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| IBM |
| Internal Analysis |
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June 25, 2011

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IBM – Internal Analysis

IBM (International Business Machines Corporation) is one of the top leaders in the computer related industry, founded in 1911 as an emergent of four different companies. Their headquarters is located in Armonk, New York under CEO Samuel Palmisano. IBM is known for their technology, innovation, and progress. For 2011, they were ranked number one *company for leaders*, 2nd *best global brand*, and 18th *most innovative company* by Fortune. Much of IBM’s success has come from their strong value chain, especially within their operations and logistics activities. IBM has professionals ranging from scientists, consultants, IT, and sales; giving them an edge on their competitors who only specialize in electronics and/or software (IBM Annual Report, 2010). IBM has achieved a large global network with thousands of suppliers through their marketing and sales activities that have served to be both a competitive advantage, as well as, a disadvantage because of their heavy dependence on these suppliers. Another major competitive disadvantage for IBM is the highly competitive environment the company participates in (IBM Annual Report, 2010). Dell, Inc. is one of the company’s competitors that will be analyzed in retrospect to IBM’s financial ratios.

Marketing and Sales Services

IBM has substantial global recognition and reliability compared to competitors Hewlett-Packard, Microsoft, Dell, and Apple. They have been established for over 100 years with a presence in over 170 countries. IBM has over 420,000 employees in over 120 countries, with ten research labs worldwide. They are one of the largest companies in the world and have more than 75,000 U.S. patents (IBM Annual Report, 2010). IBM has a strong distribution channel, allowing them to increase and further their marketing sales and services. In addition, IBM focuses on local clients by operating with the integration of teams with expertise in multiple areas – client relationship professionals, dedicated consultants, industry knowledge and experience, product specialists and delivery fulfillment (IBM Annual Report, 2010). According to Laurie Friedman, an IBM blogger, the company has nearly 30,000 suppliers in 90 countries. Currently, IBM has suppliers in the United States, Canada, Japan, and Italy to name a few, including companies Shenzeen Sollan Tech (China), Intel, and Wal-mart. With so many suppliers, maintaining well-organized logistics and operations is a necessity for IBM.

Operations and Logistics

One of the company’s competitive weaknesses is their dependence on their suppliers. IBM’s business could really suffer if a supplier fails to deliver components, supplies, and raw materials in the allocated time and the correct quantities. Furthermore, laws and regulations in suppliers’ countries could affect IBM negatively since over 60% of the company’s revenues come from outside of the U.S. (IBM Annual Report, 2010). On the other hand, having thousands of suppliers has permitted IBM to have a large global intelligent utility network and partnership agreements. The company has 20 million smart meters (four times any other utilities industry) and the largest smart grid technology in the world (Gale Business Database: IBM, 2011). IBM has economies of scale, a significant competitive advantage. Jeff St. John, Gigaom.com blogger, says “While startups may have innovative technologies to add to the picture, ‘We [IBM] work well at scale,’ Bartlett (vice president of IBM) said.” Central Maine Power, an electric utility company, partnered with Trilliant, a smart grid communications company, mid-2010 to provide 620,000 customers with smart energy using IBM’s smart meter software platform (St. John, “IBM: All Your Smart Meters Are Belong to Us,” 2011). Finally, IBM operates in five highly competitive business segments: Global Technology Services, Global Business Services, Software, Systems and Technology, and Global Financing (IBM Annual Report, 2010). In order to maintain and increase their market share and profit margin, IBM must continue with “cutting-edge” innovation in their logistics and operations, as well as, their marketing and services activities (IBM Annual Report, 2010). Samuel Palmisano, at the September 21, 2010 GridWise Global Forum in Washington, D.C., says, “Our world is becoming interconnected. […] In just three years, IP traffic is expected to total more than half a zettabyte (It’s a 1 followed by 21 zeros).” Competition is fierce for IBM, being in the computer/technology industry. Any failures in their value-chain could be detrimental to the company because their competitors are not far behind, if at all.

Financial Ratio Analysis

Competitor Dell, Inc.

Dell, Inc. was founded in 1984 by Michael Dell, who built and sold IBM PC-compatible computers from his University of Texas at Austin dorm room (Dell.com, “The History of Dell Inc.,” 2011). Their headquarters are now located in Round Rock, Texas and is one of the leading technology companies that offers mobility products, desktop personal computers, software and peripherals, servers and networking, and storage (Dell Annual Report, 2010). Though Dell does offer business related services, such as consulting and applications and business process services, the company operates primarily in the computer industry, as one of IBM’s direct competitors.

