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Creating a Competitive Edge in Global Markets Case: T-Systems[165]

Christoph Burger
Franziska Frank

When global market space is being redivided, established companies suffer attacks from new competitors; but they may also identify new sources of growth. The case of T-Systems offers a view of an effort to defend national market share while aiming at international growth in a world of global competitiveness.

The challenges in 2005

October 2005: Lothar Pauly had left Siemens Communications and accepted the position as CEO of T-Systems. Prior to the first days in his new office, he had taken part in a series of workshops, had received briefings from his group of experts, and was now considering the main challenges in front of him: How was T-Systems' revenue outside Germany to be increased beyond 15 percent, and how could this German company finally start participating in the globalized market? How could the competitive advantage of T-Systems as a truly integrated information technology and telecommunications firm be leveraged into a company world where "information and telecommunications convergence" was beginning to turn into a household word?

Deutsche Telekom

The story of T-Systems began with a state decree of 1495 by Habsburg Kaiser Maximilian I giving Franz von Taxis the responsibility of building up a postal service system. In 1947 the Deutsche Reichspost was renamed the Deutsche Bundespost, which was privatized in 1995 through the postal reforms resulting in Deutsche Post and Deutsche Telekom. Deutsche Telekom then implemented a four-pillar strategy: T-Mobile, T-Online, T-Systems, and T-Com. In 1996 Deutsche Telekom went public. The official issue price of 14.57 euros for a DT share hit an all time high of 103.59 euros in March 2000 under the leadership of Ron Sommer. In June 2002, however, the price fell below 9 euros. In November 2002, Ron Sommer was succeeded by Kai-Uwe Ricke, who began a process of stabilization, consolidation, and debt reduction.

In 2005 a restructuring process emphasized the increased importance of client orientation: T-Com and T-Online were integrated into one business area

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covering broadband and fixed line services. T-Mobile continued to run the mobile sector, while all of Deutsche Telekom's business clients were bundled into T-Systems.

T-Systems

DT's T-Systems specializes in information and communication technology. The firm was formed in 2000 when DT acquired the IT-Service company debis Systemhaus from Daimler Chrysler. T-Systems has 52,000 employees in two sections: Enterprise Services (ES), with roughly sixty multinational companies as clients, and Business Services (BS), serving 160,000 large and medium-sized enterprises.

ES designs and delivers customized services in IT and communications to large clients. BS concentrates on standardized solutions and products for smaller customers. It also has the overall internal expertise for standardized products in information and communications technology (ICT) services. This twofold structure is reflected in a management board consisting of ten Germans: Lothar Pauly as CEO, two members with overall responsibilities, three representing BS, and four ES. There is a growing focus on industrial segments: within a matrix structure, particularly important segments such as automobile and banking are serviced with tailor-made solutions.

The total revenue in 2005 was 12.9 billion euros, a slight drop from 13 billion euros in 2004. ES contributed 8.4 billion euros and BS 4.5 billion euros. EBIT (earnings before interest and tax) stands at 0.4 billion euros, as compared to 0.5 billion euros the year before.

Growth Strategies: Customers, Products, and Regions

The acquisition of debis had given T-Systems new customers serviced by both IT Solutions and TC Services. In the intervening years T-Systems had managed to gain about 50 percent of the German telecommunications (telco) market and 30 percent of the German IT market. A number of large deals had strengthened the large-business segment. In the medium-size segment, however, a market share that had been about 70 percent had now dropped to 35 percent.

Regarding products, value-added IT services stood next to commodity telecommunication. New areas had also been initiated, such as business process outsourcing (BPO), Internet protocol (IP), and seamless services.

The international strategy of T-Systems had originally come via debis. It was called "string of pearls" and had two elements: If the customer entered a foreign country, a T-Systems office (a "pearl") would be established to serve this customer. In addition, the office would try to generate local sales. At the same time, if an interesting opportunity arose, a market could be entered through acquisition of a medium-sized company.

