

Strategic analysis of siemens commerce essay



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Siemens is now one of Europe's largest engineering conglomerates. Its international headquarters are located in Germany. Siemens is a diversified and huge group, with business in information and communications, automation and control, power, transportation, health care, lighting and financial service businesses. Its businesses have strong leadership in electronics and electrical engineering. Siemens has three main business sectors: Industry, Energy and Healthcare and it has a total as many as of 15 divisions (Barclay, 2000).

Worldwide Siemens and its subsidiaries employ approximately 420, 800 people in nearly 190 countries and reported global revenue of 76. 615 billion Euros as of 2009. Siemens AG is listed on the Frankfurt Stock Exchange, and has been listed on the New York Stock Exchange since March 12, 2001.

Mission and vision

Highest performance with highest ethics – that is the standard demanded by Siemens' present president and CEO Peter Löscher. Its mission is to find the best way of combining and developing know-how and expertise, so that Siemens can profitably channel them into outstanding value for customers. It has three core values— Responsible: Committed to ethical and responsible actions; Excellent: Achieving high performance and excellent results; Innovative: Being innovative to create sustainable value.

Strategic issues

Pioneer of sustainability

Sustainability is viewed as an important factor for success. Siemens wants to be the pioneer of sustainability. Sustainable development is the most

important strategic objective in the long run. Sustainability serves as the basis for Siemens future business success and is the most important aspect of Siemens corporate strategy. (Barney, 1986). What's more, in recent years, Siemens has applied this strategy into operation, with the Siemens environmental portfolio increasing, it has an exceptionally broad spectrum of products and solutions for environmental and climate protection

Great in diversity

Siemens is engaged in promoting diversity in all levels of the company to a greater degree than ever before. Up to nowadays, diversity has been given a permanent place in the corporate level strategy. In Siemens' culture, especially for the increasing shortage of highly qualified people and demographic changes in the global business, diversity is a prerequisite for all the multi-national companies' long-term success. Diversity is also a prerequisite for its international business.

Innovative

Innovation has always been one of core competency in Siemens' business strategy. In Siemens' culture, Innovations are thought to be able to enhance the core competence of Siemens. What's more, Siemens have to keep its advantage over its competitors in this technological product-dominated market.

Strategic analysis for Siemens

Firstly, PESTEL will be applied to evaluate the microenvironment of Siemens, for Porter's five forces analysis, the electrical equipment division will be

taken as an example and a complete SWOT analysis will follow to assess the strategic options for Siemens.

PESTEL analysis of the macro-environment

The external environment for international business is always complicated and dynamic. The PESTEL analysis of the macro-environment of Siemens is based from two perspectives: one is that Siemens runs its business in Germany and the other condition is that it runs its business internationally or in other destination countries.

PESTEL analysis for Siemens

Germany

GLOBAL

Political

Germany government policy on subsidies; subsidizing policies for German firms

Different countries have different policies; the relationship between the government of destination country and Germany; degree of local government's intervention in the economy; the quality of service that local government provides to foreign firms; subsidizing policies for domestic firms; tariff barrier or non-tariff barrier from destination country; the education of the workforce, the health of the nation and

Economic

The economy in Germany; the growth rate of German economy; interest rate; inflation rate; domestic competitors.

Global financial crisis; Overseas economic growth; the structure of local economy; the quality of the infrastructure of the economy such as the transportation and electrical system; level of national income; interest rate; exchange rate; inflation rate; Market demand and segments for Siemens products; local and international competitors.

Social

Structure and size of population;

Structure and size of population; Availability of local human resources; Migration flows; culture differences; brand image of Siemens in destination country

Technological

New technologies related with Siemens business in German; any technology that could reduce cost, improve quality or service and help marketing such as on-line technology.

International technological breakthroughs; New technologies related with Siemens business in German; advantages and disadvantages of Siemens technologies when compared with international competitors; any technology that could reduce cost, improve quality or service and help marketing such as on-line technology.

