

# The Dow Corning Corporation Story.



The following case of *Dow Corning Corporation*, appeared in **Value Based Marketing for Bottom-Line Success**, by Nicholas DeBonis, Eric Balinski, & Phil Allen, published by McGraw-Hill and the American Marketing Association, 2003.

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July 30, 2002

Connecting Business to Customers



## **CASE: DOW CORNING**

In 1930, Corning Glass Works began the development of a new material made from sand that combined some of the best properties of glass and plastics. Over the next decade, Corning scientists worked with the scientists at the Mellon Institute of Research in Pittsburgh to develop the promising innovation. Dow Corning was formed in 1943 as a start-up, 50/50 joint venture between Corning Glass and the Dow-Chemical Company to explore and develop the commercial potential of the new technology. Over the coming decades, Dow Corning grew to be one of the most successful business joint ventures of all time with \$2.5 billion in sales and 7,500 employees worldwide.

Throughout its history, Dow Corning pioneered the development of silicon technology innovations to be used in applications as diverse as sealants and gasket-waxes and polishes, textiles and water repellent treatments, pulp and paper processing, and skin care and anti-perspirants. Today, Dow Corning is the largest global producer of silicon-based materials, offering more than 7,000 different silicon based products and services. It competes against some tremendous competitors, including GE and Bayer.

Historically, its strategy was focused on innovation and new customer applications. It focused and organized to dominate the segment (DTS) for customer innovation. That is the DTS strategy for Dow Corning was focused on developing a superior value for one specific customer segment and grow its business by growing within this segment. Corning grew through discovering and delivering the most advanced technology for demanding customer applications, achieving 4,800 active patents worldwide. As such, the company was customer- focused before it was fashionable to be so.

### ***CHANGE IN THE MARKET SITUATION FOR DOW CORNING***

All market innovations inevitably mature. For a market innovator like Dow Corning, growth resulted in two businesses within one business model. In addition to business growth it achieved through innovation, Dow Corning also grew from maturing innovations that were becoming widely used in the marketplace. The latter matured to become Dow Corning's core business that loaded its sales statements and manufacturing facilities. It also attracted competition that ultimately exerted pressure on its pricing and cost position.

More insidious were the market forces that created a gap between what its maturing innovations could command in the marketplace and what had become a widespread belief in the Dow Corning culture -- their commitment to customers and being "innovative" should always command a higher price. Over time, Dow Corning's business model, systems, processes, and organizational management and rewards further evolved to strengthen its innovation focus with its customers and DTS.

While Dow Corning continued to grow and innovate new products and applications with customers, the reality was that it was creating an ever larger collection of mature businesses. Paralleling its own success were customers who were innovating and growing their businesses using Dow Corning materials. Both Dow Corning and its 25,000 customers worldwide prospered together,

but over time as the customers' business grew and their markets matured, the customers' value ratio or relationship changed with Dow Corning. Many customers in these maturing markets needed Dow Corning not just to innovate new product technology, but to help them create new value through lower costs in their mature product lines to stay competitive in their markets. The need to Dominate the Cycle (DTC) of value was emerging. By now moving to a DTC customer strategy, Dow Corning was recognizing the need to deliver several different customer values as the cycle of value evolved and changed over time within their customer's markets and businesses.

For a company with a history of success through innovation, this change in customer value and needs represented a contradictory message for Dow Corning's business model. It had built a *Form Follows Value*<sup>™</sup> business model to effectively serve customer innovation, but the model did not serve the changing customer values that were emerging in the market. Note: *Form Follows Value* is the systematic structuring of back office resources and operations to deliver the promise of the front office customer value. This framework aligns the business **Form** (with Form referring to the resources, people, processes, and systems- the *back-office*), to the *front-office Value* that is most important to customers, *and* to what they **will pay for**. With *Form Follow Value*, every cost is aligned within the company to those elements the targeted customers will derive value from. Addition-ally, it was becoming ever clearer that some competitors who didn't invest in innovating with customers were willing to buy the customers' business with a lower price.

### ***How Did Dow Corning Tackle This Challenge?***

In the spring of 2000, Dow Corning Corporation's Electronics Industry and Advanced Engineering Materials Business Unit began to explore re-segmenting its market with the intent of developing a more customer-focused strategy.

"We just knew from our customer research and from direct customer feedback that we were missing the point somewhere," recalls Ian Thackwray, the unit's general manager. "We were doing the right things in terms of getting the customer feedback and we had a mountain of knowledge in the organization, but we were struggling to know what to do with it."

