Patrick Moorhead: Roger, welcome to the Six Five Summit 2021. We really appreciate you participating in. I'm really looking forward to you bringing a very interesting dialogue here, because you are one of the only heads of corporate strategy that we're having on the show. But thank you so much for coming on.

Roger Premo: Patrick, it's a pleasure. I hope I live up to that expectation for you.

Patrick Moorhead: Well, I spent some time in corporate strategy myself and it is a fun thing to be in. In fact, I've met a lot of lifelong IBM employees since I've been covering IBM; in fact, I've been in and around IBM for over 30 years in my career. And you left a great consulting gig at BCG, and you actually joined IBM, so we have to start off with, why did you do that and what attracted you to the company?

Roger Premo: Yeah, thanks for that. Well, first of all, I just crossed my one-year mark recently, so I'm getting there, but certainly there are some IBMers with much greater tenure than me. But listen, it was to be part of what I think is writing the next great chapter of IBM. We'll get to it, but I'm super excited about the market opportunity around hybrid cloud, how we're making that real with our clients. And it was a little bit over a year ago that I got a call from the current CEO, Arvind, to take the job and just helping write that next chapter for IBM, which just... I think we had the technical and business truth behind that, and it's our tough work ahead of us to really make it real, but I was so excited for that journey. I love BCG, it's a great place, but I couldn't pass up an opportunity like this.

Patrick Moorhead: Well, and believe me, you saw what was on the inside before you joined and you joined anyways, and that's certainly, to me is a big testament. And the cloud in itself has changed in a big way, I think since we... these are my words, not yours. At a drunken sailor mode, well, it worked all about the public cloud and if it's not all about the public cloud then it has low value. And IBM does have a public cloud, but you're really leaning into hybrid. And so, let's just start at the top here. What is the IBM strategy and how did you get here?

Roger Premo: Yeah. Our strategies around helping companies realize the value of hybrid cloud and AI, and you got to define those for a second. When we talk about hybrid... hybrid clouds have existed in various ways for so long, but we say hybrid cloud is that ability to innovate, irregardless of where an application or digital innovation happens to run. And we're using open source technology, so Kubernetes and containers, and we can dig into those a bit more, but there's open source technologies that now make it possible to say, I'm going to run digital innovation, take what a lot of the cloud native companies that inspired so much of what digital transformations are doing now, but do that in my data center, in my facilities, in the public cloud, at the edge, wherever I need to do that, and do that in a common way on a common platform enabled by open source.

And so that's what hybrid cloud does. And so much of our strategy is also around AI, and I think sometimes when we say hybrid cloud and AI it feels like two things, but hybrid cloud and AI come together. First of all, people have
followed... we're decades since Watson first jumped on the scene in artificial intelligence, and now we're really reaching tipping points where AI is becoming real and driving winners and losers and companies. And so we're taking a lot of that technology and bringing it to bear for our clients in AI, but it's also on top of that hybrid cloud. So what that means is you can take all the data of a company; if it lives in a cloud in China, a data center in Texas, or at the edge in the back of an operations facility, pull that together to provide AI insights, as companies move from AI being an experiment to AI really shaping the execution of their business.

So that's what we're all about. And so much of what we've done over the last few years with the acquisition of Red Hat, how we've made that core to the strategy, we're really bringing it to life in a way that I... back to why I took the job, seeing that technical reality is part of what makes me so excited about where we're headed.

Patrick Moorhead: Yeah, it's interesting. I look at the industry and you have the cloud only folks. It's two candles burning at both ends, right? I think attempting to get to the same place, you have the public cloud only folks who are trying to move more hybrid, you have some of the on-prem primary folks trying to move the other way, but I think the good news is, is the industry is headed in the right direction and I think that's good for enterprises all over. Now, the only reason I say we're beyond the drunken sailor mode is because I see vendors activating and actually creating solutions, even for some of the most challenging customers and their data and transaction needs, primarily those that are regulated. But in our pre-show, we had talked, "Well, are we really past that stage here?" What's your take on that, Roger? Are we past the drunken sailor stage of, if it's not public cloud only or SaaS, it's worthless?

Roger Premo: I think we're still getting there. I think if people say hybrid cloud, they think of it as a part of a journey to public cloud. What I'm excited about is, sure, public cloud is a big part of how businesses are going to innovate, but there was a... call it a drunken sailor face; there was this mental model that everything was going to move there, and it's just not feasible. And it's just not feasible for a lot of reasons. The economics aren't right to run there, the security model's not right to run there, or it's... back to these edge workloads that we referenced before, it's actually at the shop floor at low latency, or it's in the back of a bank or a retailer, and it has to run even if the connections to the outside world are cut.

Businesses have to go through digital innovation. They want to do it wherever it's going to occur, and the public cloud can't be the only answer. And so I think, for IBM, we're in the middle of talking about this new strategy we have and bringing it to life with our capabilities, if it's products or if it's our services team that implement it. And we are having two conversations, which is first to just talk about, hybrid cloud is something that is an alternative to that drunken sailor model. If I could leave your audience with any one thing, I've looked at the proofs of this with our clients. It is that a hybrid cloud approach, recognizing that digital innovation will be heterogeneous, and then coming up with a standard,
open source-based software layer to take away the complexity that it drives, that is a more valuable architecture for business innovation than just the public cloud approach alone.

