



# IBM's Mainframe Charter: the new value proposition

**IBM is fully committed to the mainframe platform, not just as an engine for back-end transactional systems but as a highly cost-effective platform for strategic new applications. With its recently published Mainframe Charter, the company is providing a blueprint for establishing the zSeries as the system of choice for new and existing enterprise workloads.**

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With its August 22 Charter (see Figure 1), IBM is making it clear to its most influential customers that the mainframe is here to stay, and that the company is seriously addressing users' concerns over technical and financial complexity. The mainframe needs to be viewed simultaneously as a workhorse for very large-scale transaction processing and data management, where it really has no direct competition, and as an agile, cost-effective solution for new application needs, where the competition is much stronger. IBM's intention with the Charter is to lay the groundwork for a series of announcements that will establish the credibility of mainframe TCO/TCA, while positioning the zSeries as a key enabler for infrastructure simplification.

The Charter is divided into three sections – Innovation, Value and Community.

## **Innovation and infrastructure simplification**

Under *Innovation*, IBM is underlining a renewed commitment to leveraging the architectural superiority of the mainframe platform. Most of the recent developments in workload management, support for on-demand computing, and autonomies have growth out of the S/390 architecture, and it's on the zSeries that these capabilities are most mature. After a number of years when the mainframe lost some of its strategic status within the IBM company – which was curious, in view of the high proportion of revenues that come from mainframe-related business – the Charter offers a clear message that the zSeries is now the starting point for key innovative developments.

IBM's other message on innovation is infrastructure simplification. Quite apart from the internal simplification that IBM has achieved with the z990 hardware specification and software pricing – a prerequisite to proving price/performance superiority over Unix for new workloads – the system is at the center of a strong marketing drive within IBM to help customers reduce the level of complexity within the data center environment. Reducing complexity is a very high priority within many large and medium-sized enterprises, and the mainframe has been positioned for some time as a consolidation engine for distributed Linux applications. But IBM is now taking this a stage further: there have been a number of interesting announcements in recent weeks that point towards a hybrid architecture, combining the 'scale up' capabilities of the zSeries with the 'scale out' strengths of blade technology.

Over the next few months, we expect to see some radical developments in the way that the zSeries is applied to the task of infrastructure simplification.



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### The mainframe value proposition

Mainframe pricing is never any easy issue to address. The zSeries is still responsible for a large chunk of IBM's profits, and the company performs a continual juggling act:

- keeping shareholders happy through revenue protection;
- satisfying the large and influential customers who make up the existing zSeries user base; and
- generating new business at the lower end of the scale by proving the cost-of-ownership benefits of the zSeries to customers who are often bewildered by the complexity for mainframe pricing.

With the *Value* section of the Mainframe Charter, and the accompanying announcements on streamlining software and hardware pricing, IBM has made an impressive move to address price-competitiveness for new sales, while providing higher cost visibility and consistency across the board.

In brief, the pricing announcements include:

- an impressive memory price reduction from around \$40,000/GB down to \$10,000/GB across the whole hardware range;
- a single price for the Integrated Facility for Linux (IFL) of \$125,000, against across the whole z800, z900, z990 range. For a z990 user, this equates to 50% more IFL capacity than a z900 for the same price;
- on/off Capacity on Demand for IFLs from the end of October 2003;
- more attractive workload-based pricing for medium-sized users (under 315 MSUs);

#### It is our intention to continue to:

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|-------------------|---|
| <b>Innovation</b> | <ul style="list-style-type: none"><li>• Provide leadership in innovation to enhance the use of IBM zSeries to support increasingly integrated and flexible business processes for the on demand business.</li><li>• Maintain zSeries' position as a benchmark for flexible, efficient, and responsive platforms for highly complex, integrated environments running a wide range of mission-critical workloads.</li><li>• Improve the autonomic and self-managing capabilities of the zSeries while working to simplify user processes and system administration tasks.</li></ul> |
| <b>Value</b>      | <ul style="list-style-type: none"><li>• Enhance the value proposition and lower the cost of computing of zSeries solutions in a way that is compelling, clear, and consistent.</li><li>• Extend the on demand characteristics of zSeries servers, highlighting its strengths as an environment for usage-based computing.</li><li>• Increase the ability to account for allocation and use of zSeries resources in an on-demand environment.</li></ul>  |
| <b>Community</b>  | <ul style="list-style-type: none"><li>• Support programs designed to foster vitality in the zSeries community, helping to promote a strong application portfolio and world-class support services.</li><li>• Provide the skills and expertise to assist customers in designing, developing, and deploying on demand solutions built on a foundation whose cornerstone is zSeries.</li><li>• Leverage key open standards and common structures to enhance the use of zSeries in large, heterogeneous environments.</li></ul>   |

**Figure 1: The IBM Mainframe Charter**



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- a hefty 80% price reduction in New Application License Charges (NALC), aimed at encouraging new development on packages such as SAP and Siebel;
- daily On/Off Capacity on Demand for some software products on the z990;
- sub-capacity pricing plans for users who want to try WebSphere in a partition;
- base memory raised from 8GB to 16GB on the z990, at no additional charge;
- MSU value reductions of about 10% on the z990, to allow customers to derive cost benefits from performance enhancements;
- the z990 On-Demand Business Investment Promotion, which offers substantial rebates on selected add-on z990 purchases until the end of 2003.