The business leadership team went through an extensive strategy review, during which it realized a need to involve more people who had direct customer interface. "Our attitude had been that we didn't require needs-based segmentation in order to develop a strategy. How wrong we were," says Thackwray. "That strategy review meeting was a milestone in changing our thinking to the realization that customer needs and a true, full, and deep understanding of customer needs is fundamental to developing a meaningful and profitable business strategy."

A second meeting was convened in September 2000 with 36 people from the business team, technical, marketing, sales, supply chain, and new business groups. The objective was to reevaluate implications of customer value segmentation as a basis for reviewing the business's strategy.

"The really exciting thing was that no one had a preconceived idea of what the outcome would be and everyone went in with an open mind," remembers Babette Pettersen, then responsible for Marketing and New Business Development in the Electronics Industry Sector. "The idea was to stimulate an open-minded reappraisal of our customer value segmentation, formulating our intimate customer knowledge alongside frameworks and segmentation approaches from both theoretical

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\* *Form Follows Value* is a trademark of Eric W. Balinski and SYNECTION

models and practical examples." The resulting set of customer value commitments was simple, but Dow Corning's Electronics Business had never developed its strategy from this customer needs-based perspective before.

"We defined and profiled each segment and we assigned customer applications into each segment, enabling us to quantify and evaluate each segment in terms of attractiveness and our ability to compete as a basis for targeting," Thackwray explains.

Based on the success of applying the value-based marketing principles in the Electronics Industry Business, similar sessions were conducted by each of the global business units. "This is where the real insight came," relates Scott Fuson, Global Executive Director Marketing and Sales. "After applying the customer needs-based segmentation methodology, we began to realize that there was a significant amount of existing customers who buy for very different reasons. This led us to develop an enterprise-wide look at our customers, then creating distinct and compelling value propositions and business models for each of the customer needs-based segments we identified.

"We were particularly excited about how this also better took advantage of our market-based structure and operations," continues Fuson. "These new business models resulted from converting the needs-based segmentation into customer-focused value that better aligned our resources and structure to improve business model performance with our customers." Dow Corning recognized that there was other real value that their customers sought.

"A critical outcome of the reevaluation is that it forced us to reappraise our entire market positioning and brand presence," Fuson explains. This included the essence, attributes, and hierarchy for the Dow Corning brand itself and the creation of an entirely new business model for customers that required a price-reliable supply. This new brand positioning became the company's XIAMETER brand.

## ***APPLYING VALUE-BASED MARKETING AT DOW CORNING***

### ***Step 1: Discovering and Understanding the Customer***

As a company built on developing customer innovation, Dow Corning had a substantial amount of customer information from numerous sources: purchased studies of their customer base, regular customer satisfaction studies conducted by an outside research firm, and regular customer feedback through its Customer Relationship Management (CRM) process.

All of this contributed to a full and deep understanding of their customers' needs and value expectations. Yet it was when Dow Corning started to look at its information both from a segmentation and customer value perspective that the information started to tell them new things. For example, three broad customer value segments were identified: (1) customers who innovate into new markets, (2) customers who were in fast-growing markets, and (3) customers looking to reduce costs and improve productivity in large, highly competitive markets.

*Innovation-focused customers* are defined as those committed to being first to the market with new technologies and state-of-the-art products, and who seek advanced innovation and creation of unique technical or market positions. Dow Corning's customer value commitment for this group of customers is both innovative solutions based on cutting-edge technologies and services and expertise in assisting customers to get their products to market faster with better value differentiators for the customers' customers.

For example, Dow Corning helped Reliance Industries reformulate its fiber optic cable conduit inner lining to improve the lining's slipperiness. The superior slipperiness allowed fiber optics to go into conduit faster and at longer lengths. This enabled Reliance Industries' customers to install fiber-optic cables significantly faster and for 30 to 50 percent lower cost. In another instance, Dow Corning helped a consumer products company get the new household cleaner to market faster by taking on the manufacturing of the cleaner in their own facilities.

*Customers in fast-growing markets* are defined as those looking for easy, drop-in solutions that give them speed, efficiency, convenience, and reliability to meet growth demands. Their value drivers are lower cost offerings with proven performance and demonstrated use. For them, Dow Corning's customer value commitment offers proven performance in technology, manufacturing and supply chain management.

Dow Corning helped its customer's global sealants and adhesives business by working with its larger customers to convert to bulk delivery systems. The change from 55-gallon drums to a new 8,000-gallon storage facility reduced handling and labor costs, dropped waste 7 percent, and freed up 10,000 square feet of space in the customer's operation.

