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# Money & Business

Section 3



At a command center in Boulder, Colo., one of nine worldwide, I.B.M. technicians control the computer operations of clients like Merisel, a computer distributor.

## Now, Big Blue Is at Your Service

Kevin Moloney for The New York Times

### I.B.M. Using Size To Its Advantage

By SAUL HANSELL

It was the way the new, improved I.B.M. was supposed to work. In September 1996, Louis V. Gerstner Jr., the company's chairman, lured a handful of corporate chief executives to a daylong strategy seminar. During a discussion of research collaboration among companies in different fields, Robert B. Shapiro, the chairman of Monsanto, wondered aloud whether his

pharmaceutical and agricultural-products company could use any I.B.M. technology in its genetics research.

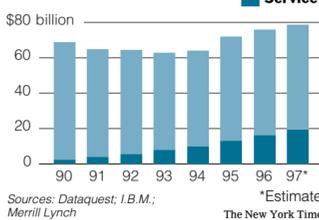
Within weeks, a SWAT team of I.B.M. executives was dispatched to Monsanto's headquarters in St. Louis, armed with tantalizing discoveries from I.B.M.'s labs that could be used to help map the gene structure of seeds and human cells. Once in the door, the I.B.M. salesmen looked for other opportunities. Lo and behold, a year later, Monsanto signed a 10-year deal worth hundreds of millions of dollars to I.B.M.

But the contract wasn't for computers or for software. And gene research was the smallest part.

Instead, the agreement called for I.B.M. to run Monsanto's mainframe computer system, to install and maintain its 20,000

### IBM's Growth Engine

Revenue from service businesses is growing much faster than the company's overall sales.



personal computers, to operate the network that links its facilities and to write new application programs for the company. Having gotten its foot in Monsanto's door, I.B.M. showed its stuff — and its stuff these days is services.

Competing with everyone from Electronic Data Systems, the computer-services giant, to accounting firms to the teen-agers who set up Web sites for small businesses, I.B.M. has grown in a few short years into the world's largest provider of technology services. It advises clients on technology strategy, helps them prepare for disasters, trains their employees and even gets them onto the Internet.

The services business was started in 1990, three years before Mr. Gerstner was hired. But it played right into his strategic gamble

that the way to revive the tottering company was to capitalize on what others saw as I.B.M.'s handicap: its sheer size.

He quickly pulled back from the strategy of his predecessor, John F. Akers, to divide I.B.M. into smaller, more nimble units, perhaps in preparation for spinning them off. Rather, Mr. Gerstner decided, I.B.M. would offer its traditional big customers one-stop shopping for computer products, from microchips to mainframes. And services would be the glue that bound all the hardware together.

While Mr. Gerstner has stabilized the other parts of I.B.M., the unit now called I.B.M. Global Services has been the engine of growth. Its revenue rose from \$2.1 billion in 1990 to \$19 billion last year, with increases

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## Good Product. Sound Plans. No Sure Thing.

By BARNABY J. FEDER

CHICAGO  
AMERICA'S love of innovation runs deep. More than a century ago, Ralph Waldo Emerson earnestly proclaimed that anyone who invented a better mousetrap would find the world beating a path to his door.

For a dose of reality though, consider the tale of Doumar Products Inc. and un-du, its adhesive neutralizer.

There is no question that un-du is the sticker world's version of a better mousetrap. The product can not only remove oil-based labels, stickers, price tags, bumper stickers, masking tape and gum, but it can

also make a sealed envelope temporarily transparent so you can confirm whether you really signed that check.

Buyers who managed to find Doumar's low-budget booth amid more than 2,000 others at the International Housewares Show here last week broke into smiles as Mark Foley, the company's marketing director, used un-du to separate Duct Tape from single-ply toilet paper without damaging either. The delight became amazement when Mr. Foley then demonstrated that after allowing a few seconds for the un-du to evaporate, the tape was once again sticky.

"Everyone's awed," said Carlos Sangines, owner of Golden Oil International, a wood-polish maker. He had a difficult time competing for attention at his adjacent booth.

Still, after two years of market tests, trade shows, appearances on QVC's home shopping programs and repeated rounds of money raising, Doumar is only now creeping toward commercial success. There have been brushes with financial collapse and fears that larger competitors were about to introduce copycat products, which would have forced Doumar into legal battles it could ill afford.

"We've got a great product, lines of credit from the bank, manufacturing capacity and marketing reps — and we're struggling," said Gary Reichling, Doumar's chief executive and president. "I don't see how entrepreneurs operating out of a garage without such a great product do it."