Financial Ratios Retrieved from Mergent Online Database

(All results are stated in U.S. Dollars)

1. Short-term solvency, or liquidity, ratios

For the year ended 2010, the current ratio for Dell, Inc. and IBM is 1.28 and 1.19, respectively. In that aspect, Dell, Inc. is making .09 more in current assets than IBM for every $1 in current liabilities, but since both are large companies, it does not make a significant difference in liquidity. The important data in this case is for the years ended 2010, 2009, and 2008, Dell, Inc.’s current ratio has increased, whereas IBM has fluctuated.

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| **Company Name** | **Current Ratio - 2010** |
| Dell Inc | 1.28 |
| International Business Machines Corp. | 1.19 |

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| **Company Name** | **Current Ratio - 2009** |
| Dell Inc | 1.36 |
| International Business Machines Corp. | 1.36 |

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| **Company Name** | **Current Ratio - 2008** |
| Dell Inc | 1.07 |
| International Business Machines Corp. | 1.15 |

Dell, Inc. has higher net current assets compared to IBM for the years ended 2010 and 2009. In 2010, Dell’s net current assets more than doubled that of IBM’s (2.36 times) and has shown a 306% increase from the year ended 2008 to year ended 2009.

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| **Company Name** | **Net Current Assets % TA - 2010** |
| Dell Inc | 15.70 |
| International Business Machines Corp. | 6.66 |

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| **Company Name** | **Net Current Assets % TA - 2009** |
| Dell Inc | 19.97 |
| International Business Machines Corp. | 11.86 |

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| **Company Name** | **Net Current Assets % TA - 2008** |
| Dell Inc | 4.91 |
| International Business Machines Corp. | 6 |

The quick ratio for Dell and IBM are not significantly different, though IBM’s ratio has been slightly higher in current assets after inventory for 2009 and 2008. It simply shows illiquid inventory each company has in respects to assets and liabilities.

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| **Company Name** | **Quick Ratio - 2010** |
| Dell Inc | 1.03 |
| International Business Machines Corp. | 0.98 |

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| **Company Name** | **Quick Ratio - 2009** |
| Dell Inc | 1.05 |
| International Business Machines Corp. | 1.13 |

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| **Company Name** | **Quick Ratio - 2008** |
| Dell Inc | 0.85 |
| International Business Machines Corp. | 0.95 |

1. Long-term solvency, or financial leverage, ratios

The interest coverage for IBM is nearly three times higher than Dell’s, allowing them a greater ability to meet interest expenses. Although, this cannot truly be determined because Dell, Inc. shows no data for years prior to 2010, and other factors are not included.

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| **Company Name** | **Interest Coverage - 2010** |
| Dell Inc | 23.87 |
| International Business Machines Corp. | 65.76 |

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| **Company Name** | **Interest Coverage - 2009** |
| Dell Inc | - |
| International Business Machines Corp. | 55.23 |

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| **Company Name** | **Interest Coverage - 2008** |
| Dell Inc | - |
| International Business Machines Corp. | 48.30 |

According to Dell, Inc.’s financials, the company has higher total stockholders’ equity to long-term debt than IBM. IBM’s higher long-term debt to equity ratio may indicate future liquidity problems.

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| **Company Name** | **LT Debt to Equity - 2010** |
| Dell Inc | 0.61 |
| International Business Machines Corp. | 0.95 |

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| **Company Name** | **LT Debt to Equity - 2009** |
| Dell Inc | 0.44 |
| International Business Machines Corp. | 0.97 |

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| **Company Name** | **LT Debt to Equity - 2008** |
| Dell Inc | 0.09 |
| International Business Machines Corp. | 1.69 |

IBM’s debt/equity ratios for the years ended 2010, 2009, and 2008 are much higher than Dell’s. Taken into consideration the technological expansions IBM has aggressively financed could potentially generate greater earnings than Dell. Also, IBM operates in multiple industries; while Dell is primarily in the computer industry makes a difference in these ratios. Personal computer companies have a debt to equity ratio of under 0.5 (Investopedia.com, 2011).

