Crown clark and seal case stury

EXTERNAL ENVIRONMENTGeneral EnvironmentEconomic forces: N/ATechnological forces: N/ADemographic force: N/ASocial forces: N/APolitical/Legal forces Political/Legal forces analysis confirms the presence of laws and policies regulating the container package manufacturing industry.

Certain standards were required for the production in United States, unlike other emerging countries??™ low standard requirements. Global forces Global forces provided promising future for can manufacturing industry, when new countries of Africa were emerging. Industry EnvironmentIntroductionMetal container industry, accounted for 61% of all packaged products in United States in 1989, producing metal cans, crown and closures. Throughout the decade of the 1980s, the demand metal cans grew by an annual average of 3. 7%. Aluminum cans demand increased 200% in 9 years (from 1980-1989), while steel cans demand decreased 3. 1% per year. Despite persistent metal can demand, industry operating margins fell approximately 7% to roughly 4% between 1986 and 1989.

The threat of new competitorThe threat of new competitors was not bothering Crown Cork & Seal, concerned threat was presented from already established manufacturers through their mergers with established companies and acquiring more small companies, increasing their share in the market. Bargaining power of buyersUltimate buyers of the can manufacturing industry were the Coca-Cola Company, Anheuser-Bush Companies, Inc., PepsiCo Inc., and Coca-Cola Enterprises Inc. Buyers of can manufacturers had obviously great powers to influence the producer, since can constituted about 45% of the total cost of a packaged beverage, soft drink bottlers and brewers usually maintained relationship with more than one can supplier. Poor service and uncompetitive prices could be punished by cuts in order size. Most companies offered volume discounts to encourage large orders and to protect market share.

Bargaining power of buyers increased mainly because of increasing number of brewers produced cans in house. Bargaining power of suppliersBy 1989, Aluminum accounted for 99% of the beer and 94% of soft drink metal container business. There were three large aluminum producers in the country, who supplied to metal can producers. Reynolds Metals, second-largest aluminum producer, also produced 11 billion cans itself in 1988.

Aluminum producers tried to limit the soaring aluminum prices. The suppliers had not monopolistic powers at that time. Threats of SubstitutesPlastic and glass bottles were substitutes of metal cans. Plastic was the growth leader in container industry with its share growing from 9% in 1980 to 18% in 1989. Glass accounted for 14% of domestic soft drink sales, trailing metal cans at 75%. Glass bottles were preferred in beer category. These substitutes had their advantages and disadvantages.

Rivalry among established firmsFor over 30 years, three of the current five top competitors in can manufacturing dominated the metal can industry. Since in early 1950??™s American Can, Continental Can, Crown Cork & Seal, and National Can held the top rankings in can manufacturing. A series of mergers among several of the country??™s leading manufactures throughout the 1980s served to shift as well as consolidate power at the top. Management at fourth-ranked Crown Cork & Seal viewed the following as its primary rivals in 1989: American National Can, Continental Can, Reynolds Metals, and Ball Corporation. Complementors In 1980, industry shipped 15. 9 billion aluminum soft drink cans, by 1989, that figure had increased to 49.

2 billion cans. This increase, representing a 12% average growth rate, was complemented during the decade that experienced a 3. 6% average annual increase in total gallons of soft drink consumed. OPPORTUNITIES * Growing demand for metal containers in beer industry * Growing demand for metal containers in soft-drink industry * Aluminum??™s advantages over glass/plastic bottles * Availability for expanding operations, through acquisition of small companiesTHREATS * Dominant competitors (American National Can ??“ held 25% of market share) * Industry??™s declining profit margins * Price increase in raw material * Major brewers producing cans in house * Customer??™s growing power to influence the price * Substitutes growing demand in the marketINTERNAL ENVIRONMENTMissionN/ABoard of directorsN/ATop Management groupCompany prospered in 1930s under the leadership of McManus.

John F. Connelly was asked to be an outside director in 1956. Connelly stepped down in May 1989, when he appointed his long-time disciple, William J. Avery, Chief executive officer. Avery has been president of Crown Cork & Seal Since 1981, but had spent the duration of his career in Connelly??™s shadow. Corporate StructureIn April 1957, Crown Cork & Seal Company was on verge of bankruptcy. Bankers Trust Company withdrew Crown??™s line of credit.