Environmental

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Weather and climate in German; hardware such as land available for Siemens business

Global climate change; weather and climate in destination country; natural environment ;

Legal

Environment regulation; related laws in German.

Related international and local laws and regulations.

Political

Political factors always have great impact over the macro-environment in which the business runs, so multi-national companies need to do research on political environment before their international marketing planning. Siemens is doing well in evaluating political risk before it enters a new market. If necessary, a report regarding the political risks needs to be completed before its international marketing (Bell, 2001).

Economic

The economic situation in destination countries, the impact of currency fluctuations on exchange rates, the development of local market, the local market structure (Barney, 1996), the local human resources and the predisposition of local consumers are all very important issues for Siemens to consider (Bierly, 1996).

The global economy just experienced the financial crisis; although Siemens got a steady financial performance for a lot of years before the financial

crisis, Siemens' business in most countries still experienced a downturn.

Another problem is that, together with the financial crisis is the tightened credit system for Siemens, which brought a lot of trouble to its business.

The highlight is that some new markets such as the China market are still growing fast and these new markets provide good opportunities for Siemens' revenue generation.

Social

The cultural difference is often a tough problem that all the multi-national companies have met with (Choi, 2000) . Culture, religion and society are of great importance to us. Will and how the local cultural differences affect Siemens' business should also be evaluated.

One of Siemens' strategies is Diversity as a factor of success. Siemens is promoting diversity in the management ranks of the company to a greater degree than ever before.

Besides, the brand image of Siemens is very good and also means high quality by many purchasers (Davenport, et, 2002), which is one of Siemens' advantages from the social perspective.

Technological

Siemens still have great technological advantages in its professional field such as electrical equipment. It is still holding an advanced position in the international competition in this field. It also has been viewed as a top innovator in the fields of automation, lightening, health care and fire safety

for a lot of years. Keeping technological advantages over its competitors has always been its core competency.

However, its technological advantage is not that obvious in some market segments. For example, in some countries where governments are not willing to afford high cost of new equipments, some smaller companies gained advantages over Siemens. Some customers are more interested in solar energy, while Siemens is not doing well in the solar energy field. On the contrary, smaller companies like First Solar (FSLR) are more viable than Siemens and their technology are cheaper.

Environmental

With increasing attention from all countries in the world on global warming and with greater environmental awareness, environment is becoming a significant issue for multi-national firms to consider (Michael, 2003). The growing desire to protect the environment is having a great impact the industry. More environmentally friendly products and processes are in urgent demand. All of these external factors can bring good business opportunities for Siemens.

Legal

The Waste Electrical and Electronic Equipment (WEEE) Directive of the European Union (EU) makes producers of electrical and electronic goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. The Waste Electrical and Electronic Equipment Regulations 2006, which implement most aspects of the WEEE Directive, came into force in 2007 in most Europe countries.

Several product divisions of Siemens are subject to the WEEE regulation (Hofee, 2003).

Porter's five forces

As Siemens have several important sectors, and the 5 forces analysis for each sector are pretty different. As one of the most important divisions of Siemens, electrical equipment will be used as the research objective for Porter's five forces analysis here.

Porter's five forces

Degree of rivalry

The degree of completion in this industry is pretty high and there are many big players in this market

Bargaining power of customers

The space for customers to bargain is limited as the products are highly specialized and it difficult for customers to find comparable products at lower prices

Bargaining power of suppliers

Suppliers who supply raw materials or parts to manufactures have little bargaining power

Threat of new entrants:

As the equipment is of high technology, in the early stage of this industry, the entrant barrier of this industry is high. Siemens and GE have dominated this industry for decades.

Threat of substitutes

However, with the popularity of new energy technologies, some small companies also entered this market with lower-cost technology and energy, so it is getting more and easier to find a substituted in some limited field in a small scale.

Degree of competition: In this industry, Siemens competes with big players. GE has a strong market position in this industry, while ABB has great advantages in power generation and transmission. The number of market players in this field is big and the degree of competition is high (Barney, 1995).

