

Case study du pont freon

Business



The Du Pont Freon Products Division's main business is production and sale of chlorofluorocarbons (CFCs) which are mainly used in refrigeration equipment and air conditioning systems. In 1987, the division accounted for two percent of Du Pont's revenue and employed 1200 people.

Starting in the early 80s, concerns have been expressed that CFCs contribute to and might cause the depletion of the ozone layer. In 1988, however, the first hard evidence was published proving that CFCs cause the ozone layer to deplete.

This contribution to the depletion is, according to the evidence, widespread and more severe than originally believed. In face of the new evidence, Joe Glass, CEO of Du Pont Freon Products Division needs to decide what the future of the company's CFC business is going to be.

In order to derive the decision, this essay will first look at Du Pont's Strategy regarding the CFC business from 1974 to 1986 and afterwards consider the impacts of the Montreal Protocol and the Trends Panel Protocol.

Evaluation of Du Pont Freon Products Division from 1974 to 1986 As an overall overview, it can be depicted that Du Pont Freon's strategy is not very clear and obvious and has changed at least once during the indicated period, especially regarding the company's political strategy. It appears as if Du Pont Freon did not really know in which direction they wanted to evolve, due to failing assessment of market development and general uncertainty in the market. In the following, the company's marketing and research strategy will be briefly analyzed, followed by an assessment of the political strategy.

Du Pont Freon's marketing strategy is based on the company's generic positioning as low-cost manufacturer.

This, however, led to the fact that after tax operating income was very low for the division's price sensitive products. After-tax operating income for two of the division's main products CUFF-11 and CUFF-12 was only 1.6% of sales in 1974 and only increased to 3% of sales by 1979. When the United States prohibited CFCs in aerosols, the company's CUFF business declined by one third.

The company's efforts to raise prices were not successful.

By effectively threatening suppliers, claiming Du Pont wanted to engage itself in calibration production, Du Pont Freon could, however, attain lower prices, which increased after-tax operating income to 4% in 1984. After the Montreal Protocol was passed in 1988, the company stuck to its cost leader strategy and rejected a short-term minimization strategy. The company aimed at mitigating the regulatory effects, in order to keep price-sensitive customers in the market.

Since Du Pont Freon planned to introduce substitutes for CUFF, the company wanted price-sensitive customers to be there when the new products will be introduced. With regard to the company's research strategy it needs to be said that research has been tightly correlated with the threat of governmental regulations. Whereas investments in search and development were high in the past, they were reduced to practically nothing during the first half of the 80s, since further regulations seemed unlikely and the need for substitutes therefore was apparently lowered.

<https://assignbuster.com/case-study-du-pont-freon/>

When new evidence became available in the mid-80s, CUFF debates reached their peak, resulting in the Montreal Protocol which will be discussed later. The new basic conditions led Du Pont Freon to increase its expenditures on R; D Tort stoutest research again. The political strategy and the positioning of Du Pont Freon during that period has been shady and changed over time. One of the central mission statements of Du Pont, heavily publicized in the 80s is “ If we can’t make it safely, we won’t make it at all! In relation to this campaign, Du Pont CEO also promised publicly that the company would stop the production of ozone depleting products if hard evidence of this became available. After the concerns about CUFF had been remarked in the early 80s, Du Pont reacted by forming the Fluorocarbon Program Panel in 1972 to do basic research and to better understand the process and possible threats.

When aerosol was banned in the United States, the company however continued to sell CIFS for use in aerosol in its foreign markets.

This gives reason to believe that the company was not committed to the reduction of ozone depletion back then, as the company was not willing to believe in anything that was not 100% backed by empirical data. It appears as if the CEO believed that the likelihood of getting hard reliable evidence was next to zero, otherwise he probably would not have made such a drastic promise. In the 80s, Du Pont formed the ‘ Alliance for Responsible CUFF policy. The motivation for creating this alliance seems to be obvious: further isolations threatening the company’s business were on their way.

Du Pont had actively lobbied against further regulations in the entire period from 1974 to 1986.

Change of mind came in 1986, when further regulations appeared to be inevitable. Du Pont then started to opt in favor of further restrictions, but only if those were going to be worldwide. This change of mind, and following change in policy from contra regulations to pro regulations, can be largely explained by the fact that Du Pont knew that the likelihood of new regulations was about 100%, so the only thing the company could do was trying to make them as 'nice' as possible.

