

Siemens Role Play

Your Position

You are Peter Balton, Siemens' Customer Account Manager (CAM) servicing Kratos Energy which is a client of 12 years. You are attached to the Energy Sector of Siemens that designed and commissioned power generation and transmission projects and also manufactured and sold equipment for this sector. As a CAM in this sector you have to, among other things, coordinate with the six Siemens divisions – fossil fuel, hydro & solar, power transmission, wind and energy service- and Kratos Energy. In mirroring Europe's trend towards renewable energy, Siemens has also been focusing on wind and solar power around the world. In pursuing this strategic goal you have begun discussing with them about their upcoming strategic thrust in the solar energy business amounting to about €200 billion business for Siemens in the next 15 years.

Your Role

As a CAM, you are responsible for generating business from Kratos by taking a long-term strategic view of business development. In order to be successful, it is important that you understood your customer's strategy in all the businesses they operated in, their global ambitions and their implementation plans. Although you did not 'sell' directly to the customer, you had to constantly scan the customer for opportunities that Siemens' business unit sales people can exploit in the short run. In doing so, you had to be close to various Kratos units that did business with Siemens as well as the many Siemens' business unit CEOs and their sales people. Also, your ability to work with your own commercial organization and senior Siemens management helped you to be successful in your role as CAM. Kratos' executives often came to you to resolve issues (e.g. contract terms, contract structure, contract modifications etc.) with different Siemens divisions. However, in many situations, you also found it hard to keep your own flock together and had been excluded by some of Siemens' business unit managers during client meetings. Often this left you feeling like a 'pig in the middle'.

Your Client

Kratos Energy was a multi-billion euro power utility company in Europe. It spent approximately €800 million annually on power generation needs. By acquiring over €450 million its needs from Siemens it qualified as one of the top 10 global customers for Siemens energy business. To you, Kratos represented significant potential in the next 15 years from the solar project as well as from the 500 projects in the sales pipeline that could be decided in the next 5-6 years. Further, Kratos was also betting on high growth markets such as Argentina, China and Russia and had been working with Siemens jointly to explore these markets.

Your Situation

In a meeting last week, you learnt from a Kratos executive that one of the Siemens businesses, the Fossil Power Unit, was less than willing to play ball with them on a contract revision. At issue was a request from Kratos Energy VP of procurement to revise some terms in an Operation & Maintenance (O&M) contract that they had signed with Siemens so that Kratos could work to achieve their cost saving goals of €1 billion by 2014. During your meeting the customer proposed that Siemens could help them either by allowing Kratos Energy to pursue cheaper options for their O&M of Siemens equipment or by reducing inventory requirement of Siemens parts at Kratos Energy. He requested that you get back to him with an answer within two weeks even while reminding you that your competitors were being sympathetic

to his request. You knew the head of the fossil power unit, Wolfgang Schroeder and have fixed an appointment next Monday. During your brief call to fix up time, he had agreed to meet while pointing out the fact that his division was under revenue pressure and will be reporting a 9% decline in revenue for next quarter.

Your Assessment

As you prepared to go out and meet with Mr. Schroeder, you reviewed the relevant facts surrounding Kratos' request for contract revision and jotted down the following:

1. Kratos is requesting for a revision of their legal contract; if we agreed to this we may have a long queue of all current customers seeking similar concessions.
2. Our O&M contract covers 50% of their installed base; what choice do they have if we refuse?
3. They have a robust long-term strategy in the solar field and have committed about €30 billion in capital expenditure in the next 5 years and looking for 30% of revenues from developing markets by 2017.
4. The economic slowdown had put severe pressure on their costs even as they face additional cost pressures from reduced government support
5. Within Siemens Energy Sector, Solar accounted for a much smaller portion of revenues compared to fossil power although its projected growth in the next 18 years was four times that of fossil power.

In your mind, you were clear that Mr. Schroeder is bound to question the need to off-set current revenues in O&M contracts against the uncertainty of future potential in new technologies in untested markets. Along with the Siemens-Kratos relationship, you knew that your relationship with Mr. Schroeder will also be put to test during the meeting as CAMs had little control over contract negotiations between Siemens and its clients.

Your Task

You have sought this appointment because you wanted to understand Fossil Power unit's position in the context of Kratos' request for contract revision. Mr. Schroeder's time is very valuable and your appointment is only for 15 minutes.

Your goal is to obtain Mr. Schroeder's commitment to the following (some may be tentative commitments, at best):

- Agree to personally talk to VP (Procurement) of Kratos Energy within the week
- Get a small group from sales and commercial to go over the contract in the light of Kratos Energy's request to identify possibilities to reduce inventory levels of Siemens maintenance products at Kratos, and do a break-even analysis to arrive at the size of future business needed from Kratos in order to agree let go of some of the O&M contracts till 2014
- Agree to have you as a member of this group

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