



e-business

Microsoft and IBM Retail

Kris Prasad
IBM Retail Store Solutions



Agenda



- Legal Note
- Overview of Microsoft
- Activities in retail
- Strategy
- Vision
- Value Proposition
- Key Messaging Theme
- Key Alliances
- .Net and Game Plan
- IBM RSS Exposure
- Response Considerations
- Strengths and Weaknesses Analysis
- Selling Against MS
- Six Key Questions
- Silver Bullets
- Recommendations





e-business

Legal Note :

"Third party data was obtained from publicly available sources, which may include data obtained directly from the third party. IBM does not guarantee the accuracy or completeness of the third party information." Data on competitive products obtained from publicly available sources and is subject to change without notice. Contact the manufacturer for the most recent information."



Microsoft Overview



e-business

| | |
|--------------------|--|
| Customer Selection | <ul style="list-style-type: none"><input type="checkbox"/> Global customers<input type="checkbox"/> Highly successful in SMB<input type="checkbox"/> Vertical industry and geo focused<input type="checkbox"/> Skilled in marketing and messaging<input type="checkbox"/> Access to worldwide markets via business partners |
| Value Capture | <ul style="list-style-type: none"><input type="checkbox"/> OS and Application Software, e-Business framework sales<input type="checkbox"/> Licensing revenues |
| Scope | <ul style="list-style-type: none"><input type="checkbox"/> World class software, OS offerings focusing on vertical markets<input type="checkbox"/> Broad portfolio of software offerings<input type="checkbox"/> Targeted and focused marketing and sales organization<input type="checkbox"/> Aggressively buying up ISVs or partnering<input type="checkbox"/> Does not have a reputation in service |
| Strategic Control | <ul style="list-style-type: none"><input type="checkbox"/> MS.NET<input type="checkbox"/> OS core competency and market dominance<input type="checkbox"/> Research and Development<input type="checkbox"/> Global brand recognition ; #2 Global brand<input type="checkbox"/> Leadership in web infrastructure and networking<input type="checkbox"/> Cash rich<input type="checkbox"/> Complex web of relationships from components to ISVs |

Microsoft has been making a lot of moves in retail.....



e-business



■ Microsoft adopting IBM like model

- ▶ Increases Sales force
- ▶ Pitches to IBM accounts

■ Microsoft gains center stage in 2002 retail show

- ▶ Announces retail technology vision
- ▶ Microsoft, NCR, Intel and PWCopers announce Extended POS Solution

■ Microsoft wins some large clients

- ▶ Marks and Spencer
- ▶ Target chooses XP, XPe platform
- ▶ Meijers hires JDA and Microsoft
- ▶ Safeway, GAP and Publix interested

■ Intel joins the party

- ▶ Microsoft and Intel present a joint symposium in Paris

■ Attract major solution developers

- ▶ JDA Alliance
- ▶ Systech
- ▶ Acquisition of SMS and Navision
- ▶ STS
- ▶ Radiant
- ▶ Retailix

■ Broaden the base of users

- ▶ Symbol
- ▶ IBM
- ▶ Wincor Nixdorf
- ▶ Fujitsu
- ▶ NCR
- ▶ HP

■ Announcements

- ▶ 1994 - Windows and NT as Platforms for retail POS
- ▶ 2001 - Microsoft XP and XPe
- ▶ 2002 - Microsoft .net

