

Siemens Building Technologies plans to cut costs by 25 per cent through out-tasking, and explores joint go-to-market opportunities with Cisco in building automation

Executive Summary

CUSTOMER NAME

- Siemens Building Technology

INDUSTRY

- Construction and Real Estate

CHALLENGE

- Reduce costs and enhance operational agility by introducing a more variable cost structure

SOLUTION

- A revised outsourcing strategy that would see Siemens Building Technologies *out-tasking* much of its engineering work, which accounts for around 50 per cent of its cost base, using Cisco 'core versus context' best practices and out-tasking (instead of outsourcing) philosophy
- Out-tasking is keeping in-house the intelligence that drives innovation and improvement and maintaining control of the mission-critical processes, while outsourcing non mission-critical processes to a trusted third party with *online* visibility of those processes

BUSINESS VALUE

- By out-tasking engineering to a number of different partners around the world, Siemens Building Technologies expects to reduce engineering costs by at least 25 per cent over three years and, potentially, double its profit
- Out-tasking will make the organisation more flexible, helping it to respond more effectively to customers' needs and bring solutions to market more quickly

With a fixed cost structure, Siemens Building Technologies, the global leader in its field, needed to introduce more flexibility in order to reduce costs and improve time to market. With outsourcing in mind, the organisation turned to Cisco as a world-class exponent, and gained new insights that helped to shape a fresh approach to its own business.

CHALLENGE

Siemens Building Technologies is the global market leader (by size) in building automation and control. Its solutions are designed to optimise the comfort, security and energy efficiency of a wide range of buildings, from office complexes and industrial facilities to hotels and hospitals.

Siemens Building Technologies (SBT), is one of 15 groups within Siemens AG, a highly diversified global business with net sales of €75.167 billion in 2004. More information is available at siemens.com.

Siemens Building Technologies was seeking a more variable cost structure that would reduce its operating costs. Those costs are directly related to the number of people who are working on a project, and the length of time for which they are needed. Outsourcing would enable the organisation to reduce costs by managing people resources more flexibly. It would also make it more agile in its response to market conditions by, for example, changing direction on a project without causing unacceptable delays or budget increases.

SOLUTION

Siemens Building Technologies approached Cisco Systems and its Internet Business Solutions Group (IBSG) as a source of leading-edge practice in outsourcing.



Prepared by Cisco Systems, Inc.
Internet Business Solutions Group

“Cisco’s operations are world class, and their outsourcing strategy is both aggressive and impressive. We decided to try and find some common ground that would allow us to share best practice with them,” says a spokesperson from Siemens Building Technologies.

The organisation’s engagement with Cisco’s IBSG began late in 2003 with a number of exploratory meetings. Once Siemens had outlined its needs and requirements, IBSG organised two sessions at Cisco’s Executive Briefing Centre (EBC) in the UK. The first one, attended by senior executives from both companies, looked at general outsourcing issues. The second, held in February 2004, took the form of a more focused ‘hands on’ workshop.

The EBC sessions, in particular, helped Siemens to re-define its approach to outsourcing and move ahead with a new strategy. A spokesperson explains: “We had been considering outsourcing for some time as a means of keeping our cost structure variable. Cisco encouraged us to look at outsourcing in a new way and gave us a useful framework to apply to our business.”

“THE IMPLEMENTATION IS OUR OWN, BUT THE PRINCIPLES WE HAVE USED AND THE APPROACH WE HAVE TAKEN ARE CERTAINLY A CONSEQUENCE OF OUR WORK WITH CISCO. WE WERE LOOKING FOR NEW WAYS OF MANAGING AN INFLEXIBLE COST STRUCTURE AND CISCO GAVE US THE CONFIDENCE TO CONSIDER WHAT, FOR US, IS A FAIRLY RADICAL SOLUTION.”

Spokesperson, Siemens Building Technologies

That framework is based on a distinction between outsourcing and out-tasking. The more traditional approach, outsourcing, typically involves handing over complete responsibility for a function to a third party. Out-tasking allows companies to retain control of their operations by outsourcing selected activities only – sometimes to more than one partner – and continuing to manage those activities as if they were still carried out internally.

BUSINESS VALUE

About a year after its engagement with Cisco’s IBSG, Siemens Building Technologies implemented a new out-tasking strategy designed to reduce its engineering costs by at least 25 per cent over three years.

Over two years, the organisation will out-task a significant amount of its basic engineering to a number of different partners around the world. Allowing for a certain amount of up-front investment, its targets are aggressive, as a spokesperson explains.

“We are looking for around 5 per cent cost reductions in the first year, then 10 per cent in years two and three. Most of that differential will flow straight to the bottom line, so we will double our profit.”

At the same time, Siemens plans to introduce a simpler engineering solution that some of its out-tasking partners can use. This solution will significantly reduce the time it takes to engineer a project – on average, from two or three weeks down to two or three days.

As well as cutting costs, this new strategy will bring Siemens a new level of flexibility and

responsiveness. Although IBSG can not claim all the credit for the organisation's fresh approach to an old problem, there is no doubt that Cisco was an important influence.

"The implementation is our own, but the principles we have used and the approach we have taken are certainly a consequence of our work with Cisco," says a spokesperson. "We were looking for new ways of managing an inflexible cost structure and Cisco gave us the confidence to consider what, for us, is a fairly radical solution."

GO-TO-MARKET PARTNERSHIP

The support given by IBSG in sharing best practice on outsourcing also helped to open the door to exploratory discussions with Cisco about joint go-to-market opportunities that could create new revenue streams for both parties. There is a strong case for such collaboration. Cisco is the worldwide leader in networking for the Internet, just as Siemens is the leader in building automation and control. Their areas of expertise are set to converge, as building systems become the latest aspect of 21st century living to harness the power and versatility of IP.

"WE HAD BEEN CONSIDERING OUTSOURCING FOR SOME TIME AS A MEANS OF KEEPING OUR COST STRUCTURE VARIABLE. CISCO ENCOURAGED US TO LOOK AT OUTSOURCING IN A NEW WAY AND GAVE US A USEFUL FRAMEWORK TO APPLY TO OUR BUSINESS."

Spokesperson, Siemens Building Technologies

In an IP-enabled building, the IT and building systems are converged onto a single IP infrastructure. This reduces construction and maintenance costs, as multiple proprietary networks are no longer needed to operate automation systems for climate control, security and access, and fire and safety, and to provide telecommunications and data services. In addition to reducing capital and operating expenditure for the major stakeholders in a building, this convergence also creates a more flexible, productive and secure working environment for its occupants.

In view of the growing trend towards IP in new build and building extension projects, Siemens is keen to identify specific applications that will help establish its lead in this emerging market. The two companies have started by sharing best practice and market intelligence.

Cisco is already active in this area with its Cisco Connected Real Estate (CCRE) initiative. Feedback from Siemens – whose core business is building automation and control – has helped Cisco to better understand the relevance of its solutions in this market. Siemens and Cisco are now working towards a more proactive exploration of new revenue opportunities. A spokesperson from Siemens Building Technologies concludes:

"Currently Siemens Building Technologies and Cisco are working on several joint opportunities as part of the initial understanding to work on a possible future joint go-to-market programme.

"Cisco is a world leading company that sets new standards in many areas, including innovation and speed of implementation. Any collaboration between Cisco and Siemens Building Technologies would bring together two companies of equal calibre that could potentially bring to the marketplace the combined credibility of two leaders meeting on common ground."

MORE INFORMATION

For further information on Internet business solutions, visit <http://www.cisco.com/go/ibsg>



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