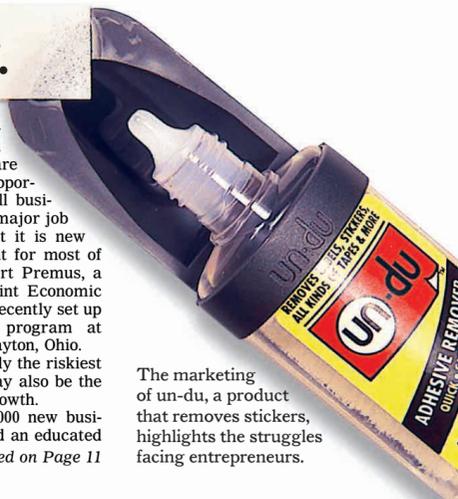
How entrepreneurship works — or flops — has never been a more crucial economic

question. Downsizing has created legions of experienced executives and workers who are looking for employment and opportunity in new ventures. Small businesses are often cited as the major job creators in the economy, but it is new small businesses that account for most of the gains, according to Robert Premus, a former economist for the Joint Economic Committee of Congress who recently set up an entrepreneurial studies program at Wright State University in Dayton, Ohio.

And innovation, while clearly the riskiest form of entrepreneurship, may also be the key to long-term economic growth.

"There are 600,000 to 700,000 new businesses created each year, and an educated

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The marketing of un-du, a product that removes stickers, highlights the struggles facing entrepreneurs.

MARKET WATCH  
FLOYD NORRIS

## Uh-Oh: A Bullish Consensus On Bonds

Inflation is down, and some sniff deflation on the horizon.

The dollar has become the currency of refuge for traders traumatized by Asia, and the safest way to invest dollars is in Treasury securities.

President Clinton says he will propose a

balanced Federal budget and Congressional leaders say they will pass one. That would mean there would be no increase in the supply of Treasury securities.

Each of those factors provides a good reason to be bullish on the Treasury bond market. Together, they paint a picture of sure profits from buying bonds, especially at a time when the stock market looks shaky.

There is strong economic growth here, which in other times would raise the specter of tightening by the Federal Reserve. But with Asia cracking and the dollar strong, few now expect any such Fed move. Many think the next Fed action will be to lower short-term interest rates, not to raise them.

More important to some traders, Treasuries have worked. They have provided good profits — albeit not as high as the inflated stock market gains — over the last three years. And they have gained since October, even as American stocks have gyrated and Asian markets have plunged.

Put all that together and you get a virtually unanimous bullish view. Dan Bernstein, a market analyst at Bridgewater Associates, puts together numbers from two other services, Market Vane and Consensus Economics, to calculate just how broad the bullish or

bearish consensus is. Right now, he says, the bullishness is as solid as it has been at any time in this decade.

To a contrarian investor, that is scary. It does not, of course, mean that bond prices cannot go higher, and yields lower; if the news continues to flow the way it has, they probably will. But the moves may be smaller, because so many are already bullish.

On the other hand, as Mr. Bernstein notes, "you are laying the groundwork for the market to be more susceptible to bad news than it is to good news." If bad news — from the bond market point of view — does arrive, it could create a sharp correction.

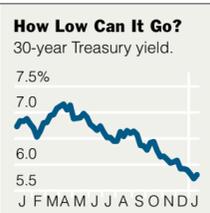
It might be useful to consider the view on bonds held as recently as last April. Then the economy was strong and the Federal Reserve had recently raised short-term interest rates. The yield on 30-year Treasuries was over 7 percent, and the consensus was strongly bearish. It was, the majority felt, a bad time to buy bonds. Since then, according to Ryan Labs, an owner

of 30-year Treasury bonds has posted a profit of about 25 percent, including both interest income and price appreciation. The 30-year bond now yields 5.80 percent.

To buy bonds now, points out Robert Barbera, the chief economist of Hoenig & Company, is to bet that Asia's woes will cause the United States economy to slow despite the housing boom that lower interest rates are creating. Applications for new mortgages are at an all-time high.

It also is to bet that all the safe-haven money that has flooded into Treasuries will stay put. It will do so if the Asian situation keeps worsening. But if it becomes clear we will not have a financial meltdown around

the world, some of that money is likely to leave. If that happens, Asian stocks and bonds, which are now very cheap but unwanted because investors are scared, may look attractive. And in that case, even if there is no overwhelming bad news to hurt Treasuries, they may give up some of their recent, extraordinary gains.



FOCUS ON CHILD CARE

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