LE Play

SMB Solutions

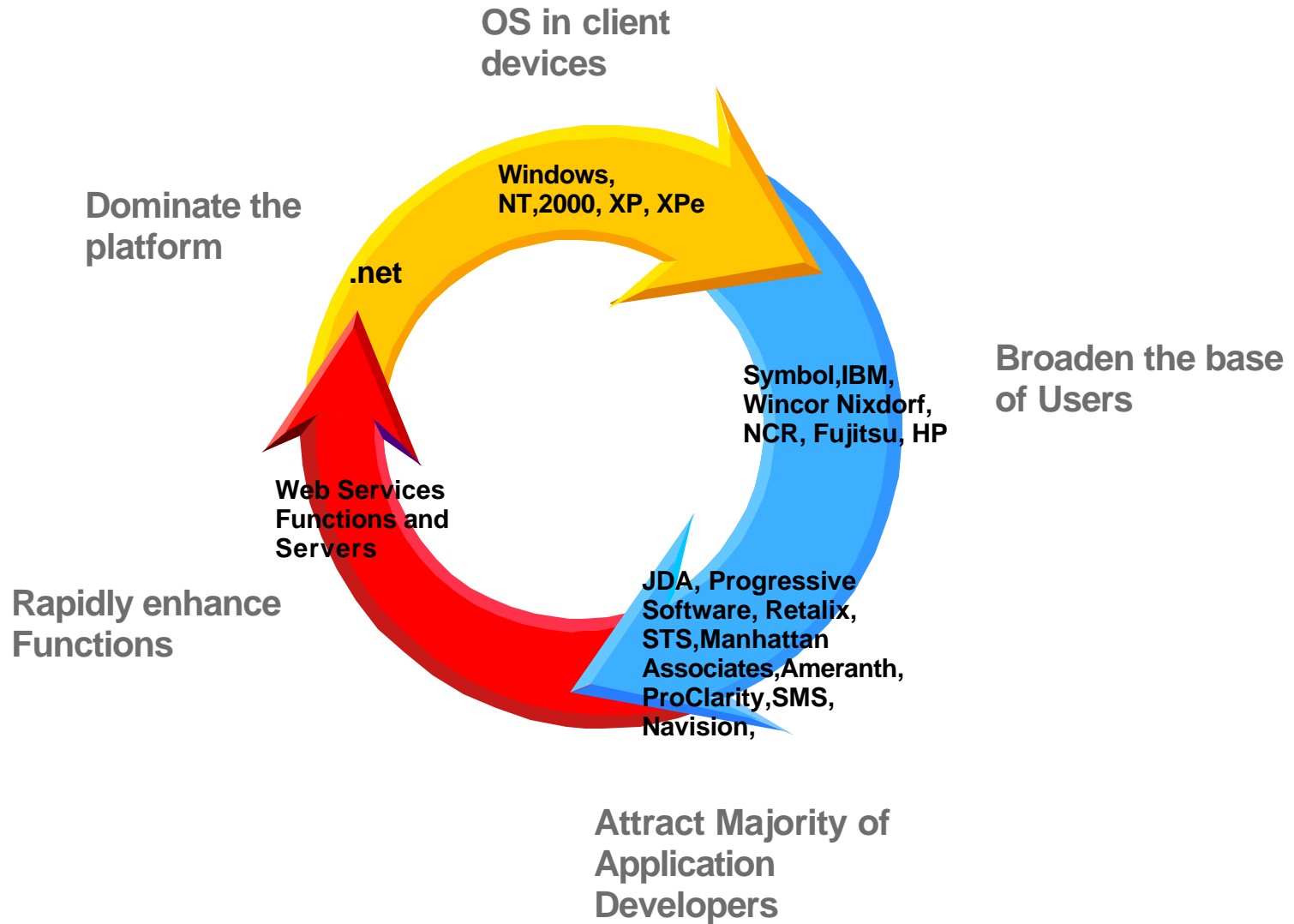
OS Standards

Retail Store Solutions

Their strategy for market dominance resembles their strategy for PCs



e-business





e-business

- A connected world served by a web of smart devices using "richly textured" operating systems(XPe, MS.net)
- Aiming the new operating system (XPe) at such items as printers, scanners, retail POS machines, advanced set-top boxes, residential gateways and industrial controls.
- XML is the strategic building block



Microsoft Retail Value Proposition



e-business

- Information anywhere, at any time, and on any device
 - ▶ High "abilities"
 - High availability, reliability, flexibility, scalability, and manageability.
 - ▶ Application-to-application integration.
 - Facilitating near real-time seamless exchange of data among various retail applications, without the deployment delays and costs associated with the integration requirements.
 - ▶ Legacy application extension.
 - Building on current systems so that you can continue to get value from your existing technology investment, while simultaneously taking advantage of new, more powerful functionality. With many systems, Microsoft and industry partners have established migration paths so you don't have to "rip and replace" existing systems.
 - ▶ Smart "any-device" clients.
 - These range from the richest PCs running a full Microsoft Office desktop solution to thin client wireless handheld Pocket PCs, as well as everything in between.



