THE DELTA MODEL: How to Capture Critical Tasks of Strategy
Siemens Power Generation -
Defining the Strategic Agenda
From the Customer Segmentation to the Value Proposition

Value Proposition

- Scope:
  - Customers
  - Products
  - Service
  - Channels
  - End Users
  - Complementors
  - Unique Capabilities

- Elements:
  - Experience WE provide
  - Value delivery system needed
  - Value gained by the customer, by us, by both

Dimension: Customer Scope

Scope

“From”

“To”

Mission Statement

The most responsive source of solutions to improve customer operating plant, competitiveness and profitability

Classification

Strategic Positioning

Customer Segment

- Long-Term Investors
- OEM-Preferred
- Traditional Integrated Customers
- Transactional Price Seekers
- Non-Turnkey AE’s
- Turnkey AE’s

Strategic Thrusts
## Step A: Customer Segmentation

### Customer Segment Description

<table>
<thead>
<tr>
<th>Customer Segment</th>
<th>Description</th>
<th>Business Relationship Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Long-Term Investors”</td>
<td>Utilities &amp; Independent Power Providers (IPP’s) with high outsourcing practices</td>
<td>High value added relationship</td>
</tr>
<tr>
<td>“OEM-Preferred”</td>
<td>Small and medium-sized utilities &amp; IPP’s who are not self-sufficient</td>
<td>Medium value added</td>
</tr>
<tr>
<td>“Traditional Integrated Customers”</td>
<td>Large and mostly integrated utilities &amp; IPP’s who are self-sufficient</td>
<td>Medium value added</td>
</tr>
<tr>
<td>“Transactional Price Seekers”</td>
<td>Low price seeking utilities &amp; IPP’s who are self-sufficient</td>
<td>Low value added</td>
</tr>
<tr>
<td>“Non-Turnkey AE’s”</td>
<td>Architect Engineers without turnkey capability</td>
<td>High value added, need and search for partnership</td>
</tr>
<tr>
<td>“Turnkey AE’s”</td>
<td>Architect Engineers with turnkey capability</td>
<td>Medium value added</td>
</tr>
</tbody>
</table>

### Business Relationship Description

- Relationship oriented
- Willing to form long-term partnerships
- Support oriented
- Willing to cooperate with suppliers
- Less committed to partnership
- Strive to differentiate or add unique values
- Transactional driven
- No loyalty
Step C: The Delta Model & Strategic Positioning

Desired PG Strategic Positioning

System Lock-In

Total Customer Solution

Best Product

<table>
<thead>
<tr>
<th>Segment</th>
<th>Positioning</th>
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<tbody>
<tr>
<td>1 Long-Term Investors</td>
<td>High Value Added / Relationship</td>
</tr>
<tr>
<td>5 Non Turnkey AE's</td>
<td>High Value Added / Relationship</td>
</tr>
<tr>
<td>2 OEM- Preferred</td>
<td>Medium Value Added / Support</td>
</tr>
<tr>
<td>3 Traditional Integrated Customers</td>
<td>Medium Value Added / Support</td>
</tr>
<tr>
<td>6 Turnkey AE's</td>
<td>Medium Value Added / Support</td>
</tr>
<tr>
<td>4 Transactional Price Seekers</td>
<td>Low Value Added / Transactional</td>
</tr>
</tbody>
</table>
Step E: “From - To” - Statements
Dimension: Products and Service Scope

The Fossil division of Siemens Power Generation will become the supplier of choice for customers seeking superior, individual and/or customized solutions in the power industry. We serve fossil and nuclear power customers with a full range of new and service-related products from 100-1,500 MW in Steam Turbines and Generators, for Combustion Turbines from 70-260 MW, with power islands and turnkey power plants, with I&C systems and IT power solutions.

To achieve this, we will transform...

FROM

An organization with competencies in optimizing individual products and services.

TO

An organization with superior capabilities in providing comprehensive solutions specifically designed to the diverse needs of our customers. This covers the whole range from total Fleet Management, via innovative and expanded maintenance concepts to efficient customer engagement for new unit and service products, based on competitive price and delivery.
Step E: “From - To” - Statements
Dimension: Customer Scope

We view the customer as the center of all Siemens Power Generation activities and our goal is to increase his competitiveness and the profitability of his generating assets.

To achieve this, we will transform...

