Research talent key to becoming spinoffs' headquarters

Jeff Mordock and Adam Duvernay, The News Journal February 26, 2016

The decision of DuPont and the Dow Chemical Co. to base two of its three post-merger spinoffs in Delaware demonstrates the demand for the state's population of highly educated researchers and scientists, analysts said.

"I expected them to maintain a significant presence in Delaware because of the human capital, not so much brick and mortar," said John Boyd, principal of Princeton, New Jersey-based corporate site selection consultants The Boyd Co.

Dow and DuPont announced Friday the agriculture company that will be spun-off after they complete their $130 billion merger later this year will be headquartered at Chestnut Run, near Wilmington. A second spinoff focused on specialty products will also be headquartered in Delaware at a yet-unknown location. The third spinoff, a material sciences business, will be based in Dow Chemicals' hometown of Midland, Michigan.
Over its 213-year existence, DuPont has attracted doctorate-holders, technicians, engineers and other researchers because of its commitment to science and development. A majority of those researchers are based at DuPont's two principal research hubs, the Experimental Station in Alapocas and Stine Haskell near Newark.

DuPont slashed its Delaware research staff as part of its plan to eliminate 1,700 jobs in the state, about 28 percent of its workforce, before the Dow merger. The cuts are part of a cost reduction effort adopted before the merger was announced. At the Experimental Station, about 200 scientists in DuPont's Central Research and Development division lost their jobs in January. That accounts for about half of the facility's staff.

Boyd said those technology positions would be very difficult to replace and expensive to relocate if the spinoffs were located in other states.

John Roberts, an analyst with UBS Global Securities in New York, said putting the companies into one or two headquarters would have done more to consolidate costs. But the decision to have the businesses stationed at three branches will likely cause less disruption to employees and corporate revenues.

"It's the right compromise," Roberts said. "It strikes a balance."

The retention of the technology jobs represents to Yale business management professor Jeffrey Sonnenfeld, something that will keep Delaware and Wilmington, in particular, competitive.

Sonnenfeld, a frequent critic of DuPont Chief Executive Office Ed Breen for cutting research jobs, said his faith in the companies has been restored. He also said he reverses his criticism of Breen.

"I salute him," he said.

Delaware's research talent helped it fend off advances for the agricultural company from rival states such as Iowa and Indiana. Iowa had offered $16 million in incentives, including a $2 million forgivable loan and up to $14 million in research tax credits. It is not known what Indiana offered.

Boyd said other cities closer to the country's farming heartland and agricultural-based land grant universities could have made a case to house the coveted agricultural division, considered the toss-up in the headquarters decision.

"Corporate headquarters are in play now like never before," Boyd said. "Bottom line: costs are carrying the day, and it's because of global competition."