Key messaging theme - Business Agility and designed to respond to retailer's operating environment



e-business

- ▶ Empowering employees through knowledge management.
 - Informed, fast decisions and actions
- ▶ Connecting customers and integrating business partners.
 - Multi-channel retailing and more efficient supply chains combine to develop deeper and richer relationships with customers and suppliers.
- ▶ Operational excellence in business operations.
 - Establishing and maintaining fluid organizations allow companies to transform strategies quickly, as well as respond rapidly to new business opportunities.





- More functional, usable applications and advanced technologies in less time and at the lowest TCO
- Address critical needs in the retail agenda
 - ▶ The .Net and JDA solution addresses product assortment planning and merchandising
- A new go-to-market strategy for Microsoft
 - ▶ Microsoft will gain a valuable solutions partner which will help it to further the .NET vision.
 - ▶ Access to JDA's 4,600 retail, manufacturing and wholesale clients in 60 countries





- IBM 4690 OS Migration
- Access to Systech's clients
- Competition to "Point Solution"
 - ▶ HP/Compaq
 - ▶ Fujitsu
 - ▶ NCR
 - ▶ Symbol
 - ▶ Dell
 - ▶ Epson
 - ▶ NEC
 - ▶ Optimal Robotics

- 360Commerce
- 3Com
- APG
- AutoGas
- BeverageChoice
- Compaq
- Continuum RDA
- Dell
- EDJ
- Epson America
- ERS
- Fujitsu
- Global Kiosks
- Hewlett Packard
- IBM
- JDA
- Magellan
- Microsoft
- NCR
- NEC
- Optimal Robotics
- Panasonic
- Progressive
- PSC
- RTI
- Symbol Technologies
- Tektronix
- Telxon
- Ten Square
- Triversity (formerly Trimax)
- Verifone
- Western Union





- Equity investment and extensive support
 - ▶ joint marketing programs,
 - ▶ funding for product development,
 - ▶ consulting services,
 - ▶ developer support,
 - ▶ MSNTM network of Internet services,
 - ▶ distribution via the Microsoft® bCentralTM small-business portal.
- Market an integrated Web-enabled management system and supply chain solution to enable retailers to conduct B2B e-commerce over the Internet.
- Develop Web-enabled solutions and Vertical Solution Portals (VSPsm) - Internet destinations that address the unique needs of small to midsize retailers and their supply chain partners.
 - ▶ "Radiant Systems and Microsoft are the first to deliver a comprehensive solutions portal to a wide range of retail
- Large clients of Radiant Systems will also benefit from this alliance by deploying these applications and services via client-specific portals that leverage their brand name in their franchisee and dealer communities.



Extended POS System Offering



e-business

- "A POS system based on Intel's processors, Microsoft's operating system and PricewaterhouseCooper's systems integration expertise.
- The goal of the trio's Extended POS offering is to let retailers and suppliers manage real-time information starting at the purchasing point and extending into the retail supply chain via kiosks, wireless devices and servers, the companies say. "

Ann Bednarz, Network World, June 24, 2002 / p20



What is Microsoft.Net?



e-business

- Microsoft .NET-- is an integrated e-business framework that is Web-based, with XML at the core
- Lead in Product
 - ▶ BizTalk
 - Process Integration vs. integrating systems
 - "The foundations of B2B, B2C, A2A solutions lie on a solid set of integrated processes"
- Microsoft .NET-- is a collection of components, quite like IBM MerchantReach
 - Tools
 - Servers
 - Services
 - Computing Experiences
 - Clients



.NET I -- Planned offerings - Approximately 40% are ready...