*Customer's in large, highly competitive markets*, typically with products in the mature stage of the product life cycle, form the third segment. These customers expect improved process efficiency and effectiveness in manufacturing to help them achieve maximum profit by reducing costs. They are looking for such things as ideas from suppliers, outsourcing capabilities, inventory control and supply chain services, and disposal assistance. Dow Corning's cost-effective solutions that drive overall costs down is the customer value commitment for this customer value segment.

One tool Dow Corning developed for these customers was software that could more precisely pinpoint lubrication for critical plant equipment. The Integrated Oil Analysis software enabled plant operations to perform a complete oil and lubrication analysis on vital equipment to optimize maintenance programs rather than follow routine scheduled maintenance.

As Thackwray makes clear, "We could define and profile each segment and we could identify customers in each segment, enabling us to quantify and evaluate each segment in terms of attractiveness and our ability to deliver a superior value to these customers." Building upon the three broad segment groupings, the electronics business identified seven new customer value segments based on the needs and values of their customers.

The key was to take all the various inputs about customers from multiple sources and to integrate them in an interactive and creative thinking process to deliver an insightful output that helped the business better understand what really mattered to its customers' success. Dow Corning developed a summary matrix of customer value for its business. Exhibit 1 presents a generic segmentation framework that can be adapted by other businesses to assess customer value segments.

## **Step 2: Commit to the Customer**

Once Dow Corning's business units had identified the key customer value segments it wanted to target, it was a relatively straightforward process for them to proceed with defining the customer value commitments for its respective target customer value segments. Each customer value commitment represented a change in the way Dow Corning approached these customers. It was the first time the company moved from assuming all customers equally valued Dow Corning's innovation

to figuring out what was relevant to and valued by specific customers in each customer value segment. The company learned more clearly what were the real and superior value points with its customers.

An important additional insight from the work conducted was the realization that one or more of the needs-based customer value segments cut across the traditional industry sector structure around which Dow Corning had been organizing its business and the corporation.

The value propositions, called customer value commitments, are derived from the individual customer value segment profiles. In most cases, the biggest challenge initially was to identify a truly unique, superior element in the offering because of the strong product innovation-focus in the group. Once Dow Corning minds opened to value differentiators beyond product features and benefits, the ideas started to flow.

"We have spent the past five years transforming Dow Corning into a customer-directed organization," comments Dow Corning Executive Vice President Stephanie Burns. "The result has been our ability to commit better and deliver historic change to the marketplace by offering silicon-based solutions tailored to specific customer needs. The introduction of the new XIAMETER brand reflects a key element of our revitalized and precision-focused company."

The specific value propositions for each of the specific customer value segments, according to Dow Corning, "became linked to what really mattered most to our customers' success in each segment through a more focused understanding of each segment's different needs and value drivers." Equally important was recognizing that innovating not just the product, but the way business was conducted with customers, could develop a successful business and deeper relationships with customers. Additionally, the company's core customer value commitments remained true to providing a "full range of services and innovative technology expertise for customers who want to leverage them to give their products a competitive edge. Value-added services are also available with the purchase and use of Dow Corning's other product lines, and include technical innovation, product application, and development support."

According to Dow Corning, there are two key lessons of the second step in Value Based Marketing: 1) there is a need to be open-minded to completely rethink what the customer considers as superior value commitments and ultimately organizing (*Form Follows Value*<sup>TM</sup>) around the value needs and expectations of the customer value segments, and 2) long- entrenched structures and perspectives need to be critically examined and challenged.

### **Step 3: Create Customer Value**

Having created clear segmentation based on customer need and differentiated value propositions for each customer value segment, making Dow Corning's customer value commitments real to its customers was a relatively easy next step. This involved their need to create resourcing and infrastructure aligned to the target customer value commitments. Dow Corning defined clear customer value commitments to deliver the desired value to its customer value segments and this enabled management to define the needed resources in terms of people, infrastructure, and financing. Its new emerging form would now follow and be aligned to the distinctive value it identified in each customer segment, with the ability to manage the changing customer value (DTC) occurring in the marketplace.

Also, one new segment was identified in which the customers valued a low price, cost of doing business, and the guarantee of on-time shipments. Dow Corning also backed up the shipment guarantee with a 3 percent financial reimbursement to the customer if it missed a shipment commitment time. These customers tended to value less research and technical support. It was also recognized that customers in this segment tended to make large purchases, but not necessarily of a wide variety of products. This customer value segment became the basis for establishing a new business model and channel to market, which was launched in March of 2002.

