

Strategic analysis of siemens profile management essay



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Introduction

This essay will start with a brief description of Siemens, an introduction of its current mission statement and an evaluation of the key strategic issues/objectives which Siemens faced and are facing. The next part, two appropriate tools of analysis, PESTEL analysis of the external environment the organization faces, and Porter's 5-Forces analysis of the competitive environment in which Siemens operates; a summary of its key strategic resources and competencies, and any resources that it lacks will follow these two analysis. At last, SWOT analysis will be applied to describe and evaluate the strategic options for Siemens.

Company introduction

Siemens

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. 651 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.

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Mission and vision

Highest performance with highest ethics – that is corporate level standard demanded by Siemens' present president and CEO Peter Löscher. It has three core values— Responsible, Excellent: and innovative, which are all for the goal of insure the sustainability of Siemens.

Siemens Strategic profile

Being Profitable is the business strategy for all companies, which is direct and simple.

Specifically, according to the report of Siemens, there is several important components Siemens' strategy, which is showed in the table below.

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Source: <http://www.siemens.com>

In summary, there are several key management strategies as following.

Sustainability is an important opportunity

Sustainability is viewed as an important factor for success. Sustainability serves as the basis for Siemens future business success and is a very important aspect of Siemens corporate strategy. As its strong position and desire to meet tomorrow business challenges, it always post sustainability in a very important position. (Barney, 1986).

What's more, sustainability is not only viewed as one of its most important strategies, but is also thought by Siemens to be closely related to its values.

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In all its values, sustainability is viewed as a contribution to a more equitable and fair global economy and the business future of green, energy-efficient, durable and recallable products and solutions for all the customers. In Siemens's culture sustainability is also the symbol of a responsible employee culture and a sign of strict compliance with both international and local laws and regulations.

Diversity as a factor of success

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.

In the year 2008, Siemens applied the strategy of diversity into organizational structure. Siemens created the position of Chief Diversity Officer.

Delivering breakthrough innovations,

Innovation has always been one of the most important elements in Siemens' business strategy. In Siemens' culture, Innovations are thought to be able to enhance the core competence of Siemens. What's more, in this fields, the technological innovation always means your products are of higher quality.

Strategic analysis for Siemens

Firstly, Porter's five forces and PESTEL will be applied to evaluate the microenvironment of Siemens and a complete SWOT analysis will follow to assess the strategic options for Siemens.

Porter's five forces

One of the most important division and product of Siemens is electrical equipment and so Porter's five forces will be applied to assess electrical equipment industry together with Siemens.

Porter's five forces

Degree of rivalry

The degree of competition 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 buyers are always governments or big companies.

Bargaining power of suppliers

Suppliers who supply raw materials or parts to manufacturers 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 such as General Electric (GE) of Fairfield, Conn., and ABB of Switzerland. 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 <https://assignbuster.com/strategic-analysis-of-siemens-profile-management-essay/>

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 puts pressure on 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.

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 has different policies; the relationship between the government of destination country and German; degree of local government's intervention in the economy; the quality of service that local government provide to foreign firms; subsidizing policies for domestic firms; tariff barrier of 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;

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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

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. It is lucky for it that German government has steady relationship with lots of countries. Siemens often need to evaluate the historical relationship between countries that would benefit or do harm to its business. The influence of communities or unions for trading is also in its consideration. For example, trade barrier is also implemented in different forms of local laws. 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; Siemens' business in most countries also 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. From economic perspective, Siemens has got steady financial performance in the recent years.

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. In the year 2008, Siemens applied the strategy of diversity into organizational structure. Siemens created the position of Chief Diversity Officer.

Besides, the brand image of Siemens is very good and also means high quality by many purchasers (Davenport, et, 2000), which is one of Siemens' advantages from the social perspective.

Technological

Siemens still have great technological advantages in its professional fields and it is still holding an advanced position in the international competition.

However, in some countries where governments are not willing to afford high cost of new equipments, some smaller companies gained advantages over Siemens. For example, smaller companies like First Solar (FSLR) are more viable than Siemens as their technology becomes 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).

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

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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 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.

Conclusion

Through all the analysis above, it could be found out that, as one of the market leader in the industry, Siemens has advantages over its competitors in many aspects and the market seems present many opportunities to Siemens, however, Siemens has its weakness and it still need to improve its performance in some aspects.

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; it could transfer some of its outsource activities into in-house so that it won't highly rely on third party providers, which bring a lot of risk to Siemens; it need to improve its capture structure so that it could upgrade its credit rating, which help it get steady funding in the low run; for external competition, Siemens should care more about low-cost technology, what's more, joint venture with other strong players is a good strategy to avoid risk and generate revenue.