| | | | | |
|-------------|--|-------------------------------|--|--|
| Tools | Microsoft Visual Studio.NET | | C# Programming Language ATL Server Visual Basic .NET Jump to .NET RAD Tools Microsoft UDDI Software Developer Kit Soap Toolkit | |
| | .NET Framework | | ASP.NET ADO.NET Common Language Runtime (CLR) Messaging Cobol for the Microsoft .NET Framework | |
| Servers | Microsoft .NET Enterprise Servers | | Application Center 2000 BizTalk Server 2000 Commerce Server 2000 Content Management Server 2001 Exchange Server 2000 Host Integration Server 2000 Internet Security and Acceleration Server 2000 Mobile Information Server 2001 SharePoint Portal Server 2001 SQL Server 2000 | |
| | Windows.NET Currently Win2k | | COM+ MSMQ IIS Security Services Load Balancing XML Support Data Access Microsoft Transaction Server (MTS) Clustering | |
| Services | Hailstorm v1.0 | Passport MSN IM HotMail | myAddress myProfile myContacts myLocation myNotifications myInbox myCalendar | myDocuments myApplicationSettings myFavoriteWebSites myWallet myDevices myServices myUsage |
| Experiences | MSN, bCentral, Visual Studio .NET | | | |
| Clients | Windows CE Windows Embedded Windows 2000 Windows XP | | Xbox Stinger (smart phones) Tablet PCs | |



Microsoft's Overall Game Plan is to establish .net as the e-business framework standard



e-business

- ▶ Push higher into the enterprise space leveraging....
 - OS and Web Browser dominance
 - Anytime, anyplace and on any device software
 - Client to dominate the server
 - web of relationships - hardware, software and ISVs
- ▶ Make customers dependent on Microsoft
 - Counter the JAVA Platform -
 - Java-like C# and Common Language Runtime
 - Move from traditional .Com component model to .Net
 - Limit customer's vendor choice and portability
 - .Net runs only on Windows
 - Proprietary to MS



As expected, Microsoft is investing a lot to support .Net



- **Increase investment in fiscal 2003 by \$1.2B,**
 - ▶ \$500M incremental investment in channel programs,
 - ▶ \$182M in increased marketing investment,
 - ▶ \$100M increase in support services,
 - ▶ \$26M in training, including new web-based tools such as eLearning Center to help in partner education and training
 - ▶ \$4M investment in training for partner account managers,
- **Increase Staffing**
 - ▶ 1,200 people to be added to general, direct sales, and marketing evangelism.
 - ▶ 450 new positions to the current US direct sales team (20% increase)
 - ▶ Redeployment of 115 employees nationwide into positions that map to the sales organization's enhanced structure
 - ▶ 250 new evangelists to work with partners and customers to do the design wins to ensure they make .Net real
 - ▶ 250 Business Productivity Advisors - a new position whose role is to talk to people that care for information worker solutions, e.g., Sales VP, HR VP, etc.
- **Increase specialization in US salesforce**
- **Increase industry focus ...Consolidate sales, services, support, partner engagement and marketing into vertical solutions.**
 - ▶ Financial Services
 - ▶ Telecommunications
 - ▶ State & Local Government
 - ▶ Federal Government
 - ▶ Education
 - ▶ Retail (new)
 - ▶ Healthcare (new)
 - ▶ Automotive Manufacturing (new, "soft vertical" for Michigan)
 - ▶ High Tech Manufacturing (new)
 - ▶ Oil & Gas (new, "soft vertical" for Texas)
 - ▶ Media & Entertainment (new)
 - ▶ Professional Services (new)
- **Relocate vertical groups serving geographically -based markets to these areas**





e-business

- ▶ Direct sales force calling on large enterprises
- ▶ Using BPs to get access to LE and SMB clients
 - ▶ all relationships are strategic

- ▶ Pitching .NET technology to CIOs demonstrating:
 - Ease of use
 - Quicker time to implement
 - Lower Total Cost of Ownership
- ▶ Pitching to line-of-business managers demonstrating;
 - ROI examples
 - Customer references
 - Practical ways to solve today's business challenges



Active in LE space



e-business



Publix®

NORDSTROM

MARKS &
SPENCER

Federated
DEPARTMENT STORES, INC.