When Connelly took over the presidency, his rescue plan was simple (he called it, ??? just common sense???), he wanted to pare down the organization. He cut headquarters staff by half to reach a lean force of 80. The company returned to a simple functional organization.

Connelly discarded divisional accounting practices, at the same time he eliminated the divisional line and staff concept. Corporate CultureConnelly contributed a lot in shaping organization??™s culture. He instituted the concept of accountability. He aimed to install deep rooted pride of workmanship throughout the company.

Crown emphasized quality, flexible and quick response to customer needs. According to Connelly ??? You lower the cost of doing business not by wholesale elimination of people, but by reducing mistakes in order to improve efficiency. And you do that my making everybody in company accountable.

??? ResourcesMarketing The cornerstone of Crown??™s marketing strategy was, in John Connelly??™s words, the philosophy that ??? you can??™t just increase efficiency to succeed; you must at the same time improve quality.??? Customer ServiceThe company??™s sales force maintained close ties with customers and emphasized Crown??™s ability to provide technical assistance and specific problem solving at the customer??™s plant. As President of Crown??™s N American Division said ??? We have always been and always will be customer driven.??? Production/OperationsCost efficiency, quality, and customer service were the essentials of Crown??™s strategy. The production emphasized on the areas Crown knew best ??“ tin-plated cans and crowns, and to concrete on specialized uses and international markets. Crown expanded from 9 plants in 1955 to 26 domestic plant locations in 1976. Materials ManagementN/AResearch and developmentCrown??™s technological force focused on enhancing the existing product line.

As one executive noted, ??? we are not truly pioneers. Our philosophy is not to spend a great deal of money for basic research. However, we do have tremendous skills in die forming and metal fabrication, and we can move to adapt to the customer??™s needs faster than anyone else in the industry.??? Around 1957, Connelly disbanded Crown??™s central research and development facilityFinancesCrown??™s debt represented 2% of the total capital by the end of 1988, which was 42% in 1956. Cash drain was stopped by eliminating preffered dividends. Crown??™s revenues reached $1 Billion in 1977 and earnings per share reached $3.

46. $100 dollar invested in crown stock in 1957 would be worth approximately $30, 000 in 1989.[Dollars in millions]*Company??™s ROE increased from .

55% in 1956 to 15. 57% in 1979. Gross profit margin decreased from 16. 76 in 1956 to 15. 90 in 1979. Debt was reduced from .

4 in 1956 to . 03 in 1979. BV of shares increased from 1. 57 in 1956 to 31. 84 in 1979.

Human resource managementN/AInformation systemN/ASTRENGTHS * Cost efficiency, quality, and customer service – essentials of Crown??™s strategy

* Emphasize on the areas Crown knew best ??“ tin-plated cans and crowns * 26 domestic plant locations * Focused and promising international growth * Superior Recycling plant * Crown??™s total return to shareholders ranked 114 * ??? We have always been and always will be customer driven???, President of Crown??™s N American Division. WEAKNESSES * Connelly disbanded Crown??™s central research and development facility * Lack or no experimentation with other products * Back-to-basics strategy meant less innovativeness STRATEGIC ALTERNATIVESGrowthCrown Cork n Seal stuck to its core basis technology for a long time. When Connelly took charge of the business he abandoned the research and development facility, this strategy worked out for Connelly, but when Avery became CEO of the company, research and development was inevitable. Customer??™s choice and changing market required drastic measures in metal container producers industry. Low profit margins diverted many of container maker??™s investment into other industries i. e.

energy (oil and gas). This may have relieved the unbalanced supply and demand. Avery was right when he wondered ??? if now was the time for a change at crown??? Avery should have embraced the promising plastic and glass segment of container products and diversified. Pros and Cons Diversification may have caused the company some risky investments, but change for a company was inevitable since the research n development facility was abandoned by Connelly for decades. Company played safe for a long time, by not taking risks, since the company??™s philosophy was let others take the risk and fail, now was the ideal time to diversify when playing safe remained not an option. Company could have utilized its already established distribution system to its advantage.

TurnaroundThere was less space to experiment in turnaround strategy. Thus potential was there to prosper. RECOMMENDATIONDiversification in its production and growth strategy sounds reasonable and ideal.

It would have given the company a chance to play the game utilizing its strengths in the container production industry and experience acquired from years in business. IMPLEMENTATIONStraight line management was not an ideal fit for the recommended plan, Thus change in structure was necessary. EVALUATION AND CONTROL