Having taken this growth path, by 2005 T-Systems had twenty-three offices worldwide; it had near-shore and off-shore locations in the vicinity of India, Hungary, and Slovenia. In Austria and Switzerland, local revenue placed the company among the top ten corporate earners. In all other countries, growth remained sporadic. Although a number of organizational models had been tested, no ideal set-up had been discovered. There was also need for a set of internal regulations. Georg Jakob (head of the commercial management division of M&A Enterprise Services of T-Systems) described the situation as follows: "There is limited consistency in our international activities so far. Branches have often acted and interacted with the rest of the T-Systems organization according to local strategic targets and idiosyncrasies."

The ICT Market

ICT is the business of developing and using technology to process information and aid communications. Communications technology consists of products such as voice-over IP, datacom, and communications equipment. Apart from IP and added-value services, it is a commodity market where differentiation is hard to achieve.

Market Estimate Telecommunications

Global Market Estimate in bn €		2003	ca. CAGR 2003-2007
TC Infrastructure Services	LAN solutions and outsourcing	47	5%
	Voice equipment incl. services	24	4%
TC Services	Business voice	172	-2%
	Incl. services	76	-5%
	IP solutions	38	13%
	Mobile solutions	13	15%
	Total	369	1%

Table 1: Market Estimate Telecommunications
CAGR = Compound Annual Growth Rate

IT services and products – systems integration (SI), business process outsourcing (BPO), and information technology outsourcing (ITO) – have high value added. Each market obeys its own rules: whereas due to its localized content SI is predominantly a local market, BPO and ITO are both businesses involving economies of scale and have thus become global. The market is growing worldwide and is estimated to have reached 680 billion euros by 2007.

Due to the complex nature of the ICT market, competitors attack from different sides. Some originate in the world of IT (IBM), others in telecommunica-

Market Estimate IT Markets

SI, BPO, and ITO, Market Estimate bn. €					
Country	2003	ca. CAGR 2003-2007	Country	2003	ca. CAGR 2003-2007
			Czech Rep	0.4	4%
Australia	10	7%	Hungary	0.5	3%
China	3	11%	Poland	1	3%
HongKong	1	3%	Russia	1	3%
India	2	22%	Rest of EE	1	1%
Indonesia	0.2	6%	**Sum EE**	**4**	**2%**
Japan	73	4%	Austria	3	1%
Korea	5	9%	Belgium	5	1%
Malaysia	1	6%	Denmark	3	4%
New Zealand	1	9%	Finland	3	2%
Singapore	2	8%	France	22	2%
Taiwan	1	6%	Germany	32	2%
Thailand	0.4	13%	Greece	0.4	1%
Rest Asia Pacific	1	6%	Ireland	1	2%
Sum Asia Pacific	**101**	**5%**	Italy	13	1%
Canada	16	6%	Netherlands	11	2%
USA	252	5%	Norway	3	2%
Sum NA	**268**	**5%**	Portugal	1	4%
Sum LA	**18**	**9%**	Spain	8	4%
Israel	1	2%	Sweden	6	3%
MEA	2	4%	Switzerland	6	3%
Africa	3	5%	UK	53	7%
Turkey	0.4	5%	Rest of WE	1	0%
Sum MEA	**6**	**4%**	**Sum WE**	**167**	**4%**

Table 2: Market Estimate IT Markets

tions (BT Global Services), and yet others in consulting (Accenture). Marked by strong price pressure, recent years have seen considerable consolidation: high levels of industrial standardization and increasingly comparable products and services. Mergers and alliances are a preferred tool for establishing a strong market position.

International customers are looking for ICT providers who wish to build a long-term global partnership.[166] A survey[167] has shown that regardless of size, more than 60 percent of all firms either have or plan a single-sourcing system for IT, more and more frequently including TC. They expect leverage of economies of scale and want to be treated as global players.

Brief Look at Competitors

Companys		Revenues in bn €			Product Split				Country Split				
	# Empl. (.000)	2003	2004	2005 e	Outsourcing	SI	Consulting	Telco	Americas	Key country	Europe, Middle East Africa	Asia Pacific	Rest
Accenture	115	10.4	11.0	12.1	37%	0%	63%		45%		48%	7%	
BT GS	25	8.6	8.4	9.4		12%		88%	1%	UK 92%	6%	1%	
CSC	80	12.0	13.1	12.1	45%	55%			60%	UK 15%	16%		9%
EDS	117	18.2	16.6	15.8	88%		12%		51%	UK 16%			33%
HP Services	69	10.9	11.1	12.2	18%	64%	18%		36%		42%	22%	
IBM GS	215	37.7	37.3	37.8	41%	28%	31%		52%		26%	15%	7%
SBS	39	5.0	4.7	5.4	46%	26%	28%		8%	Ger 43%	44%		5%
_ Figures for geographical split for all of BT													

