

# Dow chemical essay



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I decided to construct my essay on Dow Chemicals (DC) Company after reading an article in Business Week. Dow Chemical appears to be developing an aggressive market strategy that aligns with our class topics, and that I have found very interesting.

Dow Chemical (DC) company, over the last seven years has built their strategy around and focused on their niche, which is core chemicals & plastics-manufacturing operations, while simultaneously reducing infrastructure debt, expanding its market share, and apparently building new strategic alliances. According to Dow Chemical CEO William Stavropoulos, The mission and goals of Dow Chemical company is to be a world leader in chemical and plastics manufacturing by developing new customer demand product lines and expanding long-term profitability through global market expansion in such global markets as Europe and Asia. If Dow Chemicals currently owned assets did not align with and support this mission strategy, they were divested. Dow Chemicals has evidenced this by selling off more than \$10 billion in business assets, while at the same time adding \$10 billion in new business that support their new strategy, and the strategic addition of the Union Carbide Company.

To develop Dow Chemicals new strategy, which is to say to develop a competitive advantage within their selected market, Dow Chemical appears to have thoroughly examined their role in the macroenvironment, which also encompasses the political/legal, technological, demographic, social, and macroenvironments elements. In analyzing their macroenvironment they would have considered such items as the current economy interest rates, currency exchange rates, and inflation rates, which could impact the

customer demand for their products, as well as acting on other environmental factors such as: a) Technology: Through their advanced research and development of unique and new innovative products, they easily heighten the of barriers to entry for competitors. b) Social: Performing research on current and future trends for healthier and safer products. c) Demographic: Considered the age and education levels of surrounding manufacturing plants.

Skilled workers directly impact production capacity. d) Political & legal: What rules and regulations are in place, what is the state of the government political structure, and environmental regulations.

In addition to examining their environmental factors, Dow Chemical applied an external analysis by identifying strategic opportunities and threats to their operating environment, such as potential competitors, supplier and buyer power, product substitutes, and rivalry. This may be why Dow Chemical chose to focus on its niche and divest \$10 billion in unrelated businesses. Dow Chemical then performed an Internal analysis to pinpoint its internal strengths and weaknesses, and finally performed a SWOT analysis or a competitive comparison between Dow Chemical and its external competitors to build upon their strengths in order to exploit opportunities, counter threats, and also to shore up weaknesses. Dow Chemicals market maneuvers evidence the application of Business-level and Global-level strategies, as well as consideration of stakeholders profit levels.

The Dow Chemicals Business-level strategy is indicated by the way it positioned itself in the marketplace by extracting some elements of a

Differentiation strategy and some elements of a Cost Leadership Strategy to gain a competitive market advantage.

By Differentiation strategy, I mean to say that Dow Chemical elected to seek a competitive advantage by creating new innovative products that their customer base considers to be unique and important, and maintaining a simple organizational structure. Dow Chemical has incorporated some elements of cost-leadership by adopting a decentralized form of management, a more hands on control of day-to-day functions of its niche, and reducing employee compensation cost. This form of management structure opens corporate communication channels and reinforces well-informed employees of the Companys mission.

This was achieved by reducing the workforce by 30 percent and eliminating seven layers of management. The current management structure contains only five people between the most junior employee and the Chief Executive Officer. Dow Chemical appears to have embraced a Global Strategy, which is increasing profitability by reaping the cost reductions that come from experience-curves and location economies and by expanding its market share outside of its home country.

This business savvy type of management approach seeks to penetrate a huge market availability, which as global markets develop will gradually combine into just one market. In developing their mission goals and corporate strategy, Dow Chemical has obviously considered both External and Internal stakeholders and how strategic maneuvers would impact their

ultimate goals. Examples of stakeholder impacts are: - Customers: Provide the core of revenue, especially in untapped markets overseas.

- Suppliers: Provide input w/significant savings through combined purchasing with Union Carbide Company and 13 other large companies. - Governments: Significant reduced manufacturing restrictions and potential incentives to conduct business in foreign countries.

- Unions: Many foreign countries are not unionized, which could be a production cost incentive. - Stockholders: Maximizing their Return On Investment by expanding operations and gaining access to difficult markets.

- Employees: By establishing manufacturing facilities in skilled labor markets, which may develop into an additional customer base as well. -

Board Members: To make such dramatic and intense corporate changes, an endorsement from corporate board members must have been supportive.

Dow Chemicals mission and goals, strategic plans, and management styles are all geared towards capitalizing on their market and increasing their bottom-line profit for stockholders.

Dow Chemicals shows signs of being a Proprietary group, which patents its innovative products in an attempt to create barriers of entry from its closest competitors or other potential marketers. However, eventually this will lead to a punctuated equilibrium, which will be highlighted by periods of rapid change within this industry in order to maintain market share or gain an edge in competitive advantage. Due to Dow Chemicals product innovations, their industry competition cycle will most likely graduate from stable to new innovation to a re-established new equilibrium, and then this cycle will start

over again when new innovations are achieved. Directly correlated to Dow Chemicals product innovations is the industries life cycle with which it operates in. The five industry life cycles are Embryonic, Growth, Shakeout, Mature, and Decline.

Dow Chemicals strategic restructuring occurred because it had entered into the decline stage, and required new innovations to remain competitive or even capture a segment of the industry. With Dow Chemicals primary focus on its niche, development of new product lines, and Global market positioning it is embarking on revolutionizing part its industry by expanding its market base and is now commencing a new phase of the Growth stage in the industry life cycle. Dow Chemicals acquisition of Union Carbide indicates an expansionary role into the Europe and Asian markets, which is an indicator of globalization of production, where it hopes to take advantage of reduced labor, energy, and capital cost and increase revenue. However, Globalized marketing often creates intense competition, which is why I suspect that Dow Chemical feels industrially safer by focusing on its niche, and increasing product innovations were its feels it has a significant competitive advantage with its consumer base. Dow Chemical chose to capitalize on its value creation, low cost and differentiation by merging with Union Carbide.

By exercising this market opportunity, Dow Chemicals can continue with new product innovations in overseas locations and can increase their competitive advantage by gaining access to the Middle East and Asian markets where Union Carbide is strong. The core elements to a successful competitive advantage are the Generic building blocks. They are: a) Efficiency: By

operating at the lowest possible production cost and maximizing profits. b) Quality: By producing a product that meets or exceeds your customer demands and thereby building brand Equity and Brand loyalty. c) Innovative: By investing in research and development to develop products that meet your changing customer demands, and influencing barriers to entry and exit. d) Customer Responsiveness: By applying corporate ownership/responsibility for the product that you provide, and becoming socially responsible for related community and environmental concerns.

Is Dow Chemicals considered successful? I would say that they have embarked upon a sound business strategy, but the their industrial market will be forever changing, and in order for them to remain competitive, they also must remain open to new innovations and markets. I will address this more in the following paragraphs. I would recommend the following suggested future management actions and strategies towards maintaining or improving Dow Chemicals current strides for a competitive advantage. First, I would suggest a continued effort on improving upon the established Generic Building Blocks to maintain their competitive advantage. The best way to measure success may be through Benchmarking with other companies and products, while striving to combat organizational Inertia by identifying barriers to change, ensuring quality corporate leadership, and appropriate judicial power is applied internally.

A Company must remain flexible enough to meet our ever-changing customer demands.

Second, I would suggest that they exercise caution in the area of defining the existing business goals, by continually asking and reviewing three questions: (1) Who is being satisfied? (2) What is being satisfied?, and How are customer needs being satisfied? This will enable Dow Chemicals to broadly define their business, and prevent getting trapped in any one segment of the industry by major shifts in demand. Third, I would caution stockholders to exercise prudence with respect to goal guidance and control of Dow Chemical. Status, power, job security, and income normally drive senior managers. Stockholders can control on-the-job-consumption and empire building by applying governance mechanisms, such as a board of directors with an outside director appointed as chairperson this will facilitate an impartial view and suggestion, and gearing CEO compensation towards a stock-based compensation plan.

Fourth, I would encourage Dow Chemical to embark upon a positive public relations, Marketing, and Human Resource campaign.

In 1984 Union Carbide had chemical spills in Bhopal, India, which was then settled with the Indian government. However, ill feelings may still prevail among the populace. Social responsibility leads to profitability. This could be achieved by Dow Chemicals Human Resources Department aggressively hiring local residents and getting employees involved in the decision making process, safety precautions, developing committees and methods of employee feedback, and training.

Public Relations and Marketing departments could build upon these initiatives to reinforce a positive image, which could then lead to an



improved reputation and increased market share through brand loyalty and economies of scale.

And finally, Fifth, I would strongly recommend that Dow Chemical continually re-evaluate their industries by performing External analysis and Internal analysis. By re-evaluating the following factors, Dow Chemical should be able to reasonable track its competitive advantage position and adjust early enough to remain competitive.

They are: a) Potential competitors: This area represents a threat to profitability, which can be combated by raising the barriers to entry/exit costs, brand loyalty, absolute cost advantages, economies of scale, and possibly through the development of superior reputation influence and enjoy protection from local governments. b) Rivalry: Monitor the competitive structure of the consolidated industry, which could affect market share, and even start price wars, which could be costly. Monitor demand trends, which could call for market expansion or retraction, and finally monitor exit barriers, which be a deterrent for potential entrants.

c) Power of Buyers: Monitor supplier industries, when there are many suppliers, buyers can dominate a bargaining position, and thereby generate cost savings. Consolidate purchases with Union Carbide to maximize a combined buying power position. d) Power of Suppliers: Monitor supplier markets for new supplier entrants or potential suitable substitutes. e) Substitute products: Monitor the market for suitable substitutes for your manufactured product, which could negatively impact your market share.