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SPECIAL REPORT

CUSTOMER VALUE MANAGEMENT IN THE CHEMICALS AND PLASTICS INDUSTRIES

A REVEALING NEW STUDY
BY
MARKETABILITY

December 2003

Practical Marketing for Value Growth

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NEWS ITEM

Giving it all away

A major new report by MarketAbility benchmarks the performance of leading chemicals and plastics producers on their customer value management. The study uses the unique Pentadigm Customer Value Management Best Practice model and ranks the top 125 global chemicals and plastics producers.

"The picture is not very pretty" reports Phil Allen, CEO of MarketAbility and author of the report. He explains: "The average performance amongst the leading chemicals and plastics producers is well below par and even the top-ten performers identified in our report fall a long way short of best practice. We are convinced that there is a correlation between the performance of companies on Customer Value Management and their overall business results and this appears to be borne out by the results of the study."

MarketAbility has identified the following companies to be the top ten Customer Value Management performers in the industry, but we warn that even these companies should not feel overly proud of their achievement – albeit better than the average in the industry, they are still some way removed from Customer Value Management best practice. However, their lead in CVM versus their peers is also reflected in their results.

Dow Corning Corp.	<i>57% higher net income on 13% higher sales Q1 2003 vs Q1 2002</i>
UCB	<i>record ordinary profit in 2002 up 7% over 2001</i>
Avecia	<i>currency adjusted EBITDA ahead 5% 2002 over 2001</i>
Lonza	<i>operating income up 1.5% 2002 over 2001 on static revenues</i>
Shell Chemicals	<i>earnings more than doubled 2002 over 2001</i>
BASF	<i>EBITDA up 23% 2002 vs 2001 and up 5% Q1 2003 over Q1 2002</i>
Eastman Chemicals	<i>net profit \$ 61MM 2002 after 2001 loss and up 3 fold in Q1 2003</i>
GE Plastics	<i>maintaining profitable growth (no details available)</i>
Ciba Speciality Chems.	<i>net income up 6% 2002 over 2001</i>
Albemarle	<i>net income up 10% 2002 Over 2001</i>

Companies who wish to participate in the study can do so by contacting Phil Allen at MarketAbility on +41 1 783 8777. This is also the number for enquiries about the report, which can also be purchased directly from the MarketAbility website: www.marketability.org.

It is planned to update the report on an ongoing basis, so that anyone purchasing will always get a current view of the industry's performance.

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EXTENDED ITEM

Re-Capturing the Value

Phil Allen continues "The real shame is that the chemicals and plastics industry creates a huge amount of value for its customers, but seems to have lost the ability to capture that value back into its own business results." The consequence of this is an industry that underperforms on value creation and capture and is regarded in a poor light by the investment community and by potential employees.

So, what are the implications for the chemicals and plastics industry and what can companies do about it? Phil Allen has a few suggestions:

"First and foremost companies in the chemicals and plastics industry must begin to recognize the true value and importance of customer orientation and marketing excellence, which must be given equal or higher attention and status to manufacturing and R&D and must be staffed with experts from the fields of customer value management and marketing rather than by commercially aware technical folk. Secondly, marketers and business leaders in the industry must look beyond the worn-out approaches to customer segmentation (by industry, application or size of demand) to develop customer segmentation based around customer need and value. Thirdly, from the basis of such customer insight the industry must look beyond product and delivery to more advanced and innovative ways of differentiating their offerings, using advanced services, solutions and other intangible elements of offerings such as relationship and image in order to get ahead of competition and create sustainable profitable customer relationships."

MarketAbility has also developed a very useful tool to help chemicals and plastics marketers to quickly identify what, where and how they can improve their customer value management. **MarketAbility's CVM (Customer Value Management) Diagnostic** produces a rigorous and systematic evaluation of a company's performance on each of the five steps in the Pentadigm model:

1. Understand the Customer
2. Commit to the Customer
3. Create Customer Value
4. Obtain Customer Feedback
5. Improve Customer Value

(continued.....)

