

Growing Your Business in a Global Market

There are few industries more global than the chemicals sector. These days the global dimension is at the center of almost every chemical business decision. For even if you don't source raw materials globally, have production plants around the world or sell outside the domestic market, your competitors probably do. To compete successfully you will have to be aware of the global issues in your sector.

Ian Thackwray is Dow Corning Corporate Vice President, and President

Dow Corning Asia. Dow Corning offers silicon-based products, technologies and solutions.

Marc Hennebert is a member of the Chemicals and Life Sciences practices of Strategic Decisions Group (SDG). He leads the Chemicals practice, where his work has primarily been focused on developing value-creating strategies at the corporate and business level.

Here they discuss global expansion and share experiences in this area.

Which are the most promising markets in Asia in terms of growth potential for the next decade?

Marc Hennebert (MH) Asia is now a key focus for western chemical companies faced with established, mature markets such as North America, Europe and Japan offering only modest, GDP-type growth potential. China and India represent the biggest opportunity. There have already been massive investments made in those countries, primarily in petrochemicals although investment is migrating rapidly to downstream segments including specialty chemicals.

The long-term potential of these areas is driven by their population size, demographic growth and long-term GDP per capita growth potential.

Ian Thackwray (IT) I agree with Marc. From our perspective, the strongest, most attractive markets include China and India. Doing business in China is a must if you want to expand globally. India is important due to its large population and strong future potential.

Other markets showing great promise, particularly for Dow Corning, are Southeast Asia, especially Indonesia, the Philippines and Vietnam.

What are the benefits in today's marketplace for geographic expansion into additional countries and regions in Asia?

MH The long-term trend is to see more globalization in many areas of the value chain, driven by customers, innovation, technology and raw materials.

The stakes are significant and the potential benefits are huge, not only for the shareholders, but also for the employees and local communities.

- Shareholders: mostly financial benefits through new source of top line growth;
- Employees: new challenges and rewards of a multicultural, international environment in which they develop;
- Local communities: through new investments, the creation of new jobs, the attraction of other companies and services, as well as the introduction or development of new technologies.

IT Companies that want to maintain a leadership position today need to expand geographically. In addition to Marc's points, we see several more benefits:

- It provides economies of scale and manufacturing efficiencies.
- It allows companies to satisfy the needs of global customers more easily.
- It allows companies to tap into human capital.
- It allows them to shift their resourcing as other parts of the world are maturing.

In addition to a very strong emphasis on developing local talent and leadership, Dow Corning also moves experts and staff around the world to strengthen the business. This allows us to cross-pollinate and spread expertise. For example, we are taking Dow Corning ex-

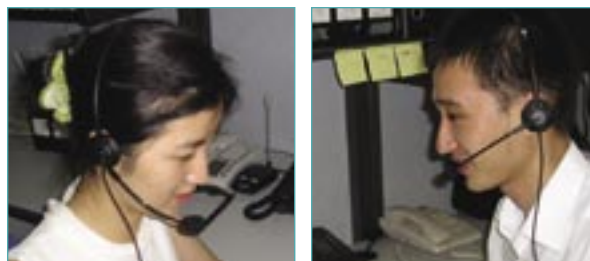


Dow Corning's China facility offers technologies, materials and solutions to support a broad range of industries.

perts from our more mature businesses in the U.S., Japan and Europe and relocating them to emerging markets in ASEAN, China and Korea to bring needed skills and experience and add to our leadership capabilities.

What are the key risks expanding out of your own market—economic, political or even social?

MH I would say there are two key risks: people and regulatory. As you become truly global, the people factor is critical. Indeed, a successful geographic expansion strategy, whether organic or through acquisitions, has to take into account the understanding and integration of different people, teams and culture. Let's remind ourselves here that about two thirds of mergers fail, primarily due to the cultural factor. The regulatory risk is very important too. All in all, companies expanding must carefully identify and understand the risks associated with all the alternative choices they may have.



Two Dow Corning employees provide service to customers from the Dow Corning Technical Information Center, located in Songjiang, China.

IT I agree. There are many risks that companies need to consider before expanding into new geographies. Issues such as the rule of law, stable governments, social stability, asset protection laws and intellectual property rights are among them. There is also a concern in hyper-growth economies that such rapid expansion may not be sustainable. At Dow Corning we remain conscious of changes in the local business environment. Often, it's best to start on a small scale, without major capital investments. It's always wise to be highly sensitive to changing economic conditions in an emerging or developing country.

Having successfully expanded, Dow Corning also helps other companies expand into new geographies

with minimal risk by providing contract manufacturing in our plants. This allows a company to establish a base in a new geography without all the risks and provides speed to market. We also provide counsel in local business requirements and regulatory issues.

In some countries, like China, profitability is hard to secure because prices are relatively low and there are many companies competing. Many multinationals are making business investments there and are not always adequately considering profitability. Some of the technology and auto companies in China were very quick to invest and thus have been having a difficult time. Dow Corning has an advantage because it began expanding into geographies around the world early on in our history. That allowed us to establish customer bases and distribution networks and channels to market many years ago.

What is the best way for firms to build channels to market in Asia's emerging economies? Is it best to joint venture, acquire or build up from the ground?

MH There is no systematic answer. Companies have to carefully frame the question of why they want to expand, and identify the various alternatives they have to achieve their objectives. It is by clearly understanding the risk and uncertainties of each alternative that companies can improve the quality of their decisions and their choice of "how" to do it.

IT There are essentially two ways to expand into a new geography—with a local partner or to ramp up on your own.

It is critical to find, or develop, local partners who have local expertise, know the local subtleties, and understand the regulatory environment and laws. Local partners understand how companies do business in that geography, have established relationships with customers and prospects, understand logistics and how to move product.

Research is key—to study the potential in a country before entering. For Dow Corning, we are usually already selling materials in new countries before we establish an operation there. Once we enter a new geography, we intend to be there for the long-term.

Sometimes companies can move into a new geography in an indirect way. For example, we serve Vietnam through our business in Thailand. In that way, we can build relationships with channel partners and establish a distribution network. At some point, Dow Corning may open its own office in Vietnam.

Ian Thackwray is a Dow Corning Corporate Vice President, and President, Dow Corning Asia. For more information about Dow Corning's geographic expansion solutions and expertise, go to www.dowcorning.com/innovate

Marc Hennebert is a member of the Chemicals and Life Sciences practices of Strategic Decisions Group (SDG), the strategy consulting firm. For more information see www.sdg.com