Table 3: Brief Look at Competitors

The Plans for T-Systems

After his discussion with Wilfried Peters (CFO T-Systems), Lothar Pauly reflected on the context of the internationalization strategy: How could the firm leverage its competitive advantage in a globalized market? A number of relevant issues – regarding regions and customers, products, and the organization's nature – had been raised both in workshops Lothar Pauly had attended and later. Some of the salient observations continued to ring in his mind:

- "If T-Systems wants to grow, it can really do so only outside Germany. With its 13 billion euro revenue it covers a large part of the whole ICT market in Germany." (Katrin Horstmann, board member responsible for strategy)
- "It is difficult to communicate that there is to be a focus on a few countries only, and then we go on building up staff in India, Slovakia, and Hungary. We must rise to that challenge now and explain – if we don't then in a number of years it will backfire." (Herbert Schaaff, member of the managing board, responsible for human resources)
- "To be successful internationally we should build up additional industry expertise." (member of ES)
- We hope that there will be no limitation on the "opportunities in the emerging markets of Asia and especially larger English speaking markets like the USA, other parts of Europe, and Australia." (Milind Kaulgud, head of the human resources department, T-Systems India)
- "The business of IT is interesting as long and as soon as it aids the sale of TC products and services." (Deutsche Telekom CEO Kai-Uwe Ricke)
- "It [the ICT-market] is a result of technological change; since the future is internet protocol, the chief technology or operations officer will quite rightly also be the person in charge of telecommunications procurement." (Ralf Nejedl, executive vice president, Country Operations Western Europe)

- "We belong to and compete against the big guys in the global markets. Our next battlefields can be anywhere in the world. It is thus vital to employ local CEOs and not German ones in our key countries." (Michael Heuser, executive vice president for people development and culture)

The Challenges Addressed in 2006

As of July 2006 Lothar Pauly has become convinced that in a globalized market such as ICT, the firm's strategy shift will enable it to leverage the competitive advantage inherent in being a truly integrated ICT house. He sums up the key elements of the new strategy as follows:

Regions

1. The German market does not offer sufficient growth potential. International expansion is a must if T-Systems wishes to grow in the long run.
2. T-Systems has to be able to realize perfect worldwide delivery for any client yet concentrate its sales focus on defined growth markets.
3. Western Europe, with a growth rate of 3 to 5 percent per year, is the main region where T-Systems should be engaged. The competitive situation is strong but offers enough opportunities, in particular for a Europe-based company. The American ICT market is large and growing but has many strong competitors. Eastern Europe, the Asia-Pacific region, and the Middle East are still very small markets, so that an engagement can only be of strategic value – except for Japan, where the competition is simply too strong.
4. Market size is clearly important in horizontal product lines such as SI, BPO, and Desktop Services. Large deals can only be acquired if there are economies of scale in a particular country or region. Thus, market-position goals need to be set for each country. With regards to industry know-how, market position is less relevant in the local markets than over the whole industry.
5. In view of the relevant market data, the largest European countries are most suited for expansion of the firm's activities. The aim is to be among the top five ICT firms within three years, apart from the highly competitive United Kingdom market, where the goal is the top ten. This has already been achieved in Austria, Switzerland, and – through acquisition of gedas – in Spain. (With 5,500 employees, the former Volkswagen IT house gedas has a considerable international focus. In 2004 revenue was 567 million euros split as follows: Germany 28 percent, Spain 23 percent, USA 11 percent, UK 10 percent, France 10 percent, Mexico 9 percent, Brazil 5 percent, the Czech Republic, Argentina and China, 1 percent each.)

6. Although it is clear that quick growth for T-Systems cannot come from the emerging markets, a presence there is vital in order to be in place when the markets mature. The first priority of these offices is to service the large international clients from the core markets needing services in these countries.
7. Due to the focus on a few countries, these can allocate more resources, which in turn should speed up their organic growth. For non-organic growth T-Systems can pursue one of two options, acquiring either additional captive IT-subsidiaries such as gedas (bringing new large contracts with them) or medium-sized independent IT service providers.