 **TARGET**



Microsoft activities in retail pose a short term and long term threat to IBM RSS Business



e-business

| MS Initiative | Result |
|---|---|
| XP and XPe | Proliferation of Open Systems and Thin Clients |
| Alliances with industry leaders (Eg. Intel, HP/Compaq, JDA) - HW to App Providers | In-store networking and connections to the mid-tier and back-end servers containing analytic applications |
| Alliances with JDA, Retailix, Systech, Radiant etc. | Powerful Software Applications |
| Push Active Store | New Standard and application integration |
| Recruit Retail IT leaders and IBM employees | Competitive & Customer relevant solution offerings |
| Empower people with anytime, anywhere, any device computing | Hardware commoditization Device proliferation & Interoperability |
| .Net | New Framework |





e-business

Microsoft OS leverage in POS systems is strong - IBM 4690 OS is still strong in high retail transaction environments



Microsoft's white paper directly focuses on IBM 4690 OS from business viewpoints



e-business

- **Improve Business Agility**
 - ▶ Retailers must have the agility to quickly adapt to changing market conditions. Choice of best-of-breed hardware and software is absolutely critical. Retailers can no longer afford to be locked into a single vendor's innovation and delivery at point-of-sale. Retailers will find that migrating to open systems will provide them with many choices in terms of functionality and will allow them to rapidly respond to the ever-changing industry.
- **Improve Operational Efficiency**
 - ▶ As retail stores grow in size and available services, the ability to improve operational efficiency is crucial. System integration and increased functionality are two important aspects of improving operational efficiency. The 4690 platform can be very difficult to integrate across the enterprise. Open systems, on the other hand, can allow you to seamlessly integrate multiple systems together, improve their functionality, and streamline your operations greatly.
- **Have Better Access to Information**
 - ▶ Retailers are finding that they need better access to information. As the store environment has grown more complex, managers have to take an increasing number of factors into account in making their decisions. This makes it increasingly important for information to be readily available. With the 4690 platform, retailers are finding that access to this information is not readily available at the store level. Because the 4690 platform stores this information in a proprietary format, store level reporting and analysis is very difficult to achieve. Open systems can alleviate these problems and provide real-time information necessary to operate effectively.
- **Control Hardware, Software, and Labor Costs**
 - ▶ Controlling operating costs is an essential goal for every retailer. Hardware, software, and labor costs all have a significant role in impacting their bottom line. The costs of maintaining applications on proprietary platforms can be quite expensive for retailers to bear. It is difficult and expensive to find new programmers in the job market who can modify the outdated software and also can be very time consuming for them to make modifications. Another problem is that hardware to maintain proprietary systems is very expensive. Retailers can't just "plug-and-play" their hardware as easily as with many open systems. They have to purchase the hardware from the proprietary vendor who also supplied the software.
 - ▶ Migrating to open systems helps retailers control these operating costs. Developers are much more available and more productive. Retailers can purchase hardware from a variety of vendors and aren't locked into the same vendor they purchased the software from. Retailers are also able to improve employee efficiency with improved user interfaces and ultimately reduced training costs.
- **Improve Customer Service**
 - ▶ Customers are more aware of their power and are not afraid to ask for what they want. Retailers must earn their customers' business over and over by providing excellent service, competitive prices, and attractive incentives. The 4690 platform is making it difficult for retailers to add the new features that customers are expecting. Open systems, on the other hand, allow retailers to make a drastic impact on improving customer service. With better ability to analyze what customers want, a smoother running operation, an increase in employee productivity, and lowered operating costs, retailers can provide customers with excellent products and services.



Microsoft has no choice but to compete with IBM in enterprise space - where IBM is strong....



"We run into IBM in nine out of 10 enterprise accounts [where] IBM Global Services is a good asset. This is an end-to-end promise they can make."

- Steve Ballmer, CEO of Microsoft

"IBM is our greatest competitor. In the way they sell products and compete in corporate accounts,"

Eric Rudder, senior vice president

MS developer and platform evangelism

Paul Flessner, senior vice president .NET enterprise servers, called IBM and Linux a "formidable" challenge. "It's not just IBM alone, it's not just Linux alone," he said.



Is .Net Enterprise(Retail) Ready?



e-business

- "not yet enterprise ready."
"Microsoft's .NET Aims for the Enterprise, but Starts Small... Microsoft has burdened its users with the challenge of living through several years of less-than-mature implementation of its software infrastructure."

- Gartner Group Y Natis. March 22, 2002,

- The transition to .NET is a major risk that enterprise customers need to take into account.

