

MANAGEMENT

Siemens clocks up Top results

For Heinrich von Pierer, no news is good news. Over the past year the chief executive of Siemens, the huge German industrial group, has seen rivals buckle under the pressure of weak global markets and the debt burdens they built up in the second half of the 1990s. Competitors such as Swiss-Swedish ABB, Alstom of France and Invensys in the UK have all faced difficult times.

Siemens, by contrast, has managed to stay out of the headlines. One reason the world's sixth biggest manufacturer has escaped the worst of what has befallen its competitors, according to its senior executives, is a wide-ranging management strategy programme intended to rein in costs, improve decision-making and boost innovation.

James Stettler, an analyst at Dresdner Kleinwort Wasserstein, the investment bank, believes there is an "absolute link" between the initiative - called Top, short for total optimised processes - and Siemens' recent business record. "One of the reasons I am confident about Siemens over the next year is Top, which is changing the culture of the company and leading to fewer poorly performing divisions," he says.

The story behind Top illustrates that even companies in relatively poorly performing sectors can pull themselves round.

So far Top has been applied to two-thirds of Siemens, which in 2000-03 is likely to have sales of some €75bn (\$84bn) - covering areas from machine tool controls to light bulbs - and about 400,000 employees, 40 per cent of whom are in Germany. Net profits for the year are expected to be a little more than €2.2bn, down from €2.6bn last year and a long way short of the €3.9bn Siemens achieved in 1999-2000.

The fall-off in earnings, by no means as great as that affecting many of Siemens's industrial peers, is linked to the big decline in global industrial investment, particularly in the US.

Mr von Pierer boasts that one factor that has protected Siemens from the worst of the downturn is its unfashionable conglomerate status. As a result, a good performance in one division can compensate for weaknesses in others.

Another way in which Siemens benefits from its structure is the opportunity to channel ideas, such as Top, that have worked in one part of the business, through to other parts of it.

Edward Krubasik, a Siemens board member who is one of the architects of the Top programme, says 10,000-20,000 of Siemens' employees have been directly involved with implementing it in the past few years. Particularly good results have come from using it in medical systems and train production, two of Siemens' better-performing divisions.

In the past two years the project has been applied to the vehicle components division, Siemens VDO - the world's third biggest maker of electronic parts for vehicles.

Two years ago, after Siemens merged its vehicle operations with a division of the German engineering group Mannesmann, the business was in poor shape and turned in a €261m loss in 2000-01. But taking some of the elements of Top, VDO is expected to turn in operating profits of about €400m this year.

"We realised we had to set ourselves more demanding goals [in running VDO]," says Mr Krubasik. "Rather than just look for synergies [from the merger] we had to do more to increase its commercial performance in an economic environment that was becoming more difficult."

Siemens' first task was to set up a new global structure for VDO, comprising 15 new divisions, each based on products such as dashboard electronics and chassis safety systems.

The job of heading each division was handed to a manager "who would look for growth opportunities and run their operations as though they were mid-sized businesses", says Wolfgang Dehen, who was recruited from the French parts company Valeo to be VDO's chief executive.

The 15 division heads, plus other senior managers, were each given cost-cutting targets in six main categories: materials, production, logistics, research & development, administration and information technology.

Some 6,000 different decisions have been taken to achieve these aims throughout VDO, from altering production routines to redesigning components or cutting supply bills through internet auctions. In 2001-02, the business cut its costs by about 6 per cent, saving €700m. It is chasing similar results for this year and next.

One aspect of running the Top programme inside VDO is gathering its top 50 managers together every three months. At these meetings a team of 20 internal auditors presents them with charts recording their performance on 15 variables, such as product quality and how well they have introduced ideas agreed at previous meetings.

"The review is very open," Mr Dehen says. "It's a bit like seeing where each part of the business is on a football league table. If you are close to the bottom, there's no hiding from it. People don't like it if they come out badly in the scoring system, but... it's a challenge for them to try to improve."

A big part of the Top strategy involves relocating operations to countries such as China, Mexico and the

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Czech Republic, where labour costs are low. About 30 per cent of the VDO workforce of 44,000 is now in such countries, compared with 20 per cent at the time of the merger.

As well as cost-cutting, Siemens has placed heavy emphasis on product innovation. Mr Krubasik points out: "It would have only very limited results without a simultaneous attempt to expand on the product side."

Even with the difficulties facing the vehicle industry in the downturn, Mr Dehen says VDO has promising

growth opportunities thanks to the ever-expanding role of electronics in vehicles and the fact that most big car-makers are increasing the number of jobs they give to sub-contractors.

According to Siemens' projections, by 2010 a third of the value of an average new car will be linked to its electronic systems, compared with a fifth now, with more of the job of providing these being left to suppliers.

Much of the attention of the quarterly management meetings is therefore taken up with ideas for new products.

"Thirty per cent of our sales this year will come from products that have been developed in the past three years and I'd like to maintain the proportion... or increase it," says Mr Dehen. "Sixty per cent of our product range is in areas where our products are number one or two in the market and by 2007 I'd like to see this figure grow to 85 per cent."

As VDO searches for innovations, its effort is increasingly devoted to software. Klaus Egger, the VDO manager in charge of engine and chassis products, says software is becoming a "product on its own" that Siemens can sell not just as part of its own embedded systems but also to carmakers and parts companies, to improve their operations.

Top has turned out to be an important channel for creating new products.

But alongside this the initiative is also turning out managers who can carry their expertise across the group to underperforming businesses.

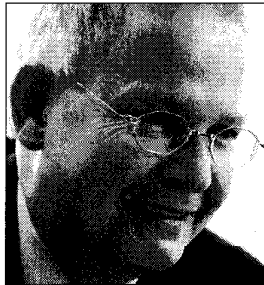
Already, several Siemens managers who have proved themselves at VDO have been moved to other parts of the company, to start new Top projects. They include Johann Lüttner, the vehicle unit's former chief financial officer, who has been promoted to chief executive at Dematic, an under-achieving automation business. Bernd

Regendantz, another former VDO manager, has taken over as chief financial officer at Siemens Business Services.

But probably the most widely watched move has been that of Thomas Ganswindt, the 42-year-old head of Siemens's loss-making telecommunications equipment division.

He was given that job in 2001 after successfully implementing Top as a senior manager at the company's train building unit. Last year, Mr Ganswindt was promoted to Siemens' 14-strong main board, becoming its youngest member.

Assuming Mr Ganswindt enjoys continued success with the Top strategy, many are betting on his taking over as Siemens' chief executive when Mr von Pierer retires, which could happen in September next year. Inevitably, should Siemens' internal management project propel Mr Ganswindt to the top, it will need little more by way of endorsement.



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