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| **Company Name** | **Total Debt to Equity - 2010** |
| Dell Inc | 0.72 |
| International Business Machines Corp. | 1.24 |

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| **Company Name** | **Total Debt to Equity - 2009** |
| Dell Inc | 0.47 |
| International Business Machines Corp. | 1.15 |

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| **Company Name** | **Total Debt to Equity - 2008** |
| Dell Inc | 0.15 |
| International Business Machines Corp. | 2.52 |

1. Asset utilization, or turnover, ratios

IBM

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| --- | --- | --- | --- | --- | --- | --- |
| **Asset Management** | **12/31/2010** |  | **12/31/2009** |  | **12/31/2008** |  |
| Total Asset Turnover | 0.9 |  | 0.88 |  | 0.9 |  |
| Receivables Turnover | 3.63 |  | 3.52 |  | 3.67 |  |
| Inventory Turnover | 21.79 |  | 20.01 |  | 21.61 |  |
| Accounts Payable Turnover | 13.11 |  | 13.25 |  | 13.72 |  |
| Accrued Expenses Turnover | 20.95 |  | 20.98 |  | 22.3 |  |
| Property Plant & Equip Turnover | 7.07 |  | 6.73 |  | 7.03 |  |
| Cash & Equivalents Turnover | 8.74 |  | 7.68 |  | 7.45 |  |

Dell

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| --- | --- | --- | --- | --- | --- | --- |
| **Asset Management** | **01/29/2010** |  | **01/30/2009** |  | **02/01/2008** |  |
| Total Asset Turnover | 1.76 |  | 2.27 |  | 2.3 |  |
| Receivables Turnover | 7.08 |  | 8.67 |  | 8.86 |  |
| Inventory Turnover | 45.51 |  | 48.99 |  | 53.76 |  |
| Accounts Payable Turnover | 5.39 |  | 6.19 |  | 5.59 |  |
| Accrued Expenses Turnover | 32.65 |  | 35.37 |  | 26.14 |  |
| Property Plant & Equip Turnover | 23.8 |  | 24.78 |  | 24.15 |  |
| Cash & Equivalents Turnover | 5.59 |  | 7.6 |  | 7.08 |  |

From the asset utilization ratios, Dell, Inc. is managing their inventory more efficiently than IBM, and the company is also collecting on their sales about twice as fast as IBM in the past three years. In this case, IBM has a competitive disadvantage compared to Dell.

1. Profitability ratios

IBM

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| --- | --- | --- | --- | --- | --- | --- |
| **Profitability Ratios** | **12/31/2010** |  | **12/31/2009** |  | **12/31/2008** |  |
| ROA % (Net) | 13.33 |  | 12.29 |  | 10.7 |  |
| ROE % (Net) | 64.94 |  | 74.37 |  | 58.66 |  |
| ROI % (Operating) | 36.15 |  | 35.39 |  | 28.6 |  |
| EBITDA Margin % | 24.86 |  | 24.48 |  | 21.71 |  |

Dell

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| --- | --- | --- | --- | --- | --- | --- |
| **Profitability Ratios** | **01/29/2010** |  | **01/30/2009** |  | **02/01/2008** |  |
| ROA % (Net) | 4.78 |  | 9.19 |  | 11.11 |  |
| ROE % (Net) | 28.99 |  | 61.35 |  | 71.48 |  |
| ROI % (Operating) | 27.22 |  | 59.8 |  | 71.77 |  |
| EBITDA Margin % | 5.61 |  | 6.65 |  | 6.59 |  |

IBM has a definite competitive advantage in profitability over Dell, Inc. IBM’s return on assets for the year ended 2010 was more than 2.79 times higher than Dell’s. IBM’s return on equity for years ended 2010 and 2009 have been greater than Dell’s, with the previous year doubling that of Dell’s. Overall, IBM’s profit margin and advantage over Dell has increased with each passing year, 2008, 2009; and for year ended 2010, IBM’s profit margin was more than four times greater than Dell’s.

1. Market Value Ratios

IBM

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| --- | --- | --- | --- | --- | --- | --- |
| **Per Share** | **12/31/2010** |  | **12/31/2009** |  | **12/31/2008** |  |
| Cash Flow per Share | 15.41 |  | 15.65 |  | 13.8 |  |
| Book Value per Share | 18.77 |  | 17.34 |  | 10.06 |  |

Dell

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Per Share** | **01/29/2010** |  | **01/30/2009** |  | **02/01/2008** |  |
| Cash Flow per Share | 2 |  | 0.96 |  | 1.78 |  |
| Book Value per Share | 2.88 |  | 2.2 |  | 1.86 |  |

It is obvious IBM has the competitive advantage in market value over competitor Dell. IBM’s cash flow per share is more than seven times that of Dell’s for the past three years, and more than five times book value per share.

