

Dow Corning Right on Time With XIAMETER Expansion

by Paul Lord and Daniella Scott

Dow Corning sent a shockwave through the chemical industry in 2002 when it introduced the XIAMETER brand. Its business model is a web-enabled, B2B channel for selling mature silicone-based products at market prices against pre-defined ordering protocols. By recognizing and satisfying a “price-seeker” market segment through this product, the company was able to eliminate the costs for services that didn’t add value to customers.

These costs were reduced in at least five ways:

- **Product only**—XIAMETER products are sold with limited technical service; the Dow Corning brand is sold at a higher price point supported by extensive services.
- **Extended lead times**—Order lead times of seven days or more (depending on the product) enable a make-to-order strategy for many products.
- **Direct shipping**—Many products are shipped direct from the manufacturing plant to minimize inventory costs.
- **Increased order quantities**—The XIAMETER model requires minimum order quantities that significantly reduce transaction costs and residual inventories.
- **Automation**—The XIAMETER brand operates with fewer employees per order than the traditional Dow Corning supply chain because of substantial automation. Customer orders go directly into scheduling and production without human intervention. Customer communications, such as order acknowledgements, shipping notifications, and invoices, are also automated.

A conversation with Dow Corning

“The XIAMETER business was a breakthrough for the chemical industry when we launched it seven years

ago,” said XIAMETER Global Executive Director Shelley Bausch. “Now we are taking it to the next level by making the benefits available to a greater number of customers, not just now, but in the future as well. It will help companies that want price and supply stability and are looking to manage costs through efficiencies in purchasing.”

AMR Research recently had the opportunity to discuss the expansion of the XIAMETER brand with Shelley Bausch and XIAMETER Communications Manager Stacy Coughlin. While the timing of this move may appear to be a direct reaction to the severe economic downturn of 2008, closer inspection reveals that it’s actually a market-driven business transformation.

AMR Research: When did you begin evaluating an expansion of the business model, and what were the major factors that drove your decision?

Dow Corning: At the end of 2007, a team inside Dow Corning took another look at our customer segmentation. The competitive landscape had shifted, customer needs had changed, and the economy was eroding. We recognized that additional products were maturing and that more customers needed these products unbundled from service and sold at market-based prices. In early 2008, a design team was put in place to determine the best way for Dow Corning to reach this customer base. We decided to expand the XIAMETER business model and brand.

AMR Research: What impact will this decision have on your organizational structure and processes?

Dow Corning: As we expand the XIAMETER brand up to 2,100 products from the original launch of 400, we have fine-tuned minimum order quantities, lead times, and inventory strategies for each product. Customers also now have the option of purchasing smaller quantities of XIAMETER products through distributors as well as direct. We have increased staff to support expansion of the XIAMETER brand. Key training priorities were getting the XIAMETER organization to understand the new business model and reinforcing the two-brand strategy with all Dow Corning employees.

AMR Research: Does this change require any new system functionality or technologies?

Dow Corning: The entire XIAMETER website and its order management capabilities were rebuilt from *scratch* by our IT group. We launched content and order entry in English, Chinese, and Korean in late June. In 2010, we will launch the site into Japan with Japanese language support.

AMR Research: How do your marketing and price management policies differ between the XIAMETER brand and other parts of the business?

Dow Corning: XIAMETER prices are dynamic. They are market-driven prices, with changes in real time. Pricing is very transparent to the customers. We have a separate sales force to reinforce the brand differentiation and market-based pricing with customers. They have the ability to see the prices for different volume tiers at the product and family levels. Customers can elect to purchase through a supply agreement, which allows them to lock in pricing for all orders up to one year in the future.

AMR Research: In what ways does this expansion reduce complexity in your business?

Dow Corning: One example is that it will reduce duplicate items. Before this change, customers could choose Dow Corning or XIAMETER brands for many of their standard silicones. In the new model, each product will be sold under only one brand.

AMR Research: What lessons and insights would you share with others?

Dow Corning: Three factors came together. First and most importantly, it required executive commitment. Personal involvement from that level allowed us to quickly overcome organizational resistance.

Another critical decision was the formation of a dedicated team to plan and execute the separation of services from product in the new brand. If this separation had not occurred, we would have confused the brand differentiation.

Finally, the integration and visibility provided by our single global **SAP** instance made automated order management and production scheduling through our website possible. This is critical to achieving the cost reductions necessary to offer market-driven pricing.

Taking the challenge

Markets have changed and so have customers. It's dangerous to ignore product commoditization and customer segmentation. Dividing your business into two distinct brands like Dow Corning takes differentiation to an extreme. However, chemical companies have more opportunities to segment than they realize or exercise. Is the complexity in your business an asset or a liability? Do your sales channels match your customer segments?