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Dow and the Entrepreneurial Spirit

My talk today begins with the story of a young Midwestern boy. This little kid had a garden. He had a job. He helped his dad repair machines. He often conducted scientific experiments and he had many inventions. He had such an inquisitive mind, in fact, that he developed an incubator for chicken eggs at the age of 12.

Soon, this kid became an entrepreneur in his own right. As a high school student, he co-invented a small steam turbine engine with his dad, which the U.S. Navy later used in torpedo propulsion.

His hunger for knowledge led him to college. He began his career as a professor but eventually lost interest in teaching. Not content to work for someone else, he ventured out on his own ... his first company went bankrupt within a year.

Undeterred, he moved to another city and began again in a small lumbering town that had 14 saloons and not much promise. Because of a difference of opinion with his partners, he was fired. He packed his bags for home.

Finally the man found success, moved back to the lumbering town that first captivated him and set down roots. He worked 18-hour days, often slept at the factory and rode his old bicycle into town to fetch supplies – all habits that earned him the nickname “Crazy Dow.”

By now you know I’m talking about the founder of The Dow Chemical Company – Herbert Dow.

Dow was one of the country’s leading scientists. He held 90 patents and gave rise to what is now one of the largest chemical companies in the world.

By all standards, Herbert Dow was an entrepreneur – an early pioneer who founded what became a global enterprise with annual sales of \$54 billion, customers in 160 countries and products that serve every major consumer market in the world.

What did he have – this skinny kid from Ohio – that led to such unqualified success? Some would say he had what every great entrepreneur has – drive ... passion ... discipline ... a poorly developed sense of fear.

But today I would like to give you a different view of entrepreneurialism – a view sharpened by my professional perspectives from working in investments and securities, Formula 1 racing and the chemical industry. I have experienced entrepreneurialism in many forms and I am struck by the fact that it has become the ultimate symbol of achievement.

So let me begin by putting the topic into context for you.

The past 30 years have experienced an astounding emergence of entrepreneurial activity. We have some great examples of entrepreneurs in this country.

Elon Musk was named 2007 Entrepreneur of the Year by Inc. Magazine. Musk is CEO, majority owner, and head rocket designer at SpaceX, an aerospace start-up in California, that by 2011 plans to transport astronauts to and from the International Space Station. He is also the co-founder of PayPal, the online payment system used by E-Bay, and many other companies. He is a multi-millionaire.

Another example – Mark Zuckerberg. He developed Facebook, an on-line social networking site that was called the “It Company” of 2007. Zuckerberg reportedly turned down a \$1 billion buyout offer from Yahoo in 2006. He has estimated revenues of \$100 million. He is all of 23 years old.

And of course we can't forget everyone's entrepreneurial idol, Microsoft co-founder Bill Gates, perhaps the most famous entrepreneur of this era. He had a vision to put a personal computer on every desk in every home. This leaves him at the top of Forbes Magazine's list of the world's wealthiest individuals, with a 2006 estimated net worth of \$50 billion.

With businessmen like this and others like them, some analysts believe the world is experiencing an entrepreneurial revolution. A recent survey by the U.S. Small Business Administration found that 74 million Americans plan to start a new venture within the next five years. That's a lot of new business.

According to Fortune, the best countries for entrepreneurs are New Zealand, the U.S., Canada and Australia – not necessarily because there are more risk-takers but because the countries place few hurdles in the way of start-ups.

And you know there's also a cultural issue as well. It's okay to fail in Anglo Saxon cultures. We see it as, 'well, you tried.' But in some European cultures – Germany for example – if you fail as a managing director then you may not be able to run a corporation. This is a significant barrier for anyone who wants to go after a big risk. We are lucky here in the U.S. to have a more productive outlook on failure.

Entrepreneurialism is such a trend, in fact, that now more than 60% of U.S. colleges and universities offer at least one course in the topic. According to Ernst and Young, 80% of leading Americans believe entrepreneurship is the defining trend of the 21st Century.

So if we believe the surveys and the data and the articles, entrepreneurship is running rampant ... and it is easy to get your hands on. So easy, in fact, that it can be taught in any MBA program.

But is that all it really takes? Let's look at the facts – and I would add the myths – of entrepreneurialism.

The statistics say new ventures created 1.4 million new jobs in 10 years. If you break that down, that's only 140,000 jobs per year. Industry creates more than that in a month.

The data shows that 74 million Americans will start a new venture within the next five years. But let's ask ourselves how many of those will succeed. If it is so easy, why aren't we all doing it?

The Dow Jones Industrial Average offers proof that entrepreneurialism is harder than it looks. General Electric is the only original company that remains listed on the Dow Jones today. What happened to the rest of them? That listing has turned over hundreds of times. Why? Because entrepreneurialism is not that simple. It's very complicated, very difficult. Some of it is luck – maybe even for guys like the Zuckerbergs and the Musks of the world. For the rest of us, we sort it all out with calculated risk, the best data we can find and a bit of gut instinct.

