

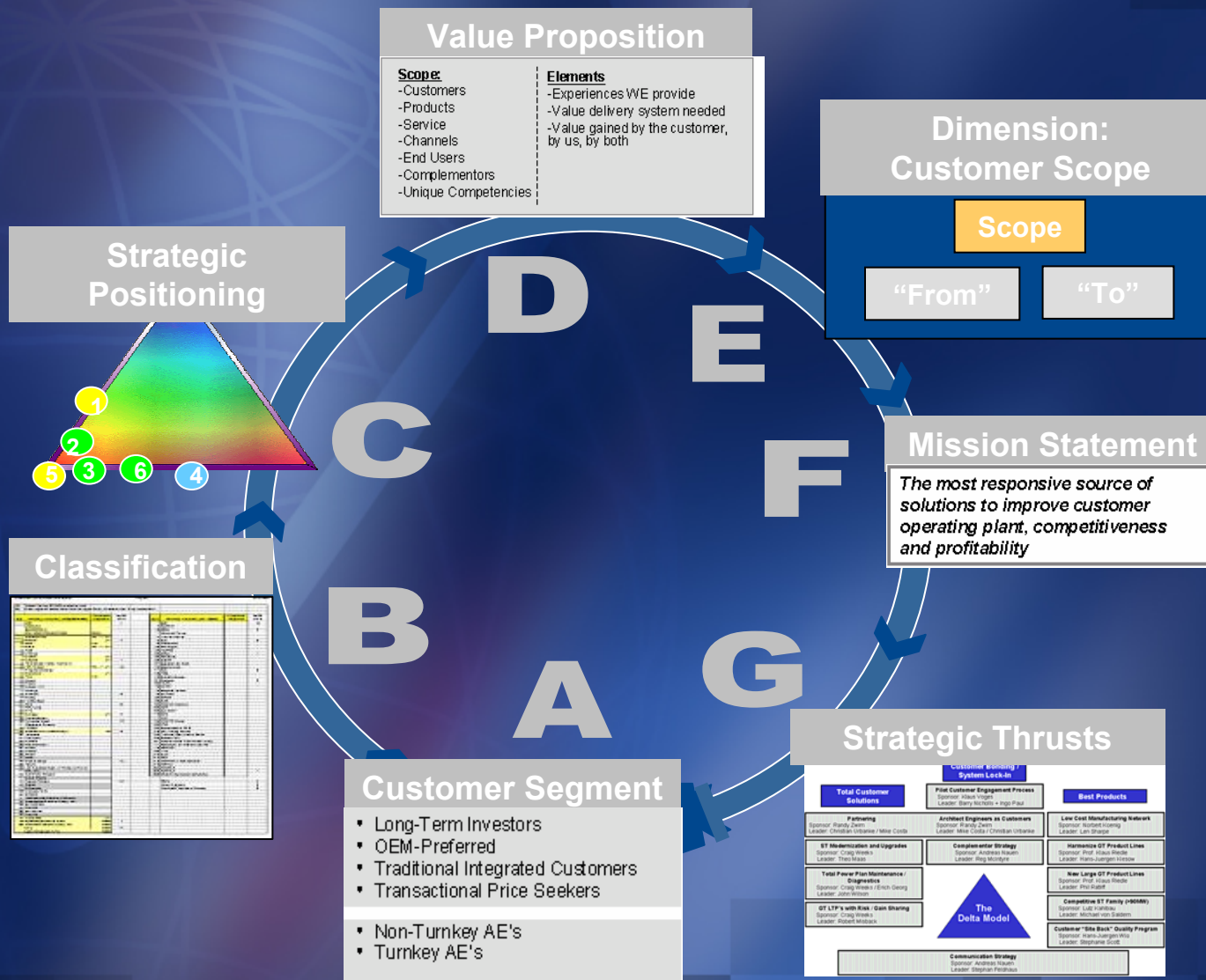


THE DELTA MODEL: How to Capture Critical Tasks of Strategy



Siemens Power Generation -
Defining the Strategic Agenda

From the Customer Segmentation to the Value Proposition



Value Proposition

Scope:	Elements
-Customers	-Experiences WE provide
-Products	-Value delivery system needed
-Service	-Value gained by the customer, by us, by both
-Channels	
-End Users	
-Complementors	
-Unique Competencies	

Dimension: Customer Scope

Scope

"From" "To"