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CVM Diagnostic Approach and Outputs

The CVM Diagnostic features a unique set of parameters and measures applied to each of the five steps and involves detailed analysis plus interviews and discussions with the subject company's customers, non-customers and staff at all levels. The results of the detailed study are presented back to the company team in an interactive workshop, geared to identify for each of the Customer Value Management steps:

1. What the company does well today, can reinforce and leverage in the marketplace with target customers.
2. What the company needs to improve to be better positioned in the marketplace and with target customers.
3. What the company must do differently to win greater success in the marketplace and with target customers.
4. How does the company compare with best practice

Specific deliverables for a company from the CVM Diagnostic will be a measure of performance on each step:

1. Understand the Customer

Understand market and customers, customer segmentation, evaluate competitive position, target customer segments.

2. Commit to the Customer

Develop customer segment strategy, differentiate offerings to chosen target segments, communicate offerings internally and externally, define and measure key performance indicators.

3. Create Customer Value

Develop a customer culture through the organisation, define and populate customer value processes, develop customer value infrastructure, implement customer value.

4. Obtain Customer Feedback

Track won and lost business, proactively obtain customer feedback, measure and track customer satisfaction, manage customer queries and complaints.

5. Improve Customer Value

Implement short-term improvements, continuous and ongoing improvements to customer value, challenge customer understanding, re-define customer commitments, improve implementation.

6. Key Actions and Initiatives

The Diagnostic and the interactive workshop provide an action list for immediate, medium and longer term implementation as the basis for future success of the company in the market and at target customers.



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Value and Timing

To run the full CVM Diagnostic for client can be completed for a fractional per cent of revenue and can bring significant impact to the bottom line of a business, typically producing ROI > 100%, more than recovering the initial investment.. Our price covers all research, customer and management interviews, analysis and a two-day interactive feedback workshop, plus the final printed report.

For swift identification of areas of impact, MarketAbility offers a CVM Diagnostic Lite or CVM Diagnostic UltraLite. These are compared below with the full CVM Diagnostic.

The key elements of each level of the CVM Diagnostic are described below:

CVM Diagnostic 3-4 months from order to feedback workshop
(internal interviews with management and staff across functions + customers and non-customers. Analysis, report and interactive two-day results and action workshop)

CVM Diagnostic Lite 2 months from order to feedback workshop
(internal interviews with customer-close management & staff + customers plus analysis, report and interactive two-day results and action workshop)

CVM UltraLite 4-6 weeks from order to feedback workshop
(internal interviews with selected marketing/sales/commercial management and staff plus analysis, report and interactive one-day results and action workshop)

MarketAbility offers a rapid response service on all CVM Diagnostic orders, so that the client can begin to act on the results, findings and recommendations rapidly in order to realise the business improvement in the shortest possible time.

Fast Results

Our detailed findings and recommendations are reported in an interactive workshop designed to provide client with a readily implementable action plan.

Results and recommendations use an easy to read "traffic light" system to enable client to easily identify key issues

