### Management Team Decision

### Purpose

This case gives students an opportunity to think about how a company should position itself within a changing technological environment.

#### FACE THE FUTURE

Times don’t seem to be much better to be in the oil business. Sure, there have been some bumps in the road the past few years—the tragic oil spill in the Gulf of Mexico and unstable prices and supply due to political situations. But there’s one piece of news that makes all those obstacles easier to deal with—profits are up, and not just a little bit either. Profits are positively soaring. Exxon announced that its earnings for the most recent quarter were up 69 percent from the previous year, to $10.65 billion. Royal Dutch Shell posted an increase of 30 percent to $6.29 billion, even while experiencing a 2.5 percent decrease in production, and Occidental Petroleum’s earnings jumped 46 percent to $1.55 billion.

Times certainly seem to be great, but there are many executives in your company who are pushing for big changes. Sure, they argue, revenues and earnings and profits are sky-high right now. But what about the future? Consumers and governments around the world are growing more concerned about oil—about how it impacts the environment and about whether there will be enough to meet fuel demands. In response to these concerns, there has been much research and development dedicated to alternative fuel vehicles, from all-electric cars like the Nissan Leaf, to gas-electric hybrids like the Chevy Volt or hydrogen-powered cars like the Honda FCX Clarity. And consumers have responded quite favorably. In just four short months, GM sold over 2,000 Volts and Nissan sold over 1,000 Leafs. What’s even a more encouraging sign is that nearly 20,000 customers have already paid a deposit to be put on a waiting list for the Leaf, and almost 54,000 are on the Volt waiting list.

The executives pushing for change point to these figures as a sign that the auto industry will soon experience a dramatic shift. They’re arguing that the age of the gasoline engine (along with gas stations and gas companies) will soon be over, replaced by a more environmentally friendly method of fueling cars. In their view, the company should act now, and quickly, to take advantage of this shift by investing in a nation-wide network of electric charging stations, where consumers recharge their all-electric or plug-in hybrid cars. That way, when gas-engine technology is eventually surpassed, your company will be in prime position to provide recharging infrastructure to the entire country.

There are others in the company, however, who doubt that this is the right step to take. Although they recognize that gas engines may not last forever, they’re not convinced that it’s a technology in decline. They recognize as well that sales of electric cars and hybrids are on the rise, but these are still microscopic compared to the 11.5 million conventional cars sold in the United States or the 18 million sold in China last year. They are also concerned that all-electric cars are just one choice among many alternative fuels; there are also hydrogen-powered cars, natural gas–powered cars, biofuels, and who knows what else will be developed in the future. Their great worry is that the company will spend huge amounts of time and money to develop a recharging network only to have another alternative fuel rise as the dominant design.

So what should the company do? Should it look the future right now, even as its earnings from oil are near record highs? Or should it stay the course?

For this Management Team Decision, form a group with three or four other students and answer the questions below.

## Questions

1. What is your recommendation for how the company should proceed? Should  it take action on developing an alternative fuel network or wait until a dominant design arises?
2. What are the advantages and disadvantages of choosing a technology format before a dominant design arises?

3. What steps could the company take to help ensure that electric engines become the dominant design?