Conclusion

IBM has competitive advantages in profitability, market value, and interest coverage compared to competitor Dell. The company has competitive disadvantages when it comes to the ability to efficiently manage inventory and liquidity. IBM operates in a highly competitive environment, and the company’s asset management and short-term solvency ratios reflect that factor compared to Dell, among IBM’s other competitors. To remain industry leader, it is imperative for IBM to maintain a strong value chain with continual innovation, progress, and acknowledge their industry competitors.

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**International Business Machines Corp. (NYS: IBM)**

**General Company Information**

|  |  |
| --- | --- |
| **Principal Office** | **Website** |
| One New Orchard Road Armonk, NY 10504 USA | www.ibm.com |
|  | |
| **Phone** | **Primary NAICS** |
| 914 499-1900 | 541519 : Other Computer Related Services |
|  | |
| **Fax** | **Closing Stock Price** |
| 914 765-4190 | 166.12 (as of 06/23/2011) |
|  | |
| **Auditor** | **Incorporated** |
| PricewatehouseCoopers LLP | June 1911 , NY, United States |
|  | |
| **Number of Employees** | **Mergent Dividend Achiever** |
| 426,751 (Year End Average Staff as of 12/31/2010) | Yes, # of Years: 13 |
|  | |
| **Country** | **Number of Shareholders** |
| United States | 523,553 (as of 02/10/2011) |
|  | |
| **Exchange and Ticker** | **Annual Meeting** |
| NYS : IBM | In April |
|  | |
| **Primary SIC** |  |
| 7379 : Computer related services, nec |  |
|  | |

**Business Summary**

International Business Machines operates in five principal business segments: Global Technology Services, which primarily provides information technology infrastructure services and business process services; Global Business Services, which primarily provides professional services and application outsourcing services; Software, which consists primarily of middleware and operating systems software; Systems and Technology, which provides business applications requiring enhanced computing power and storage capabilities; and Global Financing, which facilitates clients' acquisition of its systems, software and services.

**Company Financials**

**Ratios**

Exchange rate used is that of the Year End reported date

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| --- | --- | --- | --- | --- | --- | --- |
| **Profitability Ratios** | **12/31/2010** |  | **12/31/2009** |  | **12/31/2008** |  |
| ROA % (Net) | 13.33 |  | 12.29 |  | 10.7 |  |
| ROE % (Net) | 64.94 |  | 74.37 |  | 58.66 |  |
| ROI % (Operating) | 36.15 |  | 35.39 |  | 28.6 |  |
| EBITDA Margin % | 24.86 |  | 24.48 |  | 21.71 |  |
| Calculated Tax Rate % | 24.79 |  | 25.98 |  | 26.21 |  |
| Revenue per Employee | 234,024 |  | 218,737 |  | 235,909 |  |

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| **Liquidity Ratios** | **12/31/2010** |  | **12/31/2009** |  | **12/31/2008** |  |
| Quick Ratio | 0.98 |  | 1.13 |  | 0.95 |  |
| Current Ratio | 1.19 |  | 1.36 |  | 1.15 |  |
| Net Current Assets % TA | 6.66 |  | 11.86 |  | 6 |  |

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| **Debt Management** | **12/31/2010** |  | **12/31/2009** |  | **12/31/2008** |  |
| LT Debt to Equity | 0.95 |  | 0.97 |  | 1.69 |  |
| Total Debt to Equity | 1.24 |  | 1.15 |  | 2.52 |  |
| Interest Coverage | 65.76 |  | 55.23 |  | 48.3 |  |

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| **Asset Management** | **12/31/2010** |  | **12/31/2009** |  | **12/31/2008** |  |
| Total Asset Turnover | 0.9 |  | 0.88 |  | 0.9 |  |
| Receivables Turnover | 3.63 |  | 3.52 |  | 3.67 |  |
| Inventory Turnover | 21.79 |  | 20.01 |  | 21.61 |  |
| Accounts Payable Turnover | 13.11 |  | 13.25 |  | 13.72 |  |
| Accrued Expenses Turnover | 20.95 |  | 20.98 |  | 22.3 |  |
| Property Plant & Equip Turnover | 7.07 |  | 6.73 |  | 7.03 |  |
| Cash & Equivalents Turnover | 8.74 |  | 7.68 |  | 7.45 |  |