Red items demand immediate attention to do something or do something differently

Amber items demand improvement in the way you do that

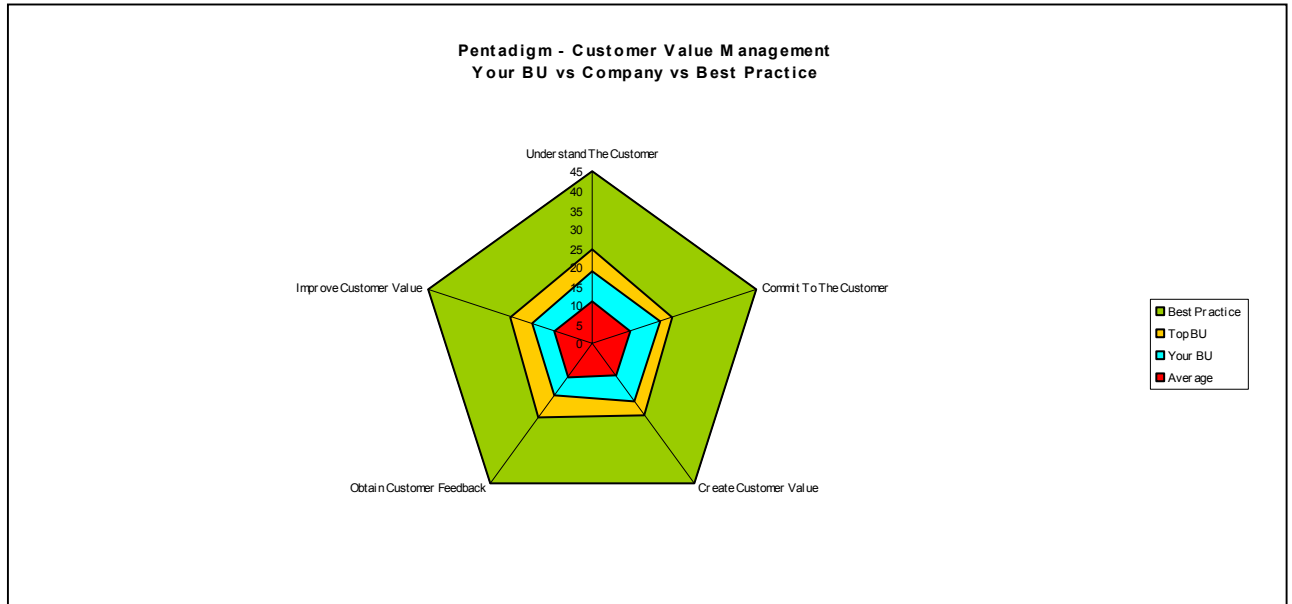
Green items are the things you are doing well and should leverage.

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Sample Output



Sample Conclusions and Recommendations

Overall BU performs above company average but significantly below best practice in Customer Value Management. Specific areas recommended for attention at BU are highlighted below:

1. Understand the Customer

- a. Define and Map the Market
Continue to define and map markets according to quantified customer need and value
- b. Discover Customer Value Segments
Move away from product-centric to customer needs- and value-based segmentation.
- c. Select Target Customer Value Segments
Make clear and conscious choices of target customer value segments

2. Commit to the Customer

- a. Develop Superior Differentiated Offerings
Move away from product-centric offerings to create sustainable competitive advantage through the injection of non-product elements in the offerings

3. Create Customer Value

- a. Create a Customer Value Culture
BU management must embrace and lead the principles of Customer Value Management by doing and not just saying.
- b. Implement Customer Value
All implementation and action plans should be linked to and driven by customer value commitments and prioritised according to customer value creation.

4. Obtain Customer Feedback

- a. Track won and lost business
BU should introduce more rigorous and regular won- and lost-business analysis under the auspices of an independent and empowered executive-level manager

5. Improve Customer Value

- a. Challenge Customer Segmentation
BU should move to dynamic customer needs and value-based segmentation
- b. Re-define Customer Commitments
BU should inject more non-product (e.g. service and intangible) elements into their customer value commitments

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MARKETABILITY SUPPORTS CVM BEST PRACTICE

MARKETABILITY SUPPORTS PENTADIGM CVM BEST PRACTICE

MarketAbility coaches business teams to develop value-based customer-driven business strategies and has achieved considerable success and value growth for chemicals and plastics clients as a result.

Proof **MarketAbility added value € >300,000**

MarketAbility practitioner managed client resources to re-define marketing strategy and implement plans. Improved market share and position. Improved resource efficiency. Improved goal achievement.

MARKETABILITY SUPPORTS PENTADIGM STEP1: UNDERSTAND THE CUSTOMER

MarketAbility facilitates customer value segmentation and has helped clients to profitable value growth as a result. MarketAbility manages complete customer segmentation programmes from customer research through customer segmentation to create customer commitments and implement strategy.

Proof **MarketAbility added value US\$ 0.5 million**

MarketAbility Practitioner and partner market research supplier completed project to understand customer needs and behaviour better, resulting in more clearly differentiated offerings more effectively implemented at target customers with fewer resources.

MARKETABILITY SUPPORTS PENTADIGM STEP 2: COMMIT TO THE CUSTOMER

MarketAbility coaches business teams to develop differentiated offerings and detailed marketing mixes, creating success for clients some of whom rank in the top ten of this CVM benchmarking study.

Proof **MarketAbility added value \$ > 1.0 million**

Following a CVM workshop, client's business manager used the newly created Customer Commitment at a key account to save the business he had been told (by the customer) he would lose.