Mission Statement

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

Strategic Thrusts

Total Customer Solutions	Customer Banking / System Lock-In	Best Products
Partnership Sponsor: Randy Ziem Leader: Christian Urbaniak / Mike Corda	Architect Engineers as Customers Sponsor: Randy Ziem Leader: Mike Corda / Christian Urbaniak	Low Cost Manufacturing Network Sponsor: Richard Young Leader: Len Shapiro
IT Modernization and Upgrades Sponsor: Craig Winters Leader: Steve Mason	Complementor Strategy Sponsor: Andrew Hagan Leader: Ray Montoya	Harmonized OT Product Lines Sponsor: Fred Laska/Steve Laska Leader: Hans-Jürgen Hoyer
Total Power Plant Maintenance / Retrofits Sponsor: Craig Winters / Rich Georg Leader: John Wilson	The Delta Model	New Large OT Product Lines Sponsor: Fred Laska/Steve Laska Leader: Phil Kraft
OT LTP's with Risk / Gain Sharing Sponsor: Craig Winters Leader: Richard Wenzel	Communication Strategy Sponsor: Andrew Hagan Leader: Stephen Pridmore	Competitive IT Family (90000) Sponsor: Len Laska Leader: Michael von Stepan
		Customer "Site Back" Quality Program Sponsor: Hans-Jürgen Hoyer Leader: Stephanie Scott

Customer Segment

- Long-Term Investors
- OEM-Preferred
- Traditional Integrated Customers
- Transactional Price Seekers

- Non-Turnkey AE's
- Turnkey AE's

Strategic Positioning







Classification

Customer Segment	Value Proposition	Strategic Thrusts
Long-Term Investors	Experiences WE provide	Total Customer Solutions
OEM-Preferred	Value delivery system needed	Customer Banking / System Lock-In
Traditional Integrated Customers	Value gained by the customer, by us, by both	Best Products
Transactional Price Seekers		Low Cost Manufacturing Network
		Harmonized OT Product Lines
		New Large OT Product Lines
		Competitive IT Family (90000)
		Customer "Site Back" Quality Program

Step A: Customer Segmentation

Customer Segment Description

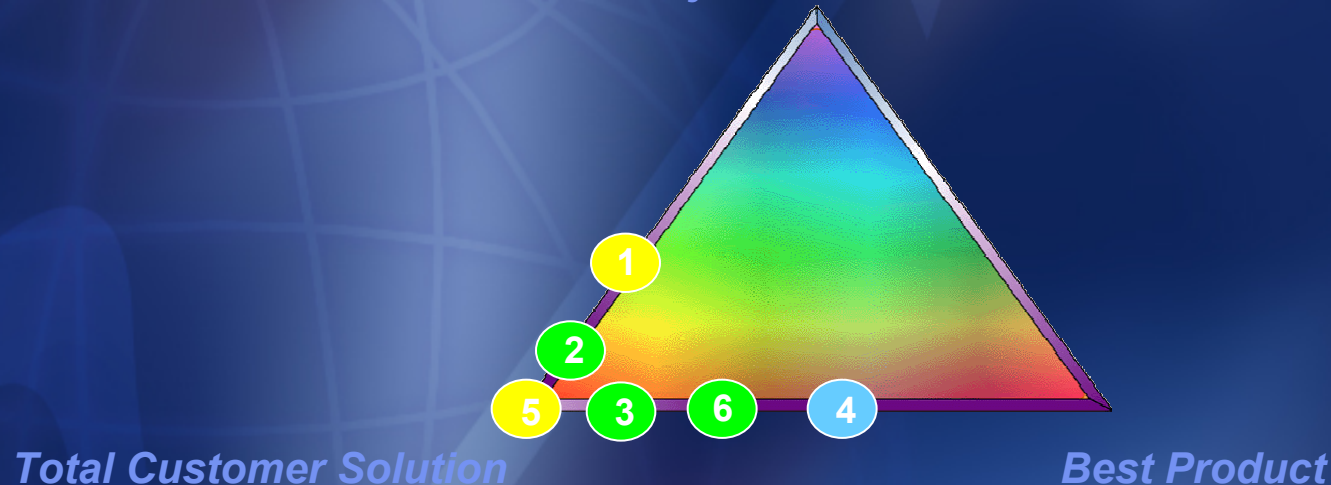
Business Relationship Description

- | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• “Long-Term Investors”
Utilities & Independent Power Providers (IPP’s) with high outsourcing practices |  | High value added relationship
Relationship oriented
Willing to form long-term partnerships |
| <ul style="list-style-type: none">• “OEM-Preferred”
Small and medium-sized utilities & IPP’s who are not self-sufficient |  | Medium value added
Support oriented
Willing to cooperate with suppliers |
| <ul style="list-style-type: none">• “Traditional Integrated Customers”
Large and mostly integrated utilities & IPP’s who are self-sufficient |  | Medium value added
Less committed to partnership
Strive to differentiate or add unique values |
| <ul style="list-style-type: none">• “Transactional Price Seekers”
Low price seeking utilities & IPP’s who are self-sufficient |  | Low value added
Transactional driven
No loyalty |
| <ul style="list-style-type: none">• “Non-Turnkey AE’s”
Architect Engineers without turnkey capability |  | High value added, need and search for partnership
Prefer integrated and complete solutions |
| <ul style="list-style-type: none">• “Turnkey AE’s”
Architect Engineers with turnkey capability |  | Medium value added
Transactional driven
No loyalty |

