Dupont Case Study Essay, Research Paper

Case Analysis: DuPont

History

The DuPont Company was founded by Eleuthere Irenee du Pont in 1802. Eleuthere was a student and prot?g? of Antoine-Laurent Lavoisier, who is often called the “father of modern chemistry.” DuPont originally used Lavisier’s technology for manufacturing black gunpowder. Thomas Coleman du Pont, Alfred I. du Pont, and Pierre Samuel du Pont offered to buy the firm in 1902 after a loss of competitive advantage in the gunpowder business.

DuPont began placing great emphasis on discovery and a continual “reinvention” of its business. Their web site states, “The success of any business over a long period of time hinges on the willingness and ability of the enterprise to adapt to changing circumstances.” DuPont developed one of the first research organizations of its kind and constructed an Experimental Station, which was essentially responsible for transforming DuPont’s explosives business to a diversified chemical company. During the economic recession of 1920-1921, the company was forced to reorganize its operations in an effort to maintain profitability. With a new form of central corporate management, DuPont was able to devote itself to expansion. Fundamental research led to the discovery of nylon in 1938, one of the early marks of the modern materials revolution. By World War II, DuPont had expanded its knowledge of polymer science initiating the invention of many synthetic materials, including Teflon?, Lycra?, and Corian? among others, nearly replacing natural fibers in many applications. In the 70s, DuPont began placing greater emphasis on marketing, and focused on diversification with the purchase of Conoco in 1981, an oil, gas, and coal company with broad operations.

Current Situation

DuPont has moved toward a greater geographic scope, business focus, productivity, science and technological advances, and employee empowerment. DuPont invested in diversification in the past, however they now desire to build a competitive advantage with businesses where they may have core competences and the growth of their Life Sciences business. Executives believe their future is in the bio-industrial, pharmaceutical, feed and food industries and have made a number of alliances and acquisitions to support this belief. Dupont got rid of Conoco, and bought Merck’s interest in their joint pharmaceutical venture. This transformation, engineered by Chairman and CEO Charles Holiday, Jr., has reformed the company into what has been called “the new DuPont.” they have adapted to the future of business, however their value structure is no different. There are fewer levels of management, jobs are less structured, and there is a greater sense of employee empowerment.

Holiday is currently facing credibility problems with Wall Street investors and other entities outside the company. His vision of a biotechnology transformation has not materialized as quickly as he’d led people to believe. He promised alliances to beef up DuPont’s pharmaceutical business by the end of 1999, and announced the creation of a tracking stock for its drug and biotech business. DuPont has since decided against the tracking stock, finding no alliance and battling slow progress. The company’s goal was to generate 30% of its income from life sciences by 2002, however they will only hit about 15% this year and are no longer making promises.

To offset an undersize pharmaceutical business, DuPont is forced to rely on its older businesses. After confirming it was on track for 17 to 20% earnings in 2000, DuPont had to revise that projection to 10 to 14% blaming a weak euro and high energy prices. Adding to four years of disappointing profit growth, DuPont’s stock has tumbled 28% since Holiday took over and investors are disenchanted with the performance.

Hired just last year, Chief Operating Officer Richard Goodmanson, former president and CEO of America West Airlines, is leading an extensive review of all DuPont businesses. Holiday will not comment on the future scope of DuPont, but does imply portfolio changes.

Strengths

Income from continuing operations is likely to rise this year. Sales of DuPont’s synthetic Corian? are showing promising growth, with expectations at an estimated 15% per year. Projected growth in sales of materials used in circuits and electronic insulation are also strong. If DuPont is to succeed, it must build upon a newfound willingness to reach outside the company for expertise.

Weaknesses

DuPont’s failure to strike a pharmaceutical alliance has been the root of its recent troubles. With any significant biotechnology earnings growth several years away, DuPont must rely on its continuing businesses. Corian is showing promise, but the company’s foundation in Polyester and Nylon is seeing pricing pressure and declining earnings. DuPont’s reputation for responding slowly to more innovative rivals hasn’t helped and some investors complain DuPont currently has no coherent strategy for growth.

Opportunities

The current review of all DuPont businesses may lead to letting go some “bad apples.” If they reorganize their business successfully, they do have some fruitful opportunities. New crop protection chemicals and other genetically modified products are in the pipeline. To increase segment scope, DuPont is also developing extensions of its successful Corian product. Holiday believes the recent implementation of Six Sigma, a manufacturing efficiency program, could cut costs significantly boosting profit.

Threats

Many investors worry DuPont may be risking too much in the drug and biotech business. Larger competitors in the drug business could pose a threat and the recent backlash against genetically modified crops, which has stalled the introduction of new products, shows no ease in the near future. In the interim, DuPont must progress with its continuing businesses. High energy prices combined with a weak euro are slowing that progression to dangerous levels. With little or no results to show for “promising” promises, DuPont is facing weakening credibility and market image. Without some quick results, investors may abandon the company all together.

Goals

DuPont wants to become a “dazzling industrial growth company” through exponential growth of their life sciences and biotech business. They desire to emerge as a leader at the forefront of the future biotechnology industry. DuPont would also like to develop new materials that take advantage of the increasingly profitable electronics and apparel industries. To increase differentiation and boost their continuing businesses, DuPont will to move forward in their current success with Corian.

Strategy

DuPont seems to be pushing, almost forcing themselves, into the biotechnology industry. They have created an advisory panel of outside experts to guide in developing and commercializing biotech products, and will increase research for breakthroughs that may differentiate them in the drug and agriculture industries. COO Richard Goodmanson, who is leading the review of all current operations, will likely suggest portfolio changes. Chief Executive Holiday believes that a horizontal strategy with newly implemented programs, to lower costs and increase productivity, may gain them a competitive advantage.

Curve Analysis

DuPont doesn’t seem to employ specific teams for present improvements, but does focus a great deal on the future. I would describe their current position as very future focused and on the second curve. This is usually the more challenging position for companies to achieve. However, they are not a world-class organization because of that intense focus on the future. They have let continuing operations slide in some areas. I would assume they have not managed the first curve wisely while leaping after their future vision of innovation and industry leadership. In order to be successful, firms must manage the first curve all the way in to the second.

Value Discipline

It is inherently evident that DuPont’s vision is to become a “dazzling industrial growth company” by leading a biotechnology or life sciences revolution. DuPont has always been a product innovator, however I believe a company must never solely rely on this discipline. Product innovation can be the most rewarding focus, but it is also very tough and risky. The gross intensity with which DuPont has focused on life sciences and biotechnology has steered them into recent trouble. While they may be on track for significant future innovations, their current progress is less than desirable.

General Conclusions

I believe that DuPont’s proactive intentions in the search for revolutionary change can be positive for any company, however they must not plan on revolutionary change. It seems as though they were not well prepared for that scenario and are currently paying the price. Holiday and other executives are losing credibility because of what outsiders may think is a stubborn strategic ambition. If DuPont can stay afloat, it may fulfill its vision in the coming years. Current critics will choose to forget the current situation and DuPont will be seen as the innovative force it pursued. An unlikely possibility, as their traditional history and luck has seemed to escape them, but DuPont’s managers still have faith in their mission. For the moment, DuPont remains so close, yet so far away.