The Charter itself focuses on the value proposition of mainframe computing, and the need to make pricing schemes clearer and resource usage more measurable. It also underlines IBM's commitment to extending the range of on-demand facilities that are available to mainframe users. The announcements certainly live up to the promise of the Charter: memory pricing is definitely clearer and more consistent than ever before, and standardized pricing for the Integrated Facility for Linux is very welcome. The daily on/off capacity on demand, which has been extended to the Linux environment, also offers great flexibility for users.

Inevitably, the most attractive discounts (such as the 80% on NALC) are aimed at improving the mainframe's competitive position for new development, and if IBM fails to win over the Unix die-hards, it is unlikely to be for cost reasons. The announcements do provide some significant savings for larger users, however, and especially for the medium-sized mainframe sites that so often get overlooked in the struggle between top-end negotiating strength and low-end price flexibility.

Pricing is clearly the biggest obstacle that IBM faces in retaining existing customers and expanding its user base. These announcements go a long way towards placating existing users, while giving other server platforms (including IBM's own distributed platforms) direct – and measurable – competition for new application business.

### Revitalizing the mainframe community

The other issue that IBM needs to address in boosting mainframe business is the availability of relevant skills. One of the defining characteristics of the mainframe (to a greater or lesser degree) is the level of customization that applications receive, and the distinct (some would say superior!) skill-set that mainframe support staff develop.

Today's zSeries systems require relatively little technical support, and certainly no more than competitive boxes. Nevertheless, in the new markets that IBM is determined to exploit, mainframe skills are not only unavailable but are sometimes resisted among a generation of IT specialists who have emerged from universities that focus on Unix and NT.

The main *Community* message in the Mainframe Charter is a commitment to building a flourishing skills base among younger technical specialists. IBM is also providing a 30% increase in the free zSeries technical resources that it offers customers to help them design and deploy new applications within the zSeries environment, and is training up thousands of IBMers in mainframe management principles. This message is a vital one, not just for companies considering zSeries for the first time, but also for enterprise IT managers seeking assurances over the long-term prospects of the mainframe.



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The Charter also emphasizes IBM's commitment to:

- Open Source, and the whole Linux partner community;
- strategic application providers in the ERP and CRM space, such as SAP, Siebel, and PeopleSoft, whose co-operation is so essential to IBM's long-term plans for the zSeries; and
- emerging standards bodies in the Grid and Web Services areas, where the zSeries' unchallenged scalability and management strengths could open up a new market direction for the platform.

Ironically, one group that may no longer feel part of the IBM Community are the more traditional legacy mainframe ISVs, whose management tools and sub-systems are so deeply entrenched in many IBM mainframe installations. Through initiatives such as Winback, IBM is aggressively promoting ways for customers to break away from third-party vendors that are not toeing the official line on support for workload and usage-based pricing and other cost reduction schemes. Of course, many would claim that IBM is just as guilty of issuing conflicting and incomprehensible pricing schemes as its competitors, and there's still plenty of room for streamlining and simplifying zSeries costs. But these announcements at least offer a very large step in the right direction.

### Bottom line

IBM faces two major challenges as it sets out to grow the zSeries' market share. One is to offer the best price/performance and technical innovation that is available, and the second is to *prove* that it can offer these advantages on the zSeries. For those of us who have grown up with enterprise-class technology, there is no need for proof; but IBM is operating in a market where the mainframe has widely been perceived as a legacy technology. Comparing the zSeries on a MIPS-for-MIPS basis with Unix and top-end Wintel systems is frankly pretty meaningless, but many potential buyers do not fully understand the manageability and availability characteristics that account for a large part of the mainframe's value.

The Mainframe Charter is a far-reaching initiative that, on the one hand, reassures existing users about the future of the zSeries; and on the other hand, sets the wheels in motion to simplify zSeries pricing, revitalize the surrounding technical community, and position the platform as a unique enabler of infrastructure simplification.

As such, the Charter marks a very important step in IBM's long-term strategy.

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