Giga Information Group Randy Heffner.

- Maturity of such systems "comes from years of production use and feedback from users in various sized enterprises and industries," - Gartner.





e-business

- "Unlike IBM, Microsoft has no experience in building bulletproof enterprise systems,"

- Gartner Group's Darryl Plummer.

- "as with all first-generation software and with the continued requirements for backward compatibility, more vulnerabilities associated with .NET will likely come to light,"
- Gartner.

- "Microsoft's NT product line, including Windows 2000 and IIS, has the worst security track record of any operating system in the world. That's why most security professionals reject their products out of hand,"
- - John Schweitzer, chief security officer at Ogilvy & Mather.
- In 1999, Microsoft posted 60 security advisories. That total jumped to 100 in 2000 and about 100 more in 2001 and 2002.
- CERT issued a warning for 10 serious Microsoft security vulnerabilities in April 2002.



Microsoft's success may come at the expense of customers and Business Partners



e-business

- Giga Information Group estimated that programmer productivity will be 20%-40% better for J2EE
 - (Giga Information Group, "J2EE vs. Microsoft and .NET: The Big Application Platform Battle", 9/18/2001).
- "As a longtime Microsoft partner guy, it's painful to watch Microsoft damage partners. Whether it's by design or by incompetence, Microsoft is killing its channel."
 - a CRN source



Microsoft's .net solution leads to technology fragmentation and leaves a number of unanswered questions.....



e-business

| | |
|------------------------------|--|
| Hardware Components | Intel |
| Hardware Vendors | NCR, Compaq, Wincor Nixdorf, Symbol |
| OS and Infrastructure | MicroSoft XP, XPe, .net |
| Application & Customization | JDA, Progressive Software, Retailix, STS,Manhattan Associates,Ameranth, ProClarity |
| Implementation & Integration | ??????? |
| Ongoing Operations? | ??????? |
| Service and Support? | ??????? |





- A joint play with Microsoft may be crucial to winning certain large accounts for RSS...(eg. JC Penney)
- Microsoft development and comarketing dollars are a useful resource for IBM RSS
- .Net is a longer term threat for IBM Retail and RSS - IBM is the worldwide leader in POS install base
- IBM S&D, RSS, SWG and IGS need to work together to effectively compete with .Net
 - ▶ .Net is similar to Merchant Reach - a collection of components....
 - ▶ IBM has to unify and position RSS, J2EE, Websphere and Satin, Linux and IGS to go against .Net.
- J2EE, Websphere is winnable
 - ▶ It is more complex and needs to be communicated well
 - ▶ BPs and Retailers need to be educated on the value of Websphere components



Analysis reveals many more weaknesses



e-business

Microsoft Strengths

- ✓ Large, visionary, talented worldwide organization
- ✓ Cash rich(\$38 Billion)
- ✓ OS core competency
- ✓ Domination of the Internet browser market with an over 86% share worldwide
- ✓ Skilled in marketing and messaging
- ✓ Ability to sell ahead of the delivery
- ✓ Vendor Independence
- ✓ Strong web of leaders : hardware to application
- ✓ High brand awareness
- ✓ Credibility as an innovator

Microsoft Weaknesses

- ✗ OS and Apps only
- ✗ (Proprietary) solutions
- ✗ Not retail hardened
- ✗ Not totally secure(Virus attack at GAP)
- ✗ Microsoft has not proven to scale to the enterprise
- ✗ Microsoft promotes a "rip & replace" strategy
- ✗ Microsoft has been known to co-opt industry standards through proprietary extensions
- ✗ Microsoft does not provide an end-to-end solution
- ✗ Not retail focused - as of today, the nature of retail hardware makes this an expensive proposition
- ✗ Moving to .net means rewriting previous windows programs to c#....costly
- ✗ BIZTALK does not have any large enterprise production references
- ✗ Late entrant
- ✗ .net works only on Windows
- ✗ Not known for service and support





Strengths

\$\$ and Tenacity

- Strong financial position
- Improved scalability and reliability for Windows 2000
- .NET should be a significant step forward from Windows DNA
- Broad range of ISV and integration partners
- Microsoft Consulting Services and merged consulting and support division augment MS Services capabilities.
- Dedicated financial services expertise within MCS. Progressively making transition towards solution-led sales approach.