Step C: The Delta Model & Strategic Positioning

Desired PG Strategic Positioning

System Lock-In



Segment	Positioning
1 Long-Term Investors	High Value Added / Relationship
5 Non Turnkey AE's	High Value Added / Relationship
2 OEM- Preferred	Medium Value Added / Support
3 Traditional Integrated Customers	Medium Value Added / Support
6 Turnkey AE's	Medium Value Added / Support
4 Transactional Price Seekers	Low Value Added / Transactional

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...

FROM

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.

TO

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.

Step E: “From - To” - Statements Dimension: Complementors Scope

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...

FROM

A technology focused market approach and trusting in our own strengths within our individual businesses...

TO

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.

Lessons from Siemens Power Generation

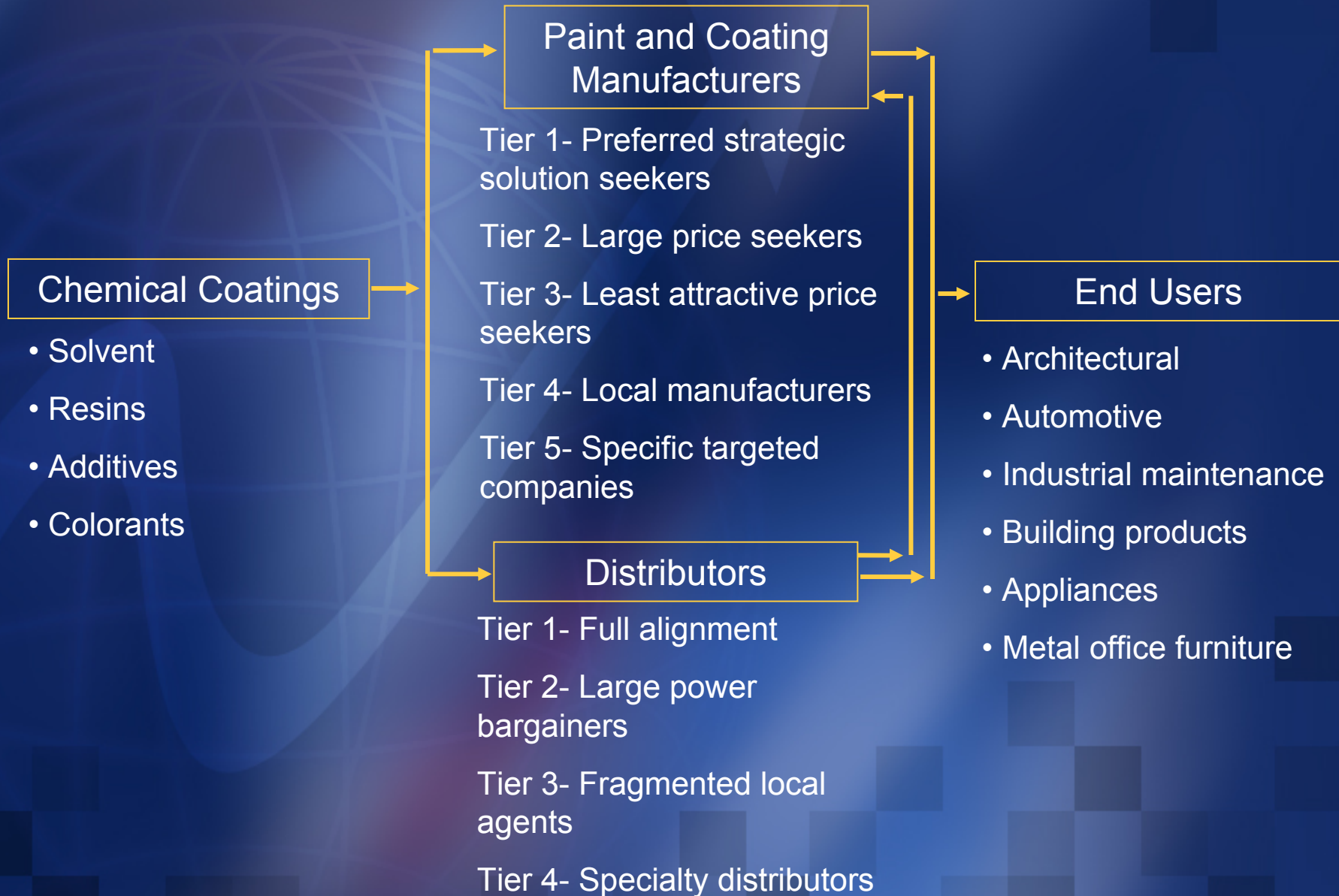
- The most important outcome of a strategic planning process is reaching consensus among all the key executives and identifying a coherent strategic agenda with full accountability.
- One of the most important contributions of the strategic planning process itself is that it allows a critical and rigorous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