Bargaining power of customers: In other industries, it is easy for companies to cut the prices as they compete for the same deals, which is less possible to happen in the industrial electrical equipment industry. These products are of highly specialized and professional technologies, so customers find it is very difficult for customers to purchase products of comparable quality at the same or even lower prices.

Bargaining power of suppliers: those companies that provide equipment parts and raw materials to these companies always have little bargaining power. As the equipment parts and raw materials are easy to be found in the open market, so the suppliers are easily to be replaced by other suppliers.

Threat of new entrants: Siemens and GE have dominated this industry for a lot of years. To run with the big players, a new company would need a great deal of investment. The company needs to have very good credibility and

connections of both established firms and governments. So the entrant barrier for this industry is high.

Threat of substitutes: some new technologies from smaller companies, which focus on green energy, have posed threat to big companies that lack a competing product. In solar equipment, for example, some smaller companies are becoming more viable as their technology becomes cheaper, while solar companies may soon have the strength to compete with traditional power source on price and performance, the threat from substitutes poses pressure to supplier like Siemens.

In summary, although the competition in this industry is fierce, the entrant barrier for new entrants is high, what's more, both customer and supplier have limited bargaining power. The pressures from small companies which focus on green energy keep increasing as they have advantages on price and cost.

SWOT Analysis

Strengths

Weaknesses

Big company scale and market share;

Strong brand image;

It has a lot of divisions;

Steady financial performance.

Strong R&D capabilities

Good at diversity

Less innovative in the low-cost new technology

Low in credit rating

Weak in internal control

Depend upon third party service providers for majority of its operational activities

Opportunities

Threats

Increasing demand for environment friendly products

Bankrupt of some local companies in other countries

Joint venture with other big plays

New regulation;

Completion from new and smaller competitors;

Unclear trend of global economy

Strengths

Siemens is a German engineering conglomerate with considerable scale and market share; Siemens is a diversified group, with business in information and communications, automation and control, power, transportation, medical and lighting businesses.

It has a strong brand image. The brand of Siemens has good global market penetration. The brand is always connected with products of high quality in a lot of markets.

It has steady financial performance in recent years (Dess, 2008). Over the years, Siemens has delivered steady financial results. Siemens' net profits have a similar trend in recent years. Steady financial performance enables Siemens to manage its operations well and also improve the financial flexibility in the next a few years.

Siemens is famous for its Strong R&D capabilities, which is also an important factor for its business success. Its research and development (R&D) investment keeps increasing in recent years; the average number of employees engaged in R&D also keeps increasing (Grant, 2008). The group's focus in R&D facilitates development of new products and enhancements to existing products help in maintaining its strong market position and serving a new segment of customers.

The global economy needs diversity. Siemens has given diversity a permanent place in the corporate level strategy. In Siemens' culture, in view of the shortage of highly qualified people and demographic changes, diversity is a prerequisite for Siemens' long-term success.

Weakness

Siemens is less innovative in the low-cost new technology. For example, smaller companies like First Solar (FSLR) are more viable than Siemens as their technology becomes cheaper, so Siemens now face the pressure from smaller companies.

Siemens is low in credit rating. Siemens's credit ratings were downgraded by some major global rating agencies in the recent years, which is partly due to its capital structure (Hungenberg, 2008). In November 2007, Moody's Investors Service downgraded Siemens' long-term corporate credit rating from Aa3 to A1. Its finance is not good at generating cash flow, therefore, Siemens' ability to obtain new funding and investment from external investors may be negatively affected by its low credit rating.

Its internal controlling mode is not as effective as expected. Some reviewers said Siemens' disclosure controls and procedures have been not effective due to material weakness in its internal control. In the area of anti-corruption and financial report, Siemens got a lot of trouble due to its weakness in internal control.