In this situation, being against regulations would only have hurt Du Pont's image, but probably would not have changed the introduction of regulations. The company therefore opted in favor of worldwide regulations, first, because they did not want to have a competitive advantage in contrast to the rest of world's CUFF producers, but more importantly because Du Pont believed that regulations would be less strict on a worldwide basis and that regulations on the worldwide basis would not go beyond a cap on current production.

With regard to the company's political strategy it can therefore be concluded that Du Pont basically always favored and did what they believed would give them the most freedom of action. In the case of regulations, Du Pont went for what appeared to them as the lesser of two evils, even though the regulations on a worldwide basis turned out to be stricter than expected, but it could have been worse on national level. Implications of the Montreal

Protocol and the Trends Panel Report on the CUFF market The Montreal Protocol was decided upon in 1987.

It includes capping production of CUFF-11, 12, 113, 114 and 115 in their respective Mounties at its levels of 1986 by 1989. It further includes that total production to be cut back to 50% of 1986 levels by 1999.

Hallo production was to be capped in 1993. The direct implication of this were that limits of CUFF were set to the amount of CUFF each firm could sell in the American market. The CUFF market was no longer a free' market following the traditional theory. Due to the regulatory shortages, price increases were expected, but EPA considered capturing this so-called ' rent' for the U.

S. Treasury Instead AT allowing It to Tall to C c producers.

In practical terms, ten Montreal Protocol meant for producers that their CUFF business would decrease tremendously. Du Point's CUFF business had already decreased by 33%, when aerosol was banned in the United States. The growth of CUFF business was not only stopped by the Montreal Protocol, but it was designated to be negative. While this directly implied lower sales volume for producers, it also served as incentive to invest heavily in research and development of substitutes for CUFF to satisfy the unmet demand.

The Montreal Protocol also prevented companies from further investing in CUFF and robbery made companies more thoughtful regarding their areas of investment, leading them to consider possible harm related to future products.

In 1988, just shortly after the Montreal Protocol had been ratified by the United States, the Ozone trends Panel, headed by NASA, published the first hard empirical evidence of reductions of in stratospheric ozone concentrations, also over temperate, populated regions, and its connection and interrelation to CUFF.

The report stated that ozone would continue to decrease even with the Montreal Protocol enacted. It showed that only a nearly complete phase-out of CUFF appeared to offer any margin of safety for the ozone layer. The direct implications of this report are likely to be further regulations, reducing CUFF production even more. There is also the chance that this evidence leads to the eventual abolishment of CIFS and much sooner than priority anticipated.

For CUFF producers, this evidence increases the pressure to find substitutes for CUFF and to make them 'ready-for-market'.

Recommendation to Joe Glass In 1974, the company publicly promised to stop production of compounds causing health hazard through depletion of the ozone layer. The company also ran a huge campaign in the ass, promising they would never engage in anything that verifiable harms human health. In 1988, Richard Heckler, CEO of Du Pont, renewed that promise in a letter to three Senators of the Environment and Public Works Committee stating that given scientific evidence pointing to the need for dramatic CUFF emissions reduction, Du Pont would basically exit its CUFF business.

As the scientific evidence is now given, Joe Glass, head of Du Pont Freon Products Division has not really a choice – the company should stand by its promise.

Otherwise the company would threaten TTS image and society, as well as government would believe that Du Pont could not be trusted. As the entire Du Pont Freon Products Division only accounts for 2% of Du Pont revenue, and the revenue from CUFF is predicted to decline in the following years, it appears unreasonable to break the promise and to endanger the whole company.

In addition to this, given the new evidence, it can be assumed that in the medium to long run, CUFF is going to be forbidden anyway. If Joe Glass stands by Du Point's word, he would not only do something for Du Point's image, but there is also the hence that the 'shutting-down' / transition phase is increased, meaning that Du Pont could negotiate to shut down its CUFF business not immediately but in maybe two to three years.

As Du Pont is already ahead of the competition with regard to CUFF substitute research, it should be possible to finish the research and product development in that time. If Du Pont was the first company to introduce a substitute for CUFF in the market, Du Pont would have a clear strategic advantage, could improve its image, be ahead of competition and win market share and increase profits.