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<td>Covering all potential customers (including utilities, IPP and AE’s) similarly and treating them equally, without a well-defined, targeted strategy for the various customer segments.</td>
<td>Approaching each customer segment differently dependant on the needs, success factors and buying practices of the customer. This will span from an efficient and cost-effective interaction with customers on individual products, components and services to customized, total solution offers. It includes the maximum use of standardized products whenever they increase the customer value.</td>
</tr>
</tbody>
</table>
Complementors are those engaged in the delivery of products and services which enhance our product and services and thus our position in the marketplace. Amongst others some important complementors are customers, other Siemens divisions, the PG-supply base, our JV’s/alliances/licensees, financial and insurance institutions, and consultants.

To achieve this, we will transform...

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<td>A technology focused market approach and trusting in our own strengths within our individual businesses...</td>
<td>Viewing complementors as a valued, competent and flexible gateway to increasing, win/win, global business access. Therefore, we will leverage skills and experiences from all possible sources to complement our own core competence to then optimize the value-added to our end customers. We will develop processes, which are open to the customers and complementors, and thus act transparently with them.</td>
</tr>
</tbody>
</table>
Lessons from Siemens Power Generation

- The most important outcome of a strategic planning process is reaching consensus among all the key executives and identifying a coherent strategic agenda with full accountability.
- One of the most important contributions of the strategic planning process itself is that it allows a critical and rigorous diagnosis of the business through a well-defined methodology.
The Paint & Coating Company -
Segmentation to Guide the Decommoditization of the Business
The Paint and Coating Industry

Chemical Coatings
• Solvent
• Resins
• Additives
• Colorants

Paint and Coating Manufacturers
Tier 1- Preferred strategic solution seekers
Tier 2- Large price seekers
Tier 3- Least attractive price seekers
Tier 4- Local manufacturers
Tier 5- Specific targeted companies

Distributors
Tier 1- Full alignment
Tier 2- Large power bargainers
Tier 3- Fragmented local agents
Tier 4- Specialty distributors

End Users
• Architectural
• Automotive
• Industrial maintenance
• Building products
• Appliances
• Metal office furniture
The Delta Model in the Paint and Coating Company
The Paint and Coating Company
Customer Segmentation by Tiers

Tier 1 - Preferred strategic solution seekers.
Tier 2 - Large price seekers.
Tier 3 - Least attractive price seekers.
Tier 4 - Local manufacturers.
Tier 5 - Specific targeted companies.
The Paint and Coating Company
Customer Segmentation by Tiers

Tier 1 - Preferred strategic solution seekers. These are strategic solution seekers that will be the recipient of total customer solutions provided by a team approach. We will target these preferred companies by offering solutions intended to increase productivity and performance, reduce supply chain costs, provide eBusiness solutions and develop jointly unique products and a variety of other value added services. It is mandatory that the customer value propositions will result in quantified and well-documented cost reductions, performance and productivity improvements for our clients, improving our customer sand our shareholders profitability.
Tier 2 - Large price seekers. Composed of large price seeker paint & coatings manufacturers, which may not be as responsive to receive the total customers solutions approach of Tier 1 customers. Our intent is to make every effort to move these accounts towards a closer collaboration, seeking a true partnership for value added.
Tier 3 - Least attractive price seekers. These are the least attractive price seekers that have non-existent switching barriers to select a supply. These are primarily transactional customers who will receive minimal services.
The Paint and Coating Company
Customer Segmentation by Tiers

Tier 4 - Local manufacturers. These are composed of a large number of local paint & coatings manufacturers, but because of their collective volume, provide attractive opportunities to us but cannot be targeted in the manner of Tier 1 and 2 customers. We will utilize eBusiness and telesales technology to address and satisfy their needs.
Tier 5 - Specific targeted companies. Composed of targeted companies that although small in size, deserve special attention because they are either highly innovative or address unique environmental concerns.
The Mission of Chemical Coatings

Chemical Coatings will become the recognized leading products and services supplier to the paint & coatings industry.

We will accomplish this by developing a forceful strategy that will make us the preferred total customer solutions provider to the paint & coating manufacturers. We will seek alignment through a careful segmentation process to develop a distinct set of relationships with our customers, distributors, end users, and complementors.
The Mission of Chemical Coatings (cont’d)

We will have a coherent global strategy that maintains our strong business base in the United States and Western Europe while seeking geographical expansion in selected developed and emerging economies in the world. We will implement this transformation through the addition of a significant set of new competencies. As a result of this effort, we are confident that we will reach exciting levels of growth and profitability, gain superior customer loyalty and bonding, and generate a working climate characterized by “A Spirit of Success.”
**Statement of Product and Services Scope**

To achieve this, we will transform...