To serve this new segment the business model and channel needed to lie streamlined, tied to Dow Corning global manufacturing and supply chain capability, and simplified for both customers and Dow Corning. Internally, this meant focusing operations to supply the most popular customer products, favoring a Web-based channel, and leveraging the SAP systems to manage order entry and inventory commitments with customers. The changes for customers led to more clearly defined and transparent business practices on such things as pricing, delivery and order quantity; the best way for the customer to order; and communications practices. This helped guide customers to a better way for them to conduct business with Dow Corning based upon the way those customers might want to conduct business rather than on how Dow Corning wants to conduct business with them.

"What's really amazing," Services and Customer Processes Director Tom Cook remembers, "is that with this level of clarity and simplicity it was easy to explain similarities and, more importantly, differences in what we should be offering to different customers to best meet their needs. For the first time it was also easy to explain WHY! And, more importantly, customers could understand how they could more easily meet their needs with us."

A bonus benefit was the widespread level of understanding and commitment derived by involving people from many of the implementation functions in the original development work. "Involving people from a complete cross-section of our global business paid real dividends when it came to rolling out the results," states Bob Schroeder of Dow Corning's Construction Industry. "We had our own group of apostles to go out and tell the story to their own colleagues and peers in their own language. The adoption of our new customer value commitment has been immediate and the skepticism is more along the 'show me' line of thinking versus 'have you lost your mind'?"

These new insights led Dow Corning to redesign its organization from being focused on business sectors to aligning with the newly identified customer value segments. This included the appointment of a Customer Value Segment Manager with a specific focus on the newly defined customer value segments and the responsibility for delivering the newly defined customer value commitments. It launched a new Dow Corning for each customer value segment identified as being present across all the industry sectors it serves.

According to Dow Corning, there are two key lessons of the third step of Value Based Marketing: 1) you can only define your organization and your infrastructure when you know what you want to deliver to whom, and 2) involving a broad cross-section of the organization builds stronger commitment and buy-in to the end results and speeds implementation.

#### **Step 4: Obtain Customer Feedback**

After a long history of succeeding with customers primarily through product innovation, Dow Corning now more than ever needs to assess feedback from its customers on many new dimensions

important to them. The new segmentation also establishes a business rationale for changes and can help sort out voices from the customer into specific segment groups.

Dow Corning's review of its customer value commitments was instigated by the feedback from customer research from an outside, independent research firm and from specific situations documented through its Customer Relationship Management (CRM) process. Dow Corning also encourages all staff with customer interface to pose questions about customer satisfaction and obtain direct feedback from the customer using its Customer Relationship Management Process.

"Using our Customer Relationship Management Process, Service Level Management provided our customer interface people with a methodology to capture specific customer needs and issues in a one-on-one situation," explains Jamie Moore, CRM Business Process Manager. "We can capture and address with each specific customer their insights and then later aggregate these inputs for analysis in order to act upon them across the entire customer base."

An important insight from Dow Corning's experience is that it's difficult for the company to become complacent with the responses to these feedback data. It continues to assess by conducting research on a regular basis and is looking constantly for pointers to the next needed change in its customer value commitments. As Moore describes it, "Dow Corning's commitment to satisfying customer requirements resulted in the use of needs-based segmentation methods to deepen our understanding of what mattered most to their success. The use of these methods has enabled the proactive segmentation of customers to create unique value propositions, improved behaviors in our business units in how we treat customers, and better aligned resource development options in anticipation of customers' changing needs."

"For instance," continues Moore, "using customer needs analysis in a structured manner with our CRM process, we specifically know where and how we can provide improved service to customers. This approach to CRM also provides the ability to aggregate information, identify trends with customers and markets, and make better-focused decisions and actions. This is because we have a factual and quantified mechanism for communicating customer needs throughout the organization and use this as the basis for responses."

According to Dow Corning, there are three key lessons of the fourth Step of Value Based Marketing: 1) customer feedback must be obtained from a variety of sources, but at least one must be independent and objective; 2) the sum total of the customer feedback may be greater than the individual feedback when creatively and critically reviewed, integrated, and analyzed; and 3) never be complacent -- always look for the next change in what value will be affecting customers.

### **Step 5: Measure and Improve Value**

Preliminary results of the Dow Corning customer value commitment have been very positive and encouraging. But it's a story in development, in transition.