MARKETABILITY SUPPORTS PENTADIGM STEP 3: CREATE CUSTOMER VALUE

MarketAbility helps clients to develop a customer-focused culture throughout their organization. MarketAbility's unique CVM Diagnostic pinpoints the key areas for improvement in a company's CVM activities and enables better definition of customer value processes. MarketAbility facilitates implementation of customer value strategies to ensure linkage between actions and customer value. MarketAbility teaches and coaches value-based pricing and key account management

Proof **MarketAbility added value € > 0.4 million**

MarketAbility practitioners worked with client business team to implement marketing and sales plans, resulting in improved positions at key target accounts and better customer retention.

MARKETABILITY SUPPORTS PENTADIGM STEP 4: OBTAIN CUSTOMER FEEDBACK

MarketAbility coaches and facilitates won and lost business analysis; advises and trains on complaints handling. MarketAbility associates are expert in design and conduct of meaningful customer satisfaction research. MarketAbility coaches and trains customer focus and customer value management.

Proof **MarketAbility added value € >2 million**

MarketAbility Practitioner and partner market research supplier operated customer satisfaction programme for client to obtain customer feedback and ensure relevance of offerings to Customer, resulting in improved positions at key target customers

MARKETABILITY SUPPORTS PENTADIGM STEP 5: IMPROVE CUSTOMER VALUE

MarketAbility coaches business teams to develop value-based marketing and business strategies, driven by customer value. MarketAbility's unique CVM Diagnostic points the way for companies to leverage what they do well, improve elements of under-performance and identifies what companies must change to improve customer value and business results. MarketAbility coaches and facilitates change.

Proof **MarketAbility added value € > 3 million**

MarketAbility practitioners worked with client to re-segment market, develop new offerings and implement new marketing models. Increased customer retention and account penetration

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THE REPORT


December 2003



GIVING
IT
ALL
AWAY



CUSTOMER VALUE MANAGEMENT IN CHEMICALS AND PLASTICS



The Aldon Web Site From Your Perspective

<u>Do It Yourselfer</u>	<u>Contractors</u> Tile or Masonry	<u>Distributor / Dealer</u> Tile or Masonry	<u>Manufacturer</u> Concrete Products
<u>Architect / Designer</u>	<u>Contractor</u> Sealing Specialist	<u>Distributor / Dealer</u> Carpet/Resilient Flooring	<u>Quarrier</u> Decorative Stone

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OUTLINE

This document contains the latest findings of MarketAbility's CVM Benchmarking study of the top 125 chemicals and plastics companies in the world.

- I. BACKGROUND AND RESEARCH METHOD
- II. KEY RESULTS *Overview of chemicals industry performance against best practice*
- III. CUSTOMER VALUE MANAGEMENT AND BUSINESS SUCCESS
- IV. CONCLUSIONS AND RECOMMENDATIONS
- V. PENTADIGM: 5 STEPS TO CREATING CUSTOMER VALUE: *Detailed analysis of chemicals industry performance against best practice model*
 - 1. UNDERSTAND THE CUSTOMER
 - 2. COMMIT TO THE CUSTOMER
 - 3. CREATE CUSTOMER VALUE
 - 4. OBTAIN CUSTOMER FEEDBACK
 - 5. IMPROVE CUSTOMER VALUE
- VI. *COMPANY BENCHMARK: SAMPLECO (available only to participating companies)*
PENTADIGM: 5 STEPS TO CREATING CUSTOMER VALUE
KEY RESULTS AND CONCLUSIONS
 - 1. *UNDERSTAND THE CUSTOMER*
 - 1.1 *Performance Radar: SAMPLECO and SAMPLECO versus the Industry*
 - 1.2 *Findings & Recommendations*
 - 2. *COMMIT TO THE CUSTOMER*
 - 2.1 *Performance Radar: SAMPLECO and SAMPLECO versus the Industry*
 - 2.2 *Findings & Recommendations*
 - 3. *CREATE CUSTOMER VALUE*
 - 3.1 *Performance Radar: SAMPLECO and SAMPLECO versus the Industry*
 - 3.2 *Findings & Recommendations*
 - 4. *OBTAIN CUSTOMER FEEDBACK*
 - 4.1 *Performance Radar: SAMPLECO and SAMPLECO versus the Industry*
 - 4.2 *Findings & Recommendations*
 - 5. *IMPROVE CUSTOMER VALUE*
 - 5.1 *Performance Radar: SAMPLECO and SAMPLECO versus the Industry*
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- VII. MARKETABILITY SUPPORT
- VIII. MARKETABILITY SUPPORTS CVM BEST PRACTICE