And I sincerely believe that in what I’ve seen with clients and what we’re doing with our portfolio and what’s coming in our research pipeline, but that is a direct challenge to that drunken sailor. Everything will be on public cloud, no matter what. Damn the expense, damn the cost, damn the people I need to get there. That’s just not a smart path, and a lot of enterprises have gone down that path and seen that either the security risk, the economics, the scarcity of developers, all these things, they hit a wall when they went down that drunken sailor mode. And we’re trying to say there is a better path, and we’re excited to provide it to our clients.

Patrick Moorhead: Yeah, and congratulations, by the way, on the Red Hat acquisition. I know acquisitions are never fully complete, but you did end up buying a world-leading Kubernetes platform, which is basically the standard of all of your clients. And I've even heard people use even Red Hat Linux or RHEL, is the defacto operating system in these environments as well. So you believed it so much, you put a whole lot of money where your mouth is, so congratulations on that, Roger. I knew you were instrumental in pulling that together.

Roger Premo: Yeah. A lot of the credit goes to our now CEO and now President of IBM, was the CEO of Red Hat at the time, so I give it to them. But listen, the reality is there that within IBM, it was over four or five years ago that we started moving a lot of our portfolio to run on top of Kubernetes because we saw the technical reality of it. It was one of these things that... Weather Company, we had acquired Weather Company and we had a public cloud as well. Actually, Weather Company was building on OpenShift, so we had these little proof points inside our business, that we saw the efficiency of that. And Whether Company was building on OpenShift to take AI, put it at the edge, because Weather is inherently everywhere in the world, and they were doing it on that platform in a way that drove lower latency, improved response time, better customer experiences, all at a lower cost.

So having seen these real-world case studies, we kind of saw that coming in a way that maybe some other open source projects that had chased the same vision just hadn't succeeded. And so it was, honestly it was that gift that Google gave us, right?

Patrick Moorhead: Yeah.

Roger Premo: They open-sourced Kubernetes in 2014, while other projects kind of started from scratch and tried to create an open source community around them. Kubernetes had this great starting point and the open source community has rallied around it, so you can now containers in Kubernetes, right? Those are standards that, like you said, practically every company in the world is pursuing a containers in Kubernetes-based strategy, and it's because... the energy was
always there to do this, but it was that starting point Google gave us, and then now, seven years of the open source community rallying around it. So now it is enterprise grade, so you can truly bet your business on the capabilities of that platform because so many others are betting as well, with hundreds of thousands of developers contributing to it on a regular basis. So yeah, Red Hat was at the core of that, and it's an exciting time because it's actually just a new era of technology that makes all of this possible for IBM and for our clients.

Patrick Moorhead: So we've talked about a few of the key elements of the solutions approach behind your overall strategy, but can you walk through any of those that we may have missed or we didn't touch on?

Roger Premo: Sure. Well, first of all, Red Hat is at the core of it, right? Our strategy is around the hybrid cloud platform and having an open source foundation for that. So what we do in hybrid, all has Red Hat, and you talked about it. It's Red Hat Enterprise Linux, it's OpenShift, which is our Kubernetes platform building on that. And then if you look at the software we've put on top of that, we call them cloud packs but they deliver the capabilities like data and AI, the business process automation, et cetera. We've taken that capability, and like I said, we'd actually been at it for four or five years now modernizing that to run on top of containers in Kubernetes. So it brings the power of automation and AI, but not just running on that platform; like I said before, drawing upon data across the hybrid data center, so that if it's a business process that goes all the way from an SAP system to the public cloud, you can automate that from end-to-end rather than automating in the little silos that may live in any particular environment.

So it's capability on the platform but made better because it's on the platform. The other quick thing is, that's heading our portfolio, our services capabilities. Just so much of what we done... people have seen, we're spinning out our managed infrastructure business, called Kyndryl. We still have a large services practice, our global business services, but a lot of it is about bringing to life that hybrid cloud value proposition and help do the hard work to modernize applications and data to deliver that value on top of the platform. And then we still have our systems and cloud business. So if it's in our systems where our Z systems are the mainframes that run the transactional workloads of the banking industry, the airline industry, anything that is a transactional ticket, like a plane or a flight or a train, as well as within our public cloud, we're bringing our platform on top of those environments to deliver them to the mission critical applications that run on top of our systems and on top of our cloud.