Candidly, let's acknowledge up front that Dow is not considered to be the most entrepreneurial company in the world. Our foundation is as a commodity chemical manufacturer but we are changing. As we see it, we can no longer be 'one size fits all.' Operational excellence is no longer enough to guarantee success. Our processes can no longer be tailored to a few large customers. Now they must be geared to individual markets and based on a unique R&D profile. The customer mix is changing and in many cases it's getting smaller because of niche markets.

I don't need to tell you how competitive the marketplace is. But the thing that may differentiate us is that we embrace that creative spark that began with Herbert Dow more than 100 years ago.

Today, we are doing some things differently than we have in the past. We are broadening our scope, for one thing. And we are taking more risks outside of our true organization and learning to share those risks with our investors.

Let me give you an example. One of my roles at Dow is to guide Dow's Venture Capital group – which has the job of turning our entrepreneurial spirit into bottom line profit. This group is responsible to find deals and bring them home for us.

These guys are like battle veterans. They've seen a lot of good ideas, and even more bad ones, come and go. And they have a view of the subject that is realistic and candid. Since I needed them out on the streets doing the hard work, I didn't invite them here today. But I'd like you to hear what they have to say. Let's go to a brief video to hear their remarks.

So you can see we are trying to be more opportunistic as we approach the market to find new opportunities. We've looked at a lot of deals and turned down a lot, as well. It takes discipline and is much more difficult than the 23-year-old multi-millionaires would have us think.

But it is possible to redefine entrepreneurialism on our own terms, and that's what we're doing at Dow.

It begins with transforming ourselves. Like some of you, we have restructured, downsized, divested, acquired and reformed our businesses to become leaner, less vulnerable to cyclical activity, and to identify new ways for a chemical company to be a global competitor.

As Dow chairman and CEO Andrew Liveris said a few weeks ago when he reported Dow's earnings for 4th quarter 2007– we are removing the word “trough” from our lexicon. We have several strategies for doing that. Let me explain.

As a chemical company, like many of you we use a tremendous amount of energy, not only to power our plants but also as raw materials in our products.

I don't need to describe the energy situation for you, but let me put it into greater context as it relates to Dow. In 4th quarter 2007, Dow's purchased feedstock and energy costs climbed \$1.7 billion compared with the fourth quarter of last year, the largest year-over-year increase in the Company's history. That's right, I said \$1.7 billion.

Our leadership team determined that one strategy to win the game was to reduce our dependence of high priced energy. We need low cost raw materials and feedstocks, and we don't want to put assets in the ground to acquire them.

So how do we get them? By acquiring advantaged feedstock positions elsewhere through joint ventures and acquisitions.

Our acquisition with Union Carbide is a perfect example. While some of Carbide's assets turned out to be less valuable than originally expected, the rise in energy costs made other Carbide assets even more valuable.

In fact, the EQUATE joint venture in Kuwait – which we acquired through Union Carbide – opened the door to significant new opportunities in the Middle East, including a really exciting joint venture we announced in December.

That venture, with Petrochemical Industries Company of Kuwait, is an \$11billion, 50/50 partnership that will employ 5,000 people as a market leading chemical company. It is extremely important to our strategy because it reinvigorates those businesses that were the most susceptible to the ethylene cycle.

We have several other deals – in China, Saudi Arabia and Russia for example, that truly round out the breadth and scope of our strategy.

So I hope you can see this is about major change and reconfiguration of portfolios – all associated with huge risk. That's how we put our entrepreneurial spirit to work.

We're also increasing our R&D budgets ... redefining our distribution channels ... putting money into true new ventures ... pursuing new technologies like solar, bioscience and pharmaceuticals – all things out of the traditional space a chemical company would occupy.

The outcome is uncertain but we're willing to take some risk without putting all of our eggs in one basket. That's how we foster an innovative mindset.

Some would say our efforts are having an impact. Our earnings from our joint ventures are up 21% compared to a year ago. And we had record fourth quarter sales in 2007 with continued solid earnings.

Our aim is to use our entrepreneurial spirit to make lasting contributions in the world economy as a way to link markets and economies ... as an entrance point into new markets ... as an energizer for business creativity and innovation ... and as a link to what makes us truly unique – our human element.

We're also applying that to the sustainability issue with activities in clean water, energy efficiency, climate change and a few others.

As the saying goes, if you want to stay where you are, you do the things you've always done. If you want true transformation, you adapt to change, which in its own right requires a certain set of entrepreneurial behaviors.

Am I confident this approach will pay off? Not everything will, as you heard from our guys in the video, but I'm absolutely certain that this is a sound strategy.

When I think back to that crazy guy who rode his bicycle around Midland, Michigan in the early 20th Century, I wonder what he would think of his company today. Dow has been quoted as saying, "*If you can't do it better, why do it?*" I think our company of today would agree, and I think our entrepreneurial approach upholds that philosophy.

Our challenge is to keep that entrepreneurial mindset, so that we continue as a leading chemical company in this world.

Thank you.