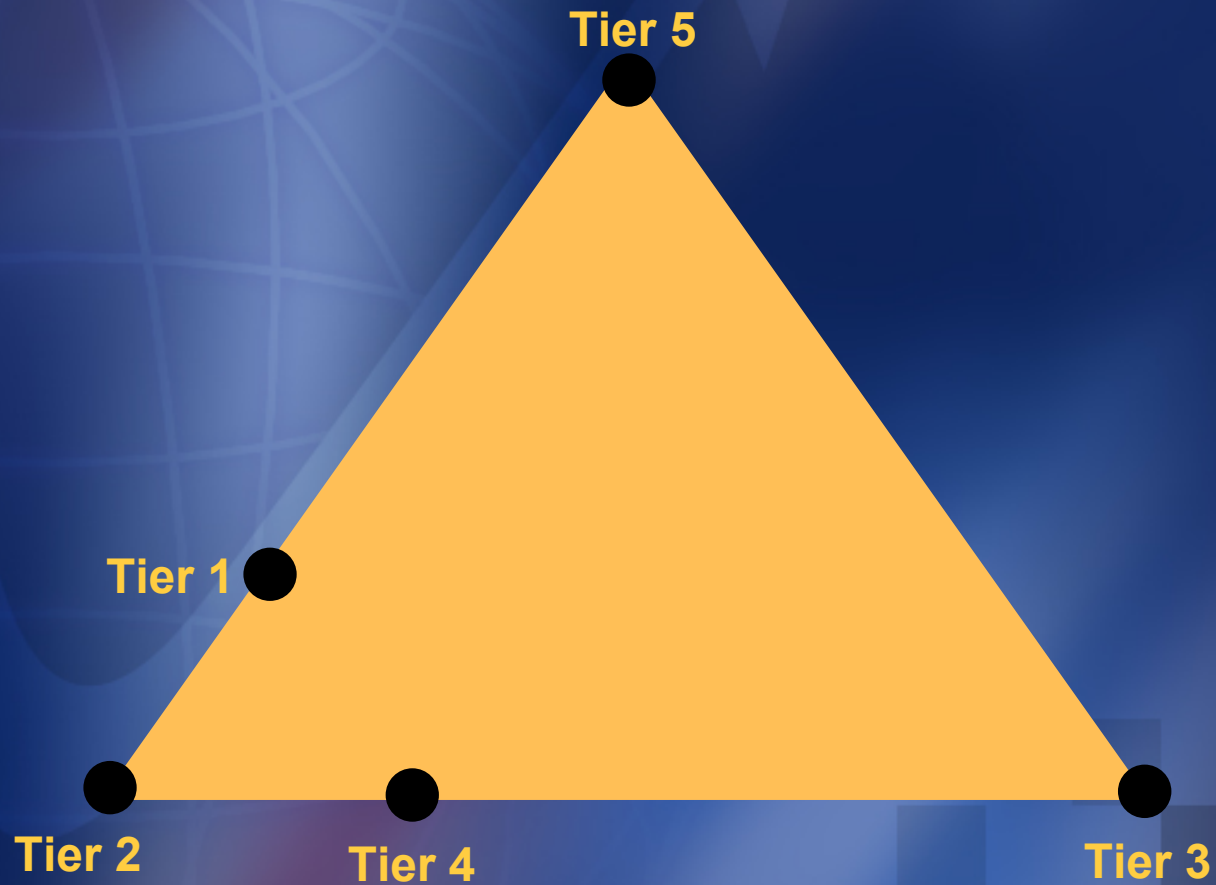
The Paint & Coating
Company -

Segmentation to Guide the
Decommoditization of the
Business

The Paint and Coating Industry



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 and our shareholders profitability.

The Paint and Coating Company Customer Segmentation by Tiers

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.

The Paint and Coating Company Customer Segmentation by Tiers

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.

The Paint and Coating Company Customer Segmentation by Tiers

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...

FROM

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.

TO

Our product and service portfolio will consist of a properly packaged set of integrated solutions to our primary customers, the paint & 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 & Coatings Industry..

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.

Statement of Distributor Scope

To achieve this, we will transform...

FROM

A loosely defined set of relationships with large numbers of national (US), regional independent, specialty distributors and local agents..

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.

To achieve this, we will transform...

FROM

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 & Coil, appliance, Metal Office Furniture.

TO

To have a thorough understanding of the end user's product and service needs so that we can assist the paint & 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.

Statement of Complementor Scope

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.**