Q&A-Hybrid cloud, AI resilient in all macro conditions; to continue hiring for deep technical skills: Rob Thomas, IBM

As the broader tech industry announces widespread job cuts, IBM is continuing to hire in areas of resiliency like hybrid cloud and artificial intelligence, **Rob Thomas, senior vice president software and chief commercial officer of IBM**, told the Reuters Global Markets Forum in Davos, Switzerland on Tuesday, January 17.

"The biggest change we've made in the last three years is investing in areas that we think are resilient. I would say (in) all macro conditions, it's things like data and AI, and we have the big focus on automation, cybersecurity and then what we call hybrid cloud, which is really helping clients work when they have multiple clouds, public and private, extending to edge," he said.

While the popularity of OpenAI's chatbot ChatGPT generates more interest in AI, Thomas says IBM's focus for artificial intelligence is on its applications for businesses to improve productivity.

Following are edited excerpts from the conversation:

Q: How do you see a probable recession impacting the IT sector and IBM in particular?

A: It's hard to predict macroeconomics, obviously, but here's why I'm really optimistic. I think regardless of what happens with global GDP (gross domestic product), history has really shown that IT and technology tend to outperform GDP by three points, four points, somewhere in that range. And if anything, you could argue that technology is becoming more important and not less important. So maybe there's even upside there potentially. I'm pretty optimistic as I'm talking to clients here and just in kind of normal day-to-day. I see a lot of focus on innovation. Regardless of the industry, clients are trying to figure out how do I use technology to innovate more to, I would say in some cases, either start or complete the work around digital transformation. But if you think about today's IBM, the biggest change we've made in the last three years is investing in areas that we think are resilient. I would say (in) all macro conditions, it's things like data and AI and we have the big focus on automation, cybersecurity and then what we call hybrid cloud, which is really helping clients work when they have multiple clouds, public and private, extending to edge.

Q: Has there been any impact on the pace of companies moving into cloud?

A: I would say what's changed there is the definition of cloud. If you go back five years, when I was in a discussion with the client about cloud, it was how fast can we get all of our stuff to a single public cloud? I don't hear anybody say that anymore. The discussion is completely different, which is there's an acceptance that the future is going to be multi cloud or hybrid cloud. Then it's about what do I move to public cloud, what do I keep running on premise. The pace, I would say if anything, is accelerating, but the destination is very different. It's not accelerating towards everything in a single public cloud. It's accelerating towards containers and running in multiple clouds and I'm pretty encouraged by that because I think that unlocks a lot of different innovation.

Q: IBM saw a stock price increase last year in a challenging market for equities. What were the key drivers of this outperformance and how do you plan to build upon this in 2023?

A: We really started to change the IBM strategy when Arvind Krishna came in to be CEO and at that time we made a few fundamental decisions. It was coming out of the acquisition of Red Hat, where we think open source is a trend that probably has

another 50 to 100 years of growth in technology. We've been able to continue to invest in Red Hat, accelerate that as we're working with clients. That has certainly been something that's helped us. Secondly, Arvind really focused the company on two areas, hybrid cloud and AI. Hybrid cloud being what I just mentioned on Red Hat. AI is, I would say, how do you help companies become more productive, not only in the use of technology, but how they make all of their employees more productive. And we saw really good traction on that throughout last year in terms of companies innovating in new ways. I think that has been straight. Third is we divested our outsourcing business, which was a lower growth business.

It was also a realisation that in the future we think companies are going to be more interested in owning their technology direction, as opposed to solely relying on a partner. This year is not about a new strategy, it's about consistency. We're actually really confident in the strategy. So how do we build on that? How do we get more client references? We were on a path where we wanted to do more than half of IBM's revenue through partners and that is a big change. It's hard to predict how fast something like that happens. The first place we started was partnering with hyperscalers, specifically AWS (Amazon Web Services) and Microsoft. But the ecosystem is broader than just hyperscalers and includes resellers. It's also working with other software partners. We've realized it's very hard for the average mid-size software company to invest in AI and we've made all our AI available as composable libraries that they can embed in their products. We see a lot of traction there as well.

Q: What's next for the IBM Cloud for Financial Services platform?

A: We're really pleased with the progress there. We were looking for something that was, I would say, part of IBM strength. We had a long history in financial services but was also complementary to other cloud providers. We can't say the company strategy is hybrid cloud if we don't support hybrid cloud by default. We are looking for a part of the market that we thought was underserved and regulated workloads are really hard to do. We're really pleased with some of the big banks that we have announced with and where does it go from here? I think it's probably too soon to say, but I would say what's common in all of those is hybrid cloud. They're looking for how are they going to build their next generation of applications. Many of them are starting now to think about an edge strategy. And I think when you hear the phrase "edge compute" people think maybe typically about manufacturing or telecom, but edge compute is relevant to any company that has an office other than their main headquarters. Many of them have branches that goes to ATM networks. I think we're just in the early stages of regulated cloud, financial services cloud, but we're pleased with the progress.