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<td>A portfolio of products characterized by significant breadth covering oxygenated solvents, resins, coating additives, curatives and colorants. This portfolio is composed by 20% of Flagship products - specialty solvents, coalescents, cellulose esters and colorants. The majority of the remaining products have low margins and are being perceived primarily as commodities. This product portfolio is supported by a variety of IT, Technology and Supply Chain services. The resulting products and services offering is rather fragmented and is not focused on providing an integrated, customized set of solutions to our targeted customers.</td>
<td>Our product and service portfolio will consist of a properly packaged set of integrated solutions to our primary customers, the paint &amp; coating manufacturers. The resulting value proposition that will emerge will be directed to properly segmented and selected customers, which will constitute the essence of our leadership in the Paint &amp; Coatings Industry.</td>
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</table>
Statement of Customer Scope

To achieve this, we will transform...

**FROM**
Covering a large set of global, multi-regional, regional, and local paint & Coatings manufacturing customers without a well-defined targeted strategy.

**TO**
A focused segmentation with the differentiated strategies to satisfy, in the most effective way, the distinct needs for products and services of five tiers of paint manufacturers.
TO

The classification of distributors according to the four tiers signaling different kinds of relationships with Chemical Coatings with respect to the degree of strategic alignment existing between us and the distributors group.

Tier 1: Full alignment with Chemical Coating. This group becomes our preferred set of distributors, receiving the highest priority for business management attention and strategic alignment (training, tech service).

Tier 2: Large power bargainers. This group is formed by large distributors who are power bargainers pursuing their own individual interests. Because of the importance, we have to develop satisfying relationships with them, but they may not be regarded as preferential partners.

Tier 3: Fragmented local agents. Provide customer relationships and transactional capabilities with no real long-term strategic solutions.

Tier 4: Specialty Distributors. These distributors provide an attractive focus for a particular segment and can act as an extension of our sales force.
# Statement of End User Scope

The end users are the Paint & Coatings Manufacturer’s customers.

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<td>Currently, our relationships are rather remote, lacking deep understanding of their business. They are classified in a rather conventional way into the following market segments: Architectural, Automotive, Industrial Maintenance, marine, Building Products, General Industrial (machinery, equipment), Can &amp; Coil, appliance, Metal Office Furniture.</td>
<td>To have a thorough understanding of the end user’s product and service needs so that we can assist the paint &amp; coatings manufacturers in providing solutions to their customers. We will understand the value system as a whole, so that we will identify where the major opportunity resides. Once again, the major objective is to increase the profitability of our customers and our shareholders, and quantify, document, and communicate cost reductions, performance and productivity improvements.</td>
</tr>
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</table>
Complementors are those engaged in the delivery of product and services, which enhances our product and services and our position in the market place.

To achieve this, we will transform...

**FROM**
A lack of an integrated approach in the use of complementors.

**TO**
The concerted effort to add value to our customer solutions by a comprehensive use of partnership of both internal and external partners.
### Statement of Geographical Scope

To achieve this, we will transform...

**FROM**

Being primarily a NA and Europe Centric organization.

**TO**

Extend significantly our business presence in selected areas in the world. Our intent is to provide global support to our preferred paint & coating manufacturers, wherever it provides mutual value. We will continue our commitment to the US and Western Europe and the countries where we have an established business presence, such as Central and South East Europe, Korea, Canada, Australia, Japan. Additionally, we will provide new emphasis in emerging economies such as Greater China, Mexico, and Brazil.
Statement of Unique Competencies

To achieve this, we will transform...

FROM

Chemical coatings is a leading company in its industry. Among our most salient competencies we can cite: our global coatings portal, our open business environment, our unique breadth of technological capabilities, our ability to manage large integrated manufacturing sites, our excellence in the supply chain.

TO

In order to achieve our desired customer solutions strategic position, we need to incorporate a set of new critical competencies. The primary ones are: Activity based costing and business system; TQM; the achievement of positive net flow of talent; technology programs focused on customer, market and business needs; highly leveraged procurement; efficient operation of small scale batch processes; small site management capabilities; deep domain knowledge along the value system; tier driven sales process; develop partnering skills; establish a total customer solutions engagement process; and customer driven services.
Lessons from Chemical Coatings

- The most effective way to decommoditize the industry is to segment carefully the key players (customers, distributors, complementors, and end users), and provide to each one of them a unique and exciting value proposition.
- Do not commoditize your offering to the customer (sell solutions, not commoditized products, and do not let the customer commoditize you).
- Mutual learning and trust is of the essence.