Siemens relied on third party service organizations for most of its operational activities. It buys third party services for manufacturing, assembling and testing its products, while these third parties always have kinds of tie ups with multiple companies. Any problems from these third parties could adversely affect the group's operations. Heavy dependence on third party reduces the group's control over its operation and business costs. The consistence of the products could not be guaranteed, either.

Opportunities

During the financial crisis, a lot of small companies went bankrupt, some companies are of great value to enhance Siemens' competency. It is a good time to buy these companies with low cost.

Ally with a strong player is a good way to share the resource and enhance the competency of both companies. For example, joint venture is a good way. Nokia and Siemens established a 50-50 joint venture in 2007. The joint venture is called Nokia Siemens Networks, which combined Nokia's networks business and Siemens' carrier related operations for fixed and mobile networks. This joint venture is expected to provide significant long term returns to both groups.

As all the countries are caring more about the environment, There is a increasing demand for environment friendly products, which is related to several products line of Siemens.

Threats

The new regulation of producers of electrical and electronic goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products post sizeable costs and liabilities to Siemens.

Small companies are gaining market share by their products with lower price, which make the competition more intense.

The global economy has not fully recovered from the financial crisis, so the market has not fully recovered, either. Besides, the credit is still tight, and it is very difficult for Siemens to get new funding from external capital market.

The strategic options from SWOT

By the SWOT analysis, various strategic options could be draw from different perspectives: on one hand, Siemens could be advised to intend to strengthen its advantage; on the other hand, strategy of weakening its weakness is also

a good choice. Besides, as for external analysis, Siemens need to try to make best of the opportunist external environment offered. What's more, counteracting the negative impact from external threat is a way for Siemens to achieve its success.

Strengthened advantages

Weakening the disadvantages

Promote its company size

Increase its market share and keep revenue growing

Restructure the organization to make its division more diversified.

Build even strong brand image and do better in brand market penetration by reasonable public relation activities and marketing promotions

Update its R&D capabilities to a even stronger stage so as to enhance its core competence

With steady financial performance, work hard on high RIO for stake holders.

Take actions to make both its business and organizational culture more diversified to adapt to the development of global economy

Develop new divisions in charge of new products with lower-price to compete in the low-price and new energy market segments

Improve its capture structure , make more strict control in its finance process and do better in finance disclosure

The operational parts of Siemens need to be restructured to get better inner control, and process modelling of Siemens also needs to be modified.

Move some of the activities from third parties into in house so that Siemens will not highly rely on third party providers

Make best use of opportunities

Counteract on threat

More investment on the R&D for the environment friendly and new energy products

Develop better public relationship with local government

Make reasonable investment on some smaller companies which have been in bankrupt

Ally with some strong players to share the resources and reduce the risks.

Enhance its ability of resisting the negative impact of financial crisis or economic fluctuation from global economy

Do better on the research of new regulation and make preparation as early as possible.

Generally speaking, every strategy has its cost and benefit, it is always had to do an all round cost and benefit analysis for all the strategies listed above. It will make Siemens expose to less risk by the strategy of strengthening its advantages. What's more, as one of the market leaders in the industry, Siemens has advantages over its competitors in many aspects and make
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best use of market opportunities can always help a company to attain a lot in a long run. However, defending strategies from its weakness and external threat also have special meaning for its success. Based on all the analysis, suggestions for Siemens strategy are as following:

Inner control

It is advised that Siemens need to do some changes to internal control so that it can do better in controlling internal information and management; the process modelling of Siemens also needs to be modified.

Transfer activities from third parties

it could transfer some of its outsourced activities into in-house so that it won't highly rely on third party providers, which bring a lot of risk to Siemens;

Restructure the capital structure

it need to restrict its capture structure so that it could upgrade its credit rating, which help it get steady funding in the low run; for external competition.

Found new divisions for new products

Found new R&D divisions to explore new products aimed on the low-price technology and new energy market segmentation to compete with some smaller company with low-price products.

Joint venture

Joint venture with other strong players is a good strategy to share resources and generate revenue with lower cost.