"While we do believe that some of our latest customer value commitments put us ahead of our competition," Fuson affirms, "we recognize that delivering superior value to our customers is not about beating our competition. Focusing on the competition as the basis of improving our business with customers could and would prevent us from truly understanding our customers and discovering unique insights about how we can help them succeed better. Also, focusing on the competition would

trap us in a common shared point of view about customers and our markets rather than developing the breakthrough ideas."

Fuson also points out that "if we measured ourselves primarily against competitors, then it would lead most likely to a marketplace of similar offerings for customers, which in the long run would mean poorer responsiveness to changing customer value. So our establishment of regular and rigorous reviews of our customer interfaces and feedback programs fosters the continued development of our customer value commitments, maintaining the best value for our chosen target customers. The final realization is that providing superior value for customers is profitable for customers and also profitable for us."

The other interesting aspect of the new Dow Corning is how Dow Corning is leveraging its existing capabilities better and developing new customer capabilities that utilize the Web. But its focus wasn't to get on the Web *per se*. Having gone through the segmentation work first, Dow Corning better understood the value drivers of its customers and, in some value segments, realized that the Web was a better way to provide this value to customers than traditional channels.

A number of Internet-based business start-ups sought to service the same customer segments that Dow Corning focused on as well. While the Internet businesses may have recognized this customer segment, they have failed to succeed in this market space since they lacked the necessary infrastructure and supply chain investments. Dow Corning already had in place and operating a \$100 million investment in a SAP system, the world's largest manufacturing and distribution system for silicon-based products with 40 locations worldwide, and a great deal of information about buying habits and behavior of customers. So it knew it had a global back-office operation that could support the global front-office operations their customers interacted with. Dow Corning practiced *Form Follows Value*<sup>TM</sup>. In contrast, most Web-based companies trying to serve the same customers focused on getting customers to their nice virtual front-office websites, but had few capabilities in place to deliver their value propositions.

Dow Corning's challenge was to see value from the customer perspective, not just product innovation value, then sort out its customer information to create the business processes and then build channel strategies, including customer touch points like the Web.

According to Dow Corning, there are two key lessons in the fifth step: 1) rigorous and regular strategy and customer performance reviews are essential to maintaining a leadership position with customers, and 2) customer value is not just telling the customer you bring them value, but first making the commitment, resource changes, and leadership choices that enable a business to deliver what it says it can do for its customers.

## REFERENCES

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**Exhibit 1: Generic Customer Value Segment Matrix**

	<b>SEGMENT 1 INNOVATORS</b>	<b>SEGMENT 2 OPTIMIZERS</b>	<b>SEGMENT 3 OPERATIONAL- IZERS</b>	<b>SEGMENT 4 ECONOMIZERS</b>
<b>BEHAVIOR OF CUSTOMERS IN SEGMENTS</b>	First to market, risk takers; Reputation for the latest ideas	Fast followers; Let someone else prove, then exploit market	Best at optimizing total acquisition and use costs	Focused on best pricing; Trade-offs to drive cost out
<b>VALUE NEED IN SEGMENT</b>	Leading ideas or technology to create edge	Fast and responsive support to make transitions	Supply chain optimization support	Continually drive costs out of business
<b>TYPICAL CUSTOMER COST DRIVERS</b>	R&D; Marketing; Engineering	Marketing; Production; Purchasing	Supply Chain; Production	Productions; Logistics
<b>CUSTOMER'S PROFIT MODEL</b>	Profit generated through a stream of innovation	Profit generated by quickly capitalizing on opportunities	Efficiency of operations drives profits	Selling as much stuff as cheaply as possible drives profit
<b>WHAT DO THESE CUSTOMERS MEASURE?</b>	Time to market; Market response; Development costs	Market share and its growth; Price/costs variances	Share protection; Purchasing costs; Supply chain costs	Purchasing costs; Market share; Operation costs
<b>CUSTOMER'S MARKET DRIVER'S/SITUATION</b>	Unique ideas are valued in market; Few competitors can match	Customer sees opportunity and battles over growth in market	Market is mature, need to win the race to run efficiently	Market declining but these customers hang on
<b>LEADING COMPETITIVE OFFERING/SITUATION</b>	Competitor wants to play one-upmanship	Variable offerings with high differentiation to attract customers	Unbundling of offerings and a la carte purchasing	Suppliers are exiting, but some will streamline operations to survive
<b>YOUR STRATEGIC VALUE COMMITMENT</b>	Centered on driving innovation in ideas, products, and solutions	Centered on helping customers capture growth opportunities	Centered on streamlining supply chain, ease of doing business	Centered on driving every possible cost out