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Monday December 17 08:14 AM EST

The end of the road for the IBM PC

By John C. Dvorak, PC Magazine

Is IBM considering dumping or spinning off its PC business? Chances are good, says John Dvorak. Aferall, it's not as though IBM needs to sell personal computers to survive.



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COMMENTARY--It's not as though IBM needs to sell personal computers to survive. In fact, the company's financials may improve if it gives up on the PC and concentrates on enterprise iron, advanced technologies, storage, and services—all areas in which IBM does well. The company has not been a leader with its desktop machines, and appears to lose money on them. Rumors persist that IBM will end this aspect of its business. Perhaps this is the time to create a Lexmark-like company, and spin off the PC business.

This concept is not revolutionary, given the constant changes IBM has made to its PC business. A few years ago, the company consolidated its consumer division, and a more recent reorganization makes unclear where the desktop computer sits in the scheme of things at the company. Now is probably IBM's best opportunity to get out clean.

As I write this, the company may indeed be planning such a move. If you haven't noticed, it was conspicuously absent in any official way from all those celebrations of the 20th anniversary of the PC. I actually questioned some upper executives about the company possibly doing something at Comdex (news - web sites) to commemorate the PC, and was told politely that they weren't interested.

Everything at IBM has to have a business case. In other words, an expense has to somehow benefit the bottom line. If IBM sees PCs as a dead-end business,

then why spend any money to celebrate them?

IBM has always had problems with products that become commodities. It first saw the PC that way in 1987 and discontinued the basic line of machines in favor of the more proprietary PS/2. When the 386 scene excited the business and the 486 proved to be a bonanza, IBM got back in and even experimented with a secondary line of machines called the Ambra. After the failure of OS/2 in the marketplace, the company slowly lost interest again until suddenly the ThinkPad rocketed to stardom. Only IBM's own inconsistent

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success stories have kept it in the desktop business.

The NetVista and ThinkPad lines are credible and snazzy, but people you talk to at the company are obviously more jazzed on the profitable ThinkPad than the unprofitable lines. In 1999, analysts estimated that IBM desktops lost one billion dollars for the company. That was during the last boom year!

IBM doesn't need to be in a business where it has been mostly the fourth or fifth player, which is embarrassing and doesn't help the company sell other systems or services. And you can be sure that having to pay stiff OS licensing fees to Microsoft for every machine sold is galling.

IBM went down this road before when it spun off its old typewriter division and turned it into the printer company Lexmark. Company officials may see the desktop scene the same way they saw typewriters back then: going nowhere. When IBM bundled its typewriters with the blossoming printer business, Lexmark was able to take a piece of the mass-market printer business and compete with the likes of HP, Epson and Canon. With the recent downturn in the market, there is no reason that IBM executives shouldn't be thinking the same thoughts regarding desktops. The business is perceived as being as dead as the typewriter business, but laptops can still make money the same way Lexmark made money with printers.

Although the ThinkPad is the top-selling laptop right now and especially popular with high-level executives and decision makers, IBM must know that the fickle laptop business can turn and decimate this dominance overnight. Now is the time to sell out.

Over the years, we've seen one company after another rise to the top only to fall and sometimes disappear from the laptop scene. Zenith was once the dominant player. The NEC Ultralite was big. Texas Instruments was very popular. Toshiba has made a couple of runs at the top spot. Now Sony is playing a good game, and Dell wants to make its machines the choice of executives. IBM's sleek Italian-inspired black-box designs are not invulnerable. The brand name and market share right now is enviable and valuable.

Although some would suggest that the market cannot handle yet another desktop computer company, we have to remind ourselves that an IBM spin-off would not be just any other company. In fact, if the Compaq-HP merger actually happens, the industry would have a net loss of computer companies, putting an IBM spin-off into a good situation where it would compete with one less big company.

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