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MarketAbility

A PENTADIGM Practice

A global marketing excellence practice owned and operated out of Zürich, Switzerland by Phil Allen, with a network of expert marketing practitioners, serving clients around the world.

- **Add value to client's business** with marketing excellence and customer value management in strategy, process and culture
- **Deliver improved business performance** through tailored customer-driven strategy development and implementation services to global clients in business-to-business markets
- **Impart advanced marketing and customer value skills to client** through applied interactive workshops
- **Measure marketing effectiveness** with CVM Diagnostic

Marketing strategy development and implementation, built around the key needs and drivers of customers, is the core of MarketAbility's hands-on approach to improving business results.

MarketAbility applies the five-step Pentadigm Customer Value Management model to help clients cut through jargon and processes and get down to creating and implementing value for their customers.

MarketAbility works with clients' business and marketing management on an individual basis through our mentoring programme or in teams working in interactive workshop style.

Clients praise MarketAbility for our results-oriented, down-to-earth approach to strategy development and implementation: -

"Very good balance between theory, example from other companies and practical exercises."

"I really appreciated your coaching/feedback and practical business examples."

"Well-structured, Well-organized, Practical. Considerable materials to use in everyday working life"

"The most practical training I have attended in years, excellent."

"New ideas, well explained and practically delivered."

"Phil does not think like everyone else and he got us to think differently and out of the box too."

"MarketAbility.....it's changed my job completely."

"This is a really customer related approach.....totally worthwhile"

"Systematic, very disciplined, high energy, strong communicators."

"MarketAbility....opened for me an awareness of things I had no awareness of before."

Satisfied MarketAbility clients include:

Arakawa Europe; Atofina; BASF AG; BP Chemicals; Ciba Specialty Chemicals; Dow Chemical; Dow Corning; DSM; Ernst Russ & Co GmbH; Kemira Agro; Kerr-McGee; Lonza AG; Microsoft Deutschland; Montell Polyolefins; Neste Chemical; Norsk Hydro; Nova Chemicals; Ondeo; Reilly Industries, Inc.; Rhodia; Rütgers Organics; Serono; Shell Chemicals; Shell Gas (LPG); Shell Oil Products; Sigma AG; Treibacher Industrie AG; Univar Europe; Univation; Veba Öl.

MarketAbility's Customer Value Management Circle of Excellence™ is a learning and sharing organisation for all involved and/or interested in managing customer value and building customer loyalty at www.customer-value.org .

www.marketability.org

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Biography Phil Allen

Phil Allen has 30 years of hands-on sales, marketing, customer value management and key account management experience at national, continental and global level in multi-national corporations including Albright & Wilson Ltd, Bayer AG, English China Clays, Hilti AG and The Dow Chemical Company.

Since 1997 Phil runs his own marketing excellence practice, MarketAbility - creating value for clients by helping them to apply marketing excellence to their businesses. MarketAbility delivers practical marketing for value growth, facilitating marketing strategy development and implementation working together with the client's team.

MarketAbility serves many clients in the chemicals, plastics and energy industries as well as providing hands-on practical advice to clients in several other B2B markets.

In May 2002, Juan Senor, Senior Editor at the International Herald Tribune, praised Phil in a Euronews company documentary for having founded a unique and action-oriented company, with an individual business style.

Phil's pragmatic, down-to-earth approach to marketing is reflected in the book he has co-authored "Value-Based Marketing for Bottom-Line Success: 5 Steps to Creating Customer Value" by De Bonis, Balinski and Allen, McGraw-Hill, Dec 2002.

Some client comments about Phil:

"Phil does not think like everyone else and he got us to think differently and out of the box too."

"Interactive, high impact, Phil understands the self-discovery process."

"Very good at getting people to think outside the box."

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