So there's so much we're doing in our portfolio, but it all is around delivering and amplifying the value of that hybrid cloud architecture that I talked about before. And when we've looked at it with clients, with now 200 clients where we've done the economic side-by-side with them, it's a two and a half times greater return on investment on digital innovation on that hybrid architecture, versus a public cloud alone. And that's not an IBM statement. You could go to another hybrid cloud provider and get a similar multiplier. It's just a better place to do business, and that's why we've pivoted so much of our portfolio around it.
Patrick Moorhead: Yeah. I’ve been impressed, too, at how quickly it has come together. And I kind of view this in two or three steps, in this latest step, and when the trigger got pulled on Red Hat, Z shows up with containers, and in a matter of months. And I know there’s a lot of work that goes into that; it’s not that they just started working on that when the ink’s dry. And power, and the ability to then run that pretty much everywhere. I was pretty impressed at how quickly it came together. And IBM doesn’t get a lot of credit for its speed of execution, it’s more about being reliable. So to me it was like having your cake and eat it, too. So we’ve talked in the abstract a bit about what you’re doing in here. What is the best customer example that really brings this to life, Roger? Again, going from kind of abstract to client reality.

Roger Premo: Yeah. And if I could pivot it slightly, I’ll talk about ecosystem partners because they’re a part of this, too. So one other thing we’ve done inside of IBM is we’ve made a big investment in our ecosystem. We’ve recognized if we’re going to be a hybrid company based on open source, we have to be much more open to partnering. And I’d say actually one of the best case studies I’d point to is in our partner ecosystem. So if you look at Siemens, and they’re taking their MindSphere platform, they’re putting it on to OpenShift on our platform. And if you look, they bend down that... I won’t say Siemens were drunken sailors, but back to the same mindset that you described before. They were moving to the cloud, they moved to Azure and they found out that that didn't work for a set of clients that didn't want to be on Azure with them.

They moved to Cloud Foundry. They found that that didn't have the technical readiness to be able to run the business in a hybrid multi-cloud way, the way that they wanted. And now they've landed on containers in Kubernetes with Red Hat as the platform that allows them to continue their digital innovation, run where their clients want. And if you think of a Siemens, it’s not a traditional data center or a public cloud, that’s often on a shop floor right next to the machinery. So it has to bring that digital innovation all the way to the domains like manufacturing, that can’t afford to wait for latency back to the public cloud. So you look at what Siemens is doing and how they’re going to transform manufacturing on top of this platform, I think they’re just representative of a pattern we’ll see across a lot of our ecosystem partners and across a number of our clients.

Time permitting, we can do another one of these across a bunch of other clients stories, but we’re seeing this recognition that maybe you bumped into a couple of walls in the kind of the drunken sailor face and recognize this is just a better architectural landing point [inaudible] that next wave of innovation happen in the business. And so Siemens, if you look at what CVS has done using AI to do all of the bookings and appointments for COVID vaccines in the United States; all of the CVS appointments for COVID vaccines in the United States, so many of those are booked with a virtual agent that somebody on the other side of the phone doesn't even know it was a virtual agent. It’s just done fast, effectively, and in a delightful way. We’re just going to see so many more of those on top of this technology in the future, and it’s just frankly exciting because our clients will tell
the stories about IBM much better than IBMers will, as they talk about it in the real impact it makes in their business.

Patrick Moorhead: Yeah. Maybe next time we'll get you and one of your clients on here, but one thing you brought to bear here that's really exciting, and again, I've been in and around IBM for over 30 years; is this partnering aspect. I mean, IBM always had its partners, but there's also this notion of partnering with people who might look to be competitors. And what I like about the new IBM is its ability to kind of span out and work with almost every kind of company out there in the spirit of delivering what your clients want, and then adding incremental value on that. I think that is fantastic, strategically, and I think will pay dividends for you down the road.

Roger Premo: Yeah. Thanks. I mean, I agree. I'm our executive at IBM in charge of our relationship with Amazon Web Services, right? And we have a public cloud, and there's fantastic things we're doing to automate regulatory controls so that the financial services industry can do the same kind of innovation that an unregulated industry could do on top of a public cloud. But we have to recognize Amazon Web Services as the market leader. And if we were to just take the pure strategist hat, if you're just say, I'm going to slice off every part of the addressable market that won't run on my public cloud, it's not the market we want to serve. And fundamental to our strategy is meeting our clients where they are, and if that's on a hyperscale cloud, or if that's on our cloud, or if it's in their data center, we're going to do that, and we have to build that flexibility in our business.

And that's why we're partnering with so many of these folks, because at the end of the day, if the client gets that digital innovation benefit and some part of it is on top of the IBM stack, I mean, that's a great outcome for the clients. It's a great outcome for IBM and Red Hat, and that's how we're going to run the business, going forward.

Patrick Moorhead: I'm super excited for you. And we're coming up on the end here, and I just want to thank you, Roger, for making the Six Five Summit better. And I think your story of, hey, I worked on the strategy, I like the strategy so much that I went to work for the company. You didn't buy the company like the razor blade, but you made almost an even bigger commitment in going to work for the company, and I'm super excited at what the new IBM has to hold. I've gotten some really great conversations I've had with the senior leadership team, and I've never seen a more exciting time at IBM. It's very challenged, but I think you have so many of the right pieces in place that I see, execution obviously is key but you have to have a good plan, a good strategy to start so you're not executing on the wrong things. And I do think IBM is executing on the right stuff.

So this is Pat Moorhead with Moor Insights & Strategy, signing off with Roger Premo, GM of Corporate Strategy at IBM. Thanks, and have a great rest of the show.