Q: How significant an advancement is ChatGPT in the AI field as far as practical use cases?

A: This has been around for a long time. I think the only thing that's changed is I'll call it a consumer interface. That's created a lot of excitement. I think I've got to give some credit to Google. I think they originally started a lot of this work. We've been developing large language models going back for close to five years and everything that we do in AI for things like customer service is based on large language models that that we've developed. On one hand there's nothing new. On the other hand, this is a really exciting use case that I think the average consumer can relate to. For us that creates more interest in the topic of AI. So that's very positive for us.

What does that mean in terms of AI for business? We're not going to be focused on the consumer side. For us, it's things like understanding documents, customer service, customer support. That's a big market we play in our flagship product called Watson Assistant. Another area of AI focus for us is what we call AI ops or using AI to operate IT systems or technology. If you look at the current labour market, companies still struggle to find the skills they need. If we can augment the skills they have using AI even for tasks like organising data sets, reducing storage footprint or server footprint to be more efficient. There's a lot of value in that. ChatGPT is good to create interest, then it comes to us to say how are we going to use AI to help businesses solve the kind of problems that they need to solve? I think it's a positive overall.

Q: Do you see corporate spending on cybersecurity increasing going forward?

A: Hard for me to predict corporate spending, precisely. But I would say, cybersecurity, if nothing, is accelerating. Because of the footprint that companies have -- meaning devices, branches, locations, whatever it may be -- it's hard to think that cyber security is not going to continue to grow in importance, which will translate into growth. So optimistic on that. I think the term is almost misused sometimes.

Let me define what I mean by cyber security. To me it means three things. One is, do you have a strategy for how you will protect your company without sacrificing the flexibility and speed that employees need to have to work. We've built a large business in IBM consulting on helping advise clients on how to implement a security strategy. Second is protecting your assets and data. Data is probably the most important piece. We do a lot of work in data security, data access security as you get to federated data sets. That includes extends of things like data governance. I think that will continue to be an important spot. Third

is, how do you manage cyber security threats or attacks when they happen? Yeah, I think the stat is like nearly half of companies have had some type of cyber incident in the last year. I would say the other half maybe we just don't know about because I think it happens every day. Then the question becomes how do you manage it? The traditional approach was (to) build a huge team of cyber security analysts. While that's a great idea, it's hard to keep up with the bad guys. They tend to move really fast too. Two is these skills are not readily available, so I think probably one of the least talked about applications for AI is cybersecurity. Because today what happens when you have a team of analysts, typically 80% of what they're dealing with is false positives. That's just a waste of time. It decreases their productivity. If you can use AI to reduce false positives to actually identify the real problems, and then you're able to figure out how am I going to orchestrate a response across all of my landscape, that can have a really big impact. We have both a product investment in cyber security and a consulting investment in cyber security.

Q: In terms of decarbonisation, what are specific areas where a lack of data is hindering more concrete action? What areas or sectors does IBM see as most in need of better climate-focused data?

A: We do less manufacturing than we used to, but we still do some manufacturing. We have a broad supply chain that goes around the world and so we started thinking about how are we going to do a better job of reporting on how we're doing against the ESG (environmental, social, and governance) metrics that we've set out. We were using a company called Envizi, which was I'd say the only sustainability solution that we saw that could deal with the level of scale that IBM moves, which is 270,000 employees, 170 plus countries. We started using their product to basically pull data out of our systems and to develop dashboards and to take action. We got so into it that we ended up buying Envizi because we saw the technology, we're like, this is incredible. We're able to see what we could do in a short period of time. We bought the company and that really became I would say the focus of our product strategy on sustainability, which really comes down to three areas. Asset management because if you think about what's the opportunity for most companies, every company has assets. Some of them are less efficient than others, so being able to understand your assets, how to manage those lifecycles, that was one area. Second was supply chain. We built supply chain insight products to understand what's happening in your supply chain. How do you make them more resilient? How do you make them more efficient? Third it kind of goes to our discussion on hybrid cloud, which is how do you make data centers so investments in IT and technology are more efficient, optimise your footprint, optimise your energy use. I also think what changed there is maybe you can go back three to five years. Many people initially viewed sustainability as a cost. I think we've gotten to a point now where people see it as an opportunity for productivity and efficiency. I look at the work that we're doing, I mean, in many cases, there's a great ROI (return on investment) to doing sustainable work and sustainable practices. The projects pay for themselves, plus you get the benefit of doing the right thing, which I like to believe most people want to do. I think at Davos, a year from now, you'll see a lot more (of those) companies walk down the path here.

Q: Any insight you can give us into hiring or anticipated layoffs?

A: We're still hiring. We're going to keep investing as a company. It's going to be very focused in the areas that we talked about, hybrid cloud, AI. We're looking for deep technical skill that can help in the areas that we're talking about. So we're very optimistic. We focus on our business. It's hard for me to react to other businesses because I'm sure they run different points in the cycle. They were making investments for whatever reason. Our focus is how do we execute our strategy, how do we do that better, how do we maintain the momentum that we built.

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