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IBM Seeks to Make Cloud Computing More Palatable to Businesses
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By Aaron Ricadela and Katie Hoffmann

April 7 (Bloomberg) -- International Business Machines Corp., angling to reap more than 5 percent of its revenue from cloud computing by 2015, is introducing new ways for customers to run business software inside its data centers.

IBM will begin selling the computing service, called "SmartCloud," today to help large companies save money on equipment and software by letting them store data on IBM's servers and access it over the Internet. Lockheed Martin Corp., Macy's Inc., ING Groep N.V. and Kaiser Permanente are among companies that use IBM's cloud-computing technology and may be target customers for SmartCloud, the company said.

SmartCloud software offers companies ways to analyze data, plan orders and deliveries and manage sales. The initiative is part of a push by IBM, the world's largest computer-services company, to post \$7 billion in cloud-related sales in 2015, a goal laid out by Chief Financial Officer Mark Loughridge on March 8. Total revenue may reach \$123 billion that year, the average of analysts' estimates compiled by Bloomberg.

"It's a gargantuan number," Brian Marshall, an analyst at Gleacher & Co. in San Francisco, said of the \$7 billion goal. While IBM hasn't laid out its cloud plans as comprehensively as Wall Street would like, this push will help it sell hardware and software, he said. "It will give them a double dip."

Marshall rates the shares "neutral" and doesn't own any.

IBM rose 5 cents to \$164.04 yesterday in New York Stock Exchange composite trading. The shares have gained 12 percent this year.

Security 'Anxieties'

IBM is distinguishing its approach from rivals including Amazon.com Inc., Microsoft Corp. and Google Inc., which sell cloud services to independent software developers and larger companies based on the amount of time they use the services and how much data they consume.

By contrast, SmartCloud is designed to run parts of very large companies' key business applications, emphasizing security and reliability, Senior Vice President Steve Mills said in an interview. IBM's cloud will let customers tailor data security, regulatory compliance and backup features based on their needs.

"There are a lot of concerns and anxieties that larger businesses have that startups and three-man companies aren't concerned about," said Mills, who manages systems and software at IBM. "It's not a one-size-fits-all world."

IBM has a history of making emerging technologies safe for skeptical chief information officers. It made personal computers acceptable for companies in the early 1980s, then ratified parallel processing -- which breaks down calculations into small chunks handled

by hundreds of chips -- with its chess-playing Deep Blue supercomputer in the 1990s. In 2000, IBM said it would invest \$1 billion in the open-source Linux operating system to improve its capabilities and expand its use.

Growth Driver

Chief Executive Officer Sam Palmisano has identified cloud computing as a key growth area, along with data analysis, sales in emerging markets, and IBM's Smarter Planet initiative to make buildings, hospitals, and highways more efficient. Together, they can contribute about \$20 billion in revenue growth by 2015 Loughridge said.

The company's forecast includes cloud computing and online software for tasks such as collaboration, data analysis, sales lead management and supply chain management, IBM said in a statement. It also includes hardware sales to companies building private clouds.

"They're not the first mover, but they're pretty confident about their ability to win" in cloud computing, Brian Stevens, chief technology officer at Linux software provider Red Hat Inc., said in an interview. "IBM's absolutely going to be a strong player." Red Hat and IBM have a partnership to supply Linux to customers.

'Pioneering Mindshare'

IBM has an advantage in its existing massive data centers, which are already equipped to handle customers' needs, Stevens said. What's less clear is whether IBM can convince developers to use its service instead of the popular Amazon Web Services, which claims hundreds of thousands of customers, Bloomberg Businessweek reported last month.

"They don't have the pioneering mindshare of Amazon," he said.

IBM has taken steps to remedy that gap. A year ago, it began selling versions of its development tools, middleware, and database software that programmers can access over the Web to build apps. In 2007, IBM and Google started a project to connect universities with computing clouds using open-source software.

More companies are making forays into the market. Hewlett-Packard said last month it would expand its cloud-computing offerings within a year. Microsoft said in October it signed up customers including Toyota Motor Corp., 3M Co. and Lockheed Martin for its cloud software, called Windows Azure.

SmartCloud will support hardware and operating systems including Linux, Windows, IBM's AIX, and the Solaris system Oracle Corp. got when it bought Sun Microsystems last year.

SmartCloud will also let customers choose storage computers from IBM and EMC Corp. and a variety of databases, Mills said. Customers will be able to perform tasks including maintenance chores on Oracle databases and business applications from SAP.

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