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| --- | --- | --- | --- | --- | --- | --- |
| **Per Share** | **12/31/2010** |  | **12/31/2009** |  | **12/31/2008** |  |
| Cash Flow per Share | 15.41 |  | 15.65 |  | 13.8 |  |
| Book Value per Share | 18.77 |  | 17.34 |  | 10.06 |  |

**Dell Inc (NMS: DELL)**

**General Company Information**

|  |  |
| --- | --- |
| **Principal Office** | **Website** |
| One Dell Way Round Rock, TX 78682 USA | www.dell.com |
|  | |
| **Phone** | **Primary NAICS** |
| 512 338-4400 | 334111 : Electronic Computer Manufacturing |
|  | |
| **Fax** | **Closing Stock Price** |
| 512 283-6161 | 16.27 (as of 06/23/2011) |
|  | |
| **Auditor** | **Incorporated** |
| PricewaterhouseCoppers LLP | May 1984 , TX, United States |
|  | |
| **Number of Employees** | **Mergent Dividend Achiever** |
| 100,300 (Approximate Full-Time as of 01/28/2011) | No |
|  | |
| **Country** | **Number of Shareholders** |
| United States | 29,320 (record) (as of 03/04/2011) |
|  | |
| **Exchange and Ticker** |  |
| NMS : DELL |  |
|  | |
| **Primary SIC** |  |
| 3571 : Electronic computers |  |
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**Business Summary**

Dell is a holding company. Through its subsidiaries, Co. provides a range of technology product categories, including mobility products, desktop personal computers, software and peripherals, servers and networking products, storage, and services. Co.'s services include a range of configurable information technology and business services, including infrastructure technology, consulting and applications, and product-related support services. Co. also provides software and peripheral products. Co. conducts its businesses through four reportable segments: Large Enterprise; Public; Small and Medium Business; and Consumer.

**Company Financials**

**Ratios**

Exchange rate used is that of the Year End reported date

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| --- | --- | --- | --- | --- | --- | --- |
| **Profitability Ratios** | **01/29/2010** |  | **01/30/2009** |  | **02/01/2008** |  |
| ROA % (Net) | 4.78 |  | 9.19 |  | 11.11 |  |
| ROE % (Net) | 28.99 |  | 61.35 |  | 71.48 |  |
| ROI % (Operating) | 27.22 |  | 59.8 |  | 71.77 |  |
| EBITDA Margin % | 5.61 |  | 6.65 |  | 6.59 |  |
| Calculated Tax Rate % | 29.2 |  | 25.45 |  | 22.82 |  |
| Revenue per Employee | 552,576 |  | 776,538 |  | 695,022 |  |

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| **Liquidity Ratios** | **01/29/2010** |  | **01/30/2009** |  | **02/01/2008** |  |
| Quick Ratio | 1.03 |  | 1.05 |  | 0.85 |  |
| Current Ratio | 1.28 |  | 1.36 |  | 1.07 |  |
| Net Current Assets % TA | 15.7 |  | 19.97 |  | 4.91 |  |

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| **Debt Management** | **01/29/2010** |  | **01/30/2009** |  | **02/01/2008** |  |
| LT Debt to Equity | 0.61 |  | 0.44 |  | 0.09 |  |
| Total Debt to Equity | 0.72 |  | 0.47 |  | 0.15 |  |
| Interest Coverage | 23.87 |  | - |  | - |  |

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| **Asset Management** | **01/29/2010** |  | **01/30/2009** |  | **02/01/2008** |  |
| Total Asset Turnover | 1.76 |  | 2.27 |  | 2.3 |  |
| Receivables Turnover | 7.08 |  | 8.67 |  | 8.86 |  |
| Inventory Turnover | 45.51 |  | 48.99 |  | 53.76 |  |
| Accounts Payable Turnover | 5.39 |  | 6.19 |  | 5.59 |  |
| Accrued Expenses Turnover | 32.65 |  | 35.37 |  | 26.14 |  |
| Property Plant & Equip Turnover | 23.8 |  | 24.78 |  | 24.15 |  |
| Cash & Equivalents Turnover | 5.59 |  | 7.6 |  | 7.08 |  |

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| **Per Share** | **01/29/2010** |  | **01/30/2009** |  | **02/01/2008** |  |
| Cash Flow per Share | 2 |  | 0.96 |  | 1.78 |  |
| Book Value per Share | 2.88 |  | 2.2 |  | 1.86 |  |