

Siemens Cuts Costs at IT Services Unit to Try to Boost Profits

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Siemens is cutting \$1.8 billion in costs at its IT services unit, Siemens Business Services (SBS), to try to improve profitability. SBS will still have to make several big changes if it wants to stay competitive.

NEWS ANALYSIS

Event

On 19 September 2005, Siemens announced that it will cut \$1.8 billion in costs at its SBS unit through 2007, by measures including cutting 2,400 jobs in Germany.

Analysis

With this announcement, Siemens joins competitors that have made major layoffs lately. In May 2005, IBM said it could cut its global workforce by 13,000, and in July 2005, Hewlett-Packard announced 14,500 job cuts. These cuts are part of the industrialization trend in IT services, where the drive toward consolidation and standardization — as well as offshoring — is changing the shape of the workforce needed to deliver IT services.

This announcement was somewhat inevitable, given SBS's operating results — more than \$300 million in losses in the past four quarters. SBS has grown its revenue with several large outsourcing contracts with the BBC, TUI Suisse, Gerling Group and Barclays, but sustainable profitable growth remains elusive. Until now, SBS has dealt with business downturns by streamlining operations, cutting back work weeks and trying other means to forestall large-scale layoffs. In March 2005, SBS said it would sell its Sinitec subsidiary, which provided IT hardware services, primarily in Germany. In July 2005, SBS said it would outsource portions of its product-related business. Its full-service portfolio will remain.

SBS also has standardized service and sales processes and has developed a global delivery backbone. While these initiatives have improved the company's business model and operational efficiency, SBS has not grown revenue or improved margins.

For SBS to grow, it must:

- Improve profitability in Germany or build critical mass in other high-growth markets to reduce its reliance on the domestic market
- Establish partnerships to expand capabilities and coverage, especially outside Europe, the Middle East and Africa, or go it alone and establish market leadership in focused areas
- Invest in the technical, commercial and management capabilities necessary to win more profitable deals, especially in Germany

Recommendations

Product-related support customers: Since cost-cutting measures hit this segment hardest, check the suitability of your contract transfer clauses to ensure that your service or commercial conditions are not degraded during any transition to another provider.

Other customers: Check with your account or engagement managers to see whether these layoffs will have any direct effect on your deals. If necessary, take steps to minimize any possible negative effects.

Analytical Sources: Alan Mac Neela and Nicole France, Gartner Research

Recommended Reading and Related Research

- "Vendor Rating: Siemens Business Services" — Growth at SBS will depend on how well it executes plans to develop its business process outsourcing services and capture market share outside Europe. **By Alan Mac Neela and others**
- "IT Service Providers and Clients Apply 'Lean Production' to Reduce Labor Costs" — To reduce costs, improve quality and speed delivery, IT service providers and their clients are turning to a "lean production" environment. **By Lewis Clark and Alan Mac Neela**

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