Weaknesses

Not proven solution

- Too many top tier ISV partners are platform agnostic making it more difficult for MS to gain visibility.
- MS financial services strategy & major ISV partnerships primarily driven by the U.S...
- Poorer penetration in insurance market - need more dedicated focus on insurance.
- Lack of clarity in the positioning of DNAfs led to some market confusion - may be too late to regain lost ground.
- Although making progress in building up services, MS is unable to match the levels of product and technical support by competitors.

Source: *Datamonitor, May 2001*



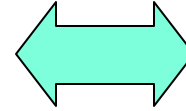
How should we respond?



e-business

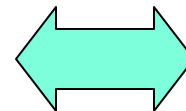


Agility



e-gility

.net



not yet!

When Microsoft drives various initiatives, we should do what is best for our customers - Consistently message and practice choice.



e-business

| Microsoft Initiatives | How can IBM best serve its customers |
|------------------------------------|---|
| Drive NT, XP and XPe | Provide choice to customers. |
| Drive .Net in store | Provide choice to customers |
| Drive 4690 OS migration to Windows | Provide choice to customers |
| Drive .Net to enterprise | Provide choice to customers |



SIX QUESTIONS



- Are you willing to invest substantially in retraining
 - ▶ Training costs required for moving to .NET is also a major consideration. .NET tools are radically different than previous versions and will require substantial investment in training.
- Do you want a complete TCO picture?
 - ▶ A TCO discussion should include development, support, maintenance, downtime, administration, and performance. Microsoft's TCO discussions center only on acquisition costs. After that, when you consider the cost of upgrades, replacements of obsolete components and Microsoft licensing costs, the .NET TCO will not be attractive.
- Do you want a secure system for your retail enterprise?
 - ▶ Have you considered the cost of continual patching, testing, and deployment for Microsoft security alerts? "Microsoft's NT product line, including Windows 2000 and IIS, has the worst security track record of any operating system in the world. That's why most security professionals reject their products out of hand," said John Schweitzer, chief security officer at Ogilvy & Mather.
- Are willing to switch to an unproven platform?
 - ▶ NET is new, unfinished, and unproven. Giga analyst Randy Hefner said, "The transition to .NET is a major risk that enterprise customers need to take into account." At a recent briefing for industry analysts and reporters, Bill Gates, cofounder of Microsoft complained, "We still get people saying to us 'What is .NET?'" and stressed that it will take five to six years before the .NET concept reaches some of the goals announced at its launch two years ago.
- Are willing to switch to a proprietary platform that is not open?
 - ▶ .NET runs only on Windows and is proprietary to Microsoft.
- Are you willing to reinvest in rewriting 60% of your program code?
 - ▶ If you go to .NET, you essentially have to rip and replace applications. Gartner warns that "the shift from current Microsoft platforms will see developers forced to rewrite up to 60% of programming code for some existing Windows applications if they want to take advantage of .NET."





■ Proven Solution

- IBM Retail Solutions have evolved from years of production use and feedback from users in various sized retail enterprises.

■ Maximum and open choice.

- IBM solutions run on IBM 4690OS, DOS, Linux and even Microsoft Windows Platforms.

■ Dependability & Investment Protection

- IBM is well known for its experience in building bullet proof enterprise systems that are designed to protect and maximize your investment.

■ Low TCO

- When acquisition, development, support, maintenance, downtime, administration, and performance are included

■ End-to-end Solution

- Integrated end-to-end solution for the store and the enterprise

■ Global Market Leader

- Install base and shipments





e-business

- Adopt a balanced, co-opetitive strategy in responding to Microsoft
 - ▶ Execute the message of "Choice"
- Build and message IBM RSS offerings as a unified timeless brand
 - ▶ leveraging the pillars of Merchant Reach

Process Innovation

Leveraging
Customer Insight

Advertising
Marketing
Effectiveness

Multi-Channel
Integration

Transforming Store
Operations

- ▶ focusing on IBM RSS strengths
- ▶ instead of .Net weaknesses

