortunes. When he took charge, IBM was on the verge of extinction as the victim of rapid changes in the computer industry. However, instead of breaking up IBM as most analysts were suggesting, Gerstner and his management team turned the company around and restored it to a position of a position of power and influence within the industry. By any metric of success, this must rank as one of the most impressive turnaround stories in business history.

April 1, 1993 – Lou Gerstner appointed as chairman and CEO of IBM

Section 1 – Four Critical Decisions

- ❶ To keep the company together rather than break it up.
- ❷ To change and update IBM's economic model.
- ❸ To reengineer how IBM did business in general.
- ❹ To sell IBM's nonproductive assets.

IBM – Year Ended Dec 31, 1993	
Revenue	\$62.7 billion
Income	Loss of \$8.1 billion
Earnings Per Share	-\$3.55
Stock Price	\$12.72

1995

Section 2 – Two Big Bets on the Future

Direction of the Company

The services side of the business will grow appreciably in the future.

Direction of the Industry

Networks would replace the standalone computer as the prevailing choice.

IBM – Year Ended Dec 31, 1995	
Revenue	\$71.9 billion
Income	\$4.2 billion
Earnings Per Share	\$1.76
Stock Price	\$22.84

1997

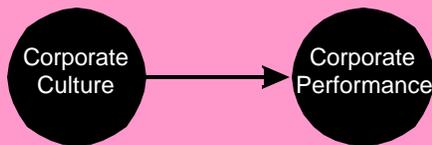
Section 3 – Setting the Strategy of the Business

- ❶ Expand the world's largest software business.
- ❷ Open the company's technology store.
- ❸ Unstack the stack and focus IBM's initiatives.
- ❹ Harness the emergence of e-business.

IBM – Year Ended Dec 31, 1997	
Revenue	\$78.5 billion
Income	\$6.1 billion
Earnings Per Share	\$3.00
Stock Price	\$52.31

1999

Section 4 – Changing the Corporate Culture at IBM



IBM – Year Ended Dec 31, 1999	
Revenue	\$87.5 billion
Income	\$7.7 billion
Earnings Per Share	\$4.12
Stock Price	\$107.87

March 2002 – Lou Gerstner steps down as CEO of IBM

Section 5 – Key Lessons Learned

Three fundamentals of success for enterprises and executives



IBM – Year Ended Dec 31, 2001	
Revenue	\$85.9 billion
Income	\$7.7 billion
Earnings Per Share	\$4.35
Stock Price	\$120.96

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