
IBM ACQUIRES ADVANCED

STEVE MCDOWELL, CHIEF ANALYST
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CONTEXT

IBM announced a definitive agreement to acquire application modernization capabilities from Advanced, positioned by IBM as a strategic move to bolster its position in hybrid cloud and AI. The terms of the deal were not disclosed, but it is expected to close in the second quarter of 2024.

This acquisition will enhance IBM Consulting's services in mainframe application and data modernization, marking a significant step in IBM's ongoing commitment to supporting clients through their digital transformation journeys.

Reflecting the urgent need for rapid organizational transformation, the acquisition promises to address the complexities of modernizing mainframe systems, which is crucial for many enterprises' hybrid cloud strategies.

The move also aligns with IBM's broader acquisition strategy under CEO Arvind Krishna, emphasizing the company's deepening focus on hybrid cloud and AI capabilities.

WHO IS ADVANCED?

Advanced is recognized as a top international provider of application modernization services, specializing in legacy modernization:

- **Top Three in UK Business Software and Services:** Advanced ranks as one of the top three providers of business software and services in the UK.
- **Cloud Solutions Expertise:** The company has a strong history of assisting customers transitioning to cloud-based solutions, catering to public, private, and third-sector organizations.
- **Significant Business Scale:** Advanced boasts a turnover of US\$339 million, serves over 20,000 customers, and employs over 2,500 workers.
- **Focus on Digital Foundations:** The company's services are geared towards creating digital foundations that enhance productivity, insight, and innovation while ensuring safety, security, and compliance.

- **Simplifying Business Challenges:** Advanced is committed to simplifying complex business challenges through mission-critical software.

BENEFITS TO IBM/IBM CUSTOMERS

The acquisition of application modernization capabilities from Advanced presents several benefits to IBM and its customers:

1. **Enhancement of Mainframe Modernization Services:** The acquisition brings additional talent, tools, and expertise to IBM Consulting. This will significantly enhance IBM's mainframe application and data modernization services, an area increasingly crucial for many enterprises.
2. **Alignment with Hybrid Cloud and AI Strategy:** The acquisition is a strategic fit for IBM's focus on hybrid cloud and AI, key areas where the company seeks to expand and strengthen its market position.
3. **Addressing Client Transformation Needs:** By integrating Advanced's capabilities, IBM can better support its clients' digital transformation journeys, particularly in modernizing and integrating mainframe systems into hybrid cloud environments.
4. **Access to Specialized Expertise:** Advanced's focus on mainframe modernization and migration services brings specialized expertise to IBM, particularly in areas like OpenVMS and VME migration.
5. **Synergy with Existing IBM Products:** The assets and services from Advanced are expected to complement IBM's existing product, watsonx Code Assistant for Z, enhancing its capabilities in AI-assisted application modernization for IBM Z systems.
6. **Experienced Talent Pool:** Integrating Advanced's seasoned professionals, who possess over 30 years of experience in mainframe strategies and application modernization, will enrich IBM Consulting's talent base.
7. **Strengthening IBM's Market Position:** The acquisition reinforces IBM's position in the IT consulting market, particularly in areas requiring complex modernization of legacy systems.
8. **Competitive Advantage:** The addition of these capabilities can provide IBM with a competitive edge, especially as mainframe systems remain central to the hybrid cloud strategies of many organizations.
9. **Expanded Market Reach:** The acquisition allows IBM to tap into new customer segments and industries where Advanced has established a strong presence, thereby expanding IBM's market reach and customer base.

10. **IT Services Innovation:** By combining Advanced's modernization tools with IBM's existing technologies, IBM can innovate further in IT services, especially in areas requiring complex mainframe modernization.
11. **Optimized Resource Allocation:** The enhanced automation and AI capabilities acquired from Advanced can enable IBM to optimize resource allocation by automating mundane and repetitive IT tasks, allowing more focus on strategic initiatives.
12. **Building Trust in Autonomous Systems:** With Advanced's capabilities, IBM can offer solutions that allow clients to gradually adapt to and trust autonomous systems, which is crucial for successfully adopting advanced technologies.

Overall, this acquisition positions IBM to more effectively meet the evolving needs of its clients in a rapidly changing digital landscape, particularly in cloud integration and AI-driven technology solutions.

ANALYSIS

The acquisition clearly indicates IBM's commitment to strengthening its position in the mainframe modernization market. This sector remains vital for many enterprises in their digital transformation journey.

From a strategic standpoint, the acquisition is well-aligned with IBM's broader objectives. It amplifies IBM Consulting's capabilities, enabling the company to offer more comprehensive services in an increasingly crucial area for businesses seeking to modernize their legacy systems.

Integrating Advanced's tools and expertise could accelerate IBM's ability to deliver complex transformation projects, especially those involving integrating mainframe systems with modern cloud environments.

However, it's essential to consider the challenges inherent in such acquisitions. Integrating new capabilities and aligning organizational cultures is not always seamless and could pose short-term hurdles.

IBM's strategic move to acquire application modernization capabilities from Advanced underlines its aggressive pursuit of leadership in the hybrid cloud and AI spaces. This acquisition, among more than 35 since Arvind Krishna's tenure as CEO began, highlights IBM's commitment to evolving its service offerings and addressing the complex demands of the modern digital landscape.

By continually augmenting its capabilities through targeted acquisitions, IBM is expanding its technological breadth and reinforcing its position as a pivotal player in

the industry. This latest acquisition is yet another example of IBM's forward-thinking approach to helping enterprises navigate the complexities of hybrid cloud and AI.



RESEARCH NOTE

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