IBM announced the planned spinoff of its Managed Infrastructure Services unit. Sourcing, procurement and vendor management leaders contracting or seeking to contract managed workplace services should evaluate and address the potential impacts of this spinoff.

Key Background

On 8 October 2020, IBM announced its intention to spin off a part of its Managed Infrastructure Services unit of its Global Technology Services (GTS) operation into a new public company, temporarily called “NewCo.” The transaction is expected to be completed in the second half of 2021, with NewCo representing approximately $19 billion in annual revenue, operating in 115 countries with about 90,000 employees.

Considerations for Technology and Service Selection

This research is intended to provide relevant contextual information to help you consider and prepare for potential future risk or advantage. It is not a reevaluation of vendors, but rather an update based on publicly available information at a certain point in time. Because the results of corporate reorganizations typically change and evolve over time, our analysts will continue to monitor these changes. The next annual update of the Magic Quadrant will reflect the potential impact(s) that we determine the corporate reorganization may have on vendor positions.

We encourage you to use this perspective in conjunction with the existing Magic Quadrant as you consider initial resources for vendor evaluations and decision making. As you assess your unique business and technical requirements, always supplement this research with scheduled analyst inquiries to help you and begin to gain insight on further developments, before making any decision.

Market-Level Analysis

The managed workplace services (MWS) market has undergone significant changes over the last five years. It has evolved from a low-value, break/fix service model to a user-experience-focused service that seeks to improve employee productivity by improving on the friction points between employee and IT. This shift requires vendors to invest in new technologies that enable them to embed knowledge and intelligence into platforms to advance industrialization of their services while keeping quality high and costs low.
IBM has been reported in the managed workplace services Magic Quadrant since its first publication in 2017, and is a Leader in the current editions covering North America, Europe and Asia/Pacific. Since 2017, some of the better-positioned leaders in the MWS Magic Quadrant have adopted a more aggressive and transformational stance on workplace technology investment, taking on more outcome-based contract deals with risk-reward pricing models.

The COVID-19 pandemic and its displacement of the workforce has pivoted these more innovative vendors in this market to an even better position, with an increased need for digital workplace technologies to support the remote workforce. This has skyrocketed solutions such as desktop as a service (DaaS), augmented reality and virtual reality (AR/VR), the Internet of Things (IoT), unified endpoint management (UEM) and advanced remote management. Moving forward, the market for legacy end-user services that don’t provide an integrated user experience and don’t allow contracting for the outcome will become predominantly niche and hard to compete for value differentiation.

Provider-Level Analysis

While IBM has made important investments to modernize its MWS offerings, the services delivered to a significant portion of its client base have remained constant, and maintained a conservative, low-risk, traditional contract structure. NewCo will need to accelerate the adoption of new digital workplace technologies and deals based on user experience in order to compete with the prominent leaders in the MWS market. For MWS, the success of the deal will be measured by NewCo’s ability — or inability — to invest in digital workplace capabilities.

After the spinoff is complete, IBM will be a hybrid cloud platform and AI company with an estimated revenue of $59 billion a year. NewCo will be a managed infrastructure services company with approximately $19 billion in revenue a year, and is expected to concentrate the majority (if not all) of the cost-driven MWS contracts. While NewCo might acquire relative agility with the spinoff, it will need to break free from legacy processes that cause many of its clients to perceive it as inflexible.

Key issues to watch include:

- **NewCo’s roadmap**: What is NewCo’s plan for investing in new-generation workplace technologies, and how will it affect your organization’s existing contract?
- **Revenue growth or loss continuation**: This will provide a gauge of how existing clients and prospects are reacting to NewCo.
- **Margin stability**: Margins will begin to shrink if price competition becomes a staple to retain or win new business, but it could also denote investments to improve capabilities. Margins need to be monitored with an understanding of what is impacting them.
- **New investments and strategic partnerships**: These will be important to deliver transformational services needed to be successful in this market.
- **Employee morale**: If the employee base embraces the change, it could reinvigorate NewCo. Conversely, it could take a toll on the employees. In either case, clients will see changes be
impacted and should look out for the potential service impacts that may arise if many staff changes occur at once.

- **The new relationship between IBM and NewCo:** Will both companies compete for the same MWS deal in the market?

Recommendations for SPVM leaders who have or are considering MWS services with IBM/NewCo:

- Evaluate the impact of the spinoff on the timing of ongoing workplace transformation projects through a business impact analysis exercise.

- When renewing existing MWS contracts, consider shorter terms (12 to 24 months) as NewCo defines and implements its business strategy for the future. This will allow room to determine whether NewCo’s strategy aligns with your organization’s vision moving forward.

- If your organization feels that it will be negatively impacted by the change, or if restructuring impacts service quality, then assess the Termination for Change of Business clauses of your existing IBM MWS contract to determine whether the spinoff allows for contract termination.

- Work with NewCo leadership to lay out a communication plan so the right people in your organization are apprised of changes that can potentially impact your services with as much lead time as possible.

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How to Plan for and Respond to a Strategic Vendor’s Merger, Acquisition, or Divestiture

The Business Impact Analysis: A Digital Business Essential

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Magic Quadrant for Managed Workplace Services, North America