

Global Supply Chain: The Management Challenge

In the new global world, supply chain management is critical to success. How Kodak & SanDisk are doing it

In 2005, Apple introduced the iPod Nano, and demand for state-of-the-art flash memory components surged. SanDisk needed to move like lightning. Doron Myersdorf, supply chain executive at SanDisk, sees the coming of the iPod as a watershed. "We wanted to capitalize on the market conditions," he says, and the answer lay in the global supply chain that the company had built.

The target for business today is the global markets. Mom & Pop shops and back-yard goat-cheese production facilities are relics of yesteryear. Most of the products we consume are manufactured in another country, and behind the scenes of this manufacturing are global supply chains. In his book "The World is Flat", Thomas L. Friedman coins the phrase "supply chaining", which he describes as one of the flatteners of the world. "The more the supply chains grow and proliferate, the more they force the adoption of common standards between companies... The more they [the supply chains] eliminate point of friction at borders, the



Kodak printing machine. synergy between howlingly different branches and divisions

more the efficiencies of one company get adopted by the other, and the more they encourage global collaboration", he explains.

The supply chain has become central to modern society, not just because of globalization, but because of the need to supply vast varieties of products in order to meet consumer demand.

Key to building a successful supply chain in today's dynamic market is the ability to apply an integrated frame-

work of strategy with the right processes and technology. Success involves not only strategic thinking and planning, but methods for executing the strategy with the right processes and with the supporting tools and technology. A local branch supporting a global corporation has complex challenges. Take Kodak, where the supply chain challenge involves synergy between different branches and divisions. The Israel branch is one of the biggest: Kodak

Talking with the talent

"One of our greatest achievements in the last five years is to adopt lean thinking," says Kodak Israel's Waldman. "Lean management means becoming more efficient, reducing costs and inventