

CASE: THE EXLEY CHEMICAL COMPANY

The Exley Chemical Company is a major chemical manufacturer, making industrial chemicals, plastics, and consumer products. Company sales and profits have grown, and its ratio of net profits to sales is about average for the industry, but in the last year or so, both sales and profits have been disappointing (see Table 11.2).

Because new products are constantly being introduced into the line and methods of use are constantly changing, the relative importance of different product groups is constantly shifting. For example, the major product groups experienced changes in percentage of total sales over a five-year period (see Table 11.3).

TABLE 11.2

Year	Sales in Billions
5 years ago	\$81
3 years ago	93
2 years ago	108
Last year	111

TABLE 11.3

	Percent of Sales	
	5 Years Ago	Last Year
Chemicals	61	55
Plastics	31	33
Consumer	8	12
	100	100

The Organization

The general structure is shown in Figure 11.4. Production is carried on in four plants across the United States, each of which has a plant manager. The marketing vice president handles sales, advertising, and marketing services.

All research is administered and done at the corporate research laboratory, including the development section, which is responsible for the development and improvement of production processes. The engineering department handles all planning and construction and the development of new processes and pilot-plant operations.

In addition, to manage the large number of new products being developed, a product development division was established about three years ago. Before this, new products developed by the research division were passed on to the engineering division from the pilot-plant operation. The new division was established because the existing structure could not adequately coordinate complex projects. The product development division was to coordinate the development of new products, including recommending manufacturing capacity, sales programs, and so on. It was to conduct surveys to analyze market potential for new products and recommend the development or production based on these surveys. Problems began to develop in the period following the creation of the product development division.

The Situation

Conflicts were created with several other departments. For example, the product development division started using a small force of specialty salespeople to conduct pilot marketing programs. This did not go over well with the marketing department. In addition, the product development division was given responsibility for market research, but the tasks of sales analysis and forecasting remained in the marketing division. Finally, for each separate group of products, a product manager was appointed who was responsible for the coordination of all company activities for the product. This resulted in more problems.

The product manager often needs to visit customers in order to get more realistic input on market conditions, but marketing executives resent this. They feel that all customer relations should be handled through marketing, because these visits tend to confuse the customer. "Judging from what I've seen, Product Development couldn't care less about what we are doing in terms of integrating our markets," said the marketing vice president.

Sales executives tend to question the sales estimates issued by the product managers. These estimates are usually based on the total product market rather than on Exley's share, which often tends to inflate sales estimates. "The product development group is aggressive and they want to grow, but you have to grow within guidelines. The product guys are going to have to learn to work with the other divisions," said a sales manager.

At a recent meeting of the Chemical Manufacturers Association, a product manager learned that a competitor was about to patent a new process for the production of polymers, which will presumably reduce costs by about one-third. Exley's research person in charge of polymers said that they had several interesting possibilities that might break in a few months. "I think corporate headquarters needs to integrate operations better. We can't be a bunch of entrepreneurs around here. We've got to have more teamwork on these projects," said the project manager.

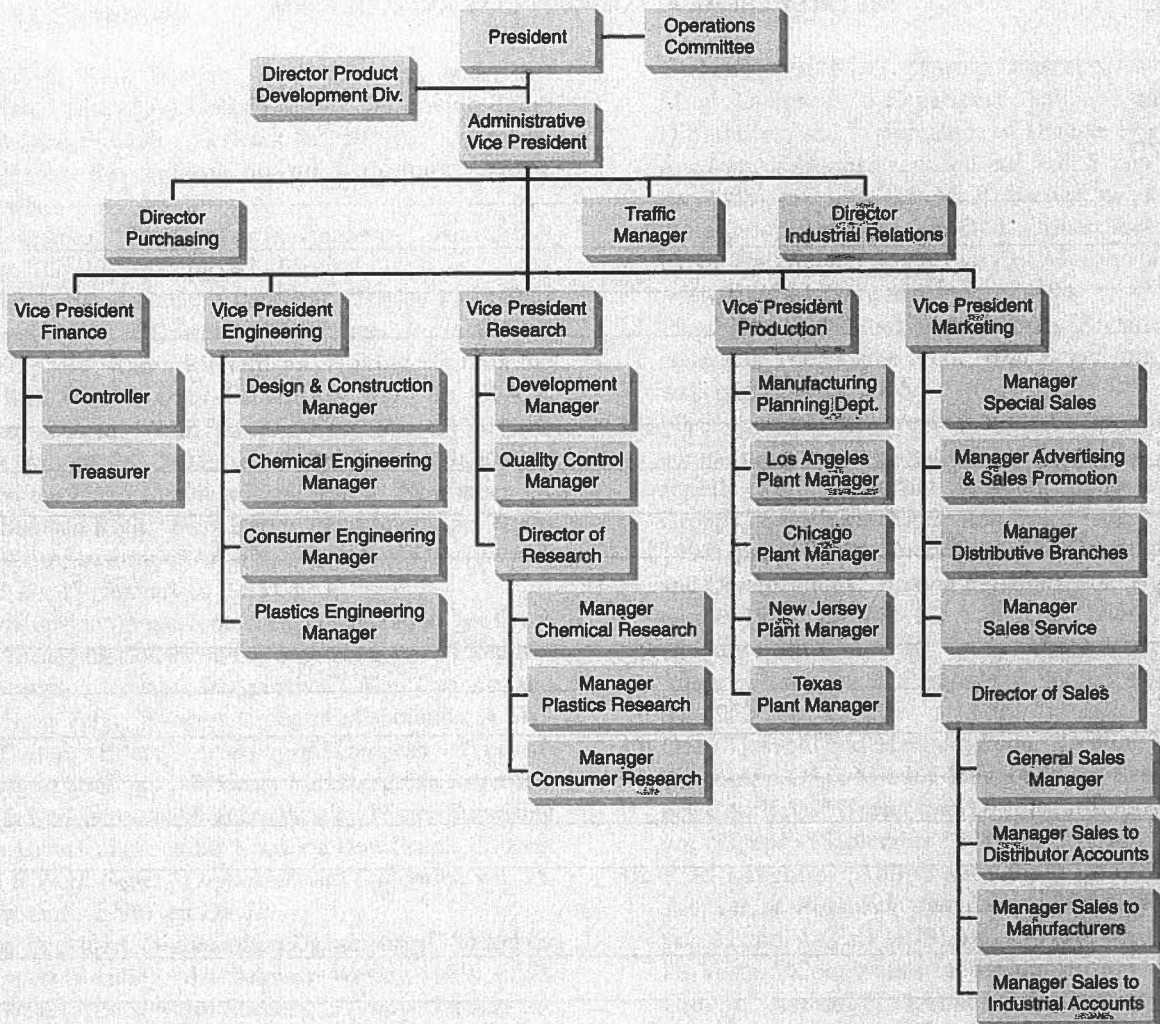


FIGURE 11.4 Organization Chart—The Exley Chemical Company

The manager of sales proposed to the consumer projects group that Exley’s antifreeze be promoted directly to large retail outlets. He has forwarded a proposal to the project manager with a note: “Our customers feel this is a hot idea; can production supply the needed quantities at a competitive price?” The product manager has found that the two people in research and engineering who are most knowledgeable about this product are now deeply involved in a new project, so little has been done to date. “The big frustration is that you can’t get help from other departments if it doesn’t have a large return for them. Each division head works on the project that makes the most for them, but it doesn’t necessarily help us bring new products to market,” said the product manager. (Use the Case Analysis Form on the following page.)