

## Wall Street Journal - IBM Calculates New Mainframes into its Future Sales Growth

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By [SPENCER E. ANTE](#)

[International Business Machines](#) Corp. will roll out its new mainframe computers on Thursday, upgrading a key product line at a time when the technology giant is under pressure to show faster sales growth.

The death of the mainframe has been predicted for years, as companies opted to handle their heavy computing needs with strings of cheaper servers rather than pay a million dollars for one massive box.

The new machine, which will start shipping in September, attempts to address that challenge by letting companies use the massive computer to manage servers based on [Intel](#) Corp. or Unix technology. The software enabling the management of Unix machines will ship in the fourth quarter, and the Intel module will come out in the first half of next year.

It took three years and a \$1.5 billion in investment to produce the new machine.

"The mainframe is taking a broader role in the data center," says Rodney C. Adkins, senior vice president of IBM's Systems and Technology Group.

Some people in the industry think IBM will have a hard time luring converts.

"I don't know if a lot of customers who don't have mainframes are going to get a mainframe," [EMC](#) Chief Executive [Joe Tucci](#) said in an interview.

Although the mainframe has been around since 1952 and represents less than 3% of IBM's revenue, the workhorse machine continues to play an outsized role in Big Blue's results.

Research firm Sanford C. Bernstein estimates that the mainframe contributes more than 20% of IBM's revenue and 40% of company profit after taking into account the related services, software and storage that clients typically purchase along with the machine.

Companies in the financial-services business like Swiss Reinsurance Co. and [Citigroup](#) Inc. still depend heavily on mainframes to crunch massive amounts of data. Every night, during a two-hour window, Swiss Re uses a mainframe to process all of its deals and calculate the amount of reserves it needs to set aside to pay future claims.

By next March, Markus Schmid, Swiss Re's chief information officer, plans to replace his two IBM mainframes with two new machines. "We can have one systems environment that will be easier to manage," Mr. Schmidt said.

Martin Kennedy, a managing director at Citigroup who oversees the company's 50 mainframes, says the new machine could help it roll out applications more quickly. "If the promise holds true, we can get some real value out of this," said Mr. Kennedy, who plans to upgrade all of its machines to the new system over the next year or two.

Mainframe sales will be particularly important in the coming months, since IBM's revenue growth slowed in the second quarter to just 2%. IBM thinks the new hardware will give it a pop, as customers typically hold back purchases when upgrades are close to becoming available.

Morgan Stanley estimates IBM's mainframe sales will more than double to \$1.9 billion in the second half of 2010 from the first half. In 2011, Morgan Stanley estimates mainframe sales will rise 11% to about \$3 billion.