Products

1. Although the market for some telco products such as IP and value-added services with high differentiation potential has been growing, many telco products such as Legacy have low value added in a largely price sensitive market. In most countries, the market is dominated by large telecommunications companies committed to defending their market share. International expansion needs to come mainly from the high-value-added IT Services, a domain in which T-Systems can differentiate itself in a heterogeneous market. Telco products can then be sold as a follow-on product.
2. When it comes to big deals, industry experience is a key success factor. With the acquisition of gedas at the end of 2005, T-Systems strengthened its automotive experience in offering end-to-end solutions to numerous car manufacturers (DaimlerChrysler, VW, BMW, and Ford).
3. Before the strategic shift, individual countries decided what product and services they wished to offer. This does not suit a company that aims at serving global markets. For this reason a standardization process has been initiated, its goal being both the availability of outsourcing and telecommunication in all countries and the emergence of products and services with higher value added.

Customers

1. In order to reach the above-mentioned goal of being among the top five ICT firms in each of the key countries (among the top ten in the UK), and in order to generate the necessary revenue in an acceptable time frame, a policy of serving only larger clients is vital.
2. Worldwide sales outside the focus countries are only pursued for *projects*. An example is the FELIS project (*Flexibles Einsatzleitsystem Innere Sicherheit*), a computer-aided system for managing emergency calls. If a "non-focus" country expresses interest, a sale to such a country can take place if

about 80 percent of deliverables are a replication, the project is limited in time, and a project team is able to cover it without building up the local staff.

3. A worldwide customer relationship management system (CRM) is in place, moving T-Systems one step closer to true key account management. In the French automobile sector, hiring new personnel with client and industry knowledge and creating a new process for managing key accounts has already resulted in new contracts.

Organization

1. Since there is a sales concentration on core countries, yet the company is acting in a global market, worldwide delivery is only possible when it is split from sales. The delivery unit is thus structured like a cost center and has the duties of ensuring smooth delivery and, beyond that, optimizing the global-production value chain.
2. Due to their importance, the CEOs in the various focus countries are moved up in the company hierarchy. The focus countries report directly to Axel Knobe (head of Sales & Services Management at T-Systems Enterprise Services), and the other countries have one intermediary level added.
3. When countries are part of one particular industry line such as finance, experience has shown that other lines are not serviced as effectively in that country. It is thus important that the CEOs in focus countries run their business as profit centers, but also have responsibility for all the industry lines. To maximize the potential of countries and industry lines, focus-country CEOs and industry lines work closely together in so-called joint management teams, with the CEOs discussing important developments and formulating strategies with the heads of the industry lines.
4. A number of complex issues have to be addressed in order to balance an organization of focus-country profit centers and delivery cost centers. Markus Wagener from HQ Corporate Business Architecture integrated around fifty people from company headquarters, every service unit, and selected lines of business units into one project to define the governance of the new organization. The result is a ninety-page guideline covering all aspects of international cooperation: international strategy, roles and responsibilities in sales and delivery, cross-border contracting, legal and tax requirements, and contracting and financial regulations.
5. To balance coherence and independence, both the CEOs of the key countries and human resources managers will be local hires, while the chief financial officers will still be German. CEOs will meet every month, chief human resources staff every two months.

Conclusion

In retrospect, many aspects of the new international strategy appear to have been very clear-cut. But Lothar Pauly recalls the high input of leadership and management it took at all levels to ensure that existing structural issues could be overcome in favor of strategic considerations. At present, the important leadership challenge is to maintain momentum: to regularly adapt and strengthen T-Systems' position in a fast-changing market.

Interview with Lothar Pauly[168]

Franziska Frank

Mr. Pauly, is T-Systems an international company?

We're an international company, but we still have to become somewhat more international. On the one hand, more and more of our customers are acting globally and expect internationally operating service providers. On the other hand, we can only reach our growth targets if we succeed in gaining customers and market share outside Germany.

What are the concrete goals of your international strategy?

It allows us to strengthen our European market position, and it further enlarges worldwide supply capacity for our multinational customers. At the same time we're trying to achieve a leading worldwide market position in selected industry segments such as the automotive segment.

In acquiring local customers, our focus has been on countries in which we see the largest market potential for us as T-Systems. We've defined Western European countries according to this criterion–which is to say France, Italy, Spain, Great Britain, Austria, Switzerland, Belgium, and the Netherlands. It's our goal to be among the top five providers in these countries within the next three years – in Great Britain among the top ten.

Looking back, what are the three most important lessons you've learned?

My years abroad were certainly formative for me as a manager. Especially the pressure of the fast-growing Asian and Eastern European markets encourage and require a management style marked by quick thinking and acting.

Another insight stemming from that period is that for on-site success, involving local managers is a sine qua non. Anchoring and networking local CEOs in their own countries will also be a decisive gain for T-Systems.

Another crucial factor is that a company's success will depend on customer processes to a stronger degree than is the case at present. At the customer interface, qualities such as additional services and quick reaction time will be decisive. To this extent, what is at stake is implementing solid and excellently managed key account management.

What have been the three most important lessons learned in respect to the new international orientation of T-Systems?

In the restructuring process the important thing was integrating all relevant employees and local companies early on. Especially the creation of interna-

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tional governance had enormous significance for T-Systems as a firm with a complex cultural background. With this project as a basis, the employees could not only internalize the new strategy but a common culture as well.

This process generated growing awareness of the internationality of T-Systems – along with increased recognition that the company still needs to become significantly more international. That's our greatest challenge: T-Systems has to adjust itself more strongly to this international market, not only in an organizational sense but also mentally. It's only then that we'll be able to accomplish the same thing outside Germany that we accomplished within the country, namely overtaking competitors (in this case IBM).

What is your sense of the challenges facing T-Systems in the global market over the next ten years?

As far as the market is concerned, consolidation will continue. In the future, IT subsidiaries will still be taken over by bigger players. And here one or another larger company will have constant problems running an IT service business driven by economies of scale with consistently high intensity.

Admittedly, in view of the breadth of the theme and the low entry hurdles, we'll continue to see niche providers. For an international ICT service provider like T-Systems, this means integrating specialists as partners and freeing the customer of the burden of having to negotiate with every single player.

2
Creating New Business by Redefining the Value Chain Case: MAN Roland Druckmaschinen AG

Bülent Gögdün
Olaf Plötner

When speaking about the newspaper *El Diario*,[169] satisfaction at MAN Roland Druckmaschinen AG could not have been more profound. At a ceremony on May 2, 2006, Gerd Finkbeiner, chairman of the executive board of MAN Roland Druckmaschinen AG, and Peter Kuisle, executive vice president of sales, had signed a very important contract with the management of the newspaper. The contract was both for the delivery of four new systems amounting in value to 54 million euros and for after-sales service amounting to 15 million euros. During the reception, the customer had also made a presentation in which he referred to the "dawn of a new relationship" and emphasized the significance of the partnership between *El Diario* and MAN Roland.

MAN Roland

MAN Roland Druckmaschinen AG, a company founded in 1845, develops and manufactures web offset systems[170] for printing newspapers and advertising material as well as sheet-fed offset systems[171] for printing published material, advertising, and packaging. The company also offers extensive services and software solutions for the printing industry: activities including the planning, construction, and commissioning of complete printing plants and after-sales services such as the delivery of spare parts, inspections, and overhauls of printing presses.

The printing press industry was long dominated by German manufacturers. With a turnover of 3,360 million euros in 2004-2005, Heidelberger Druckmaschinen was the largest supplier on the market, followed by MAN Roland (1,783 million euros in 2005) and KBA, Koenig & Bauer (1,621 million euros in 2005). In 2005, a number of other suppliers from various countries such as the United States, Switzerland, and Japan accounted for the remaining 35 to 40 percent of the market. MAN Roland was the world's leading supplier of web offset systems and the second largest manufacturer of sheet-fed offset systems. In 2005 the company had some 8,800 employees. The main facilities were located in Offenbach and Augsburg as well as in Plauen, where both the systems themselves and the spare parts not provided by suppliers were manufactured. The sales network included some 120 branches and sales partners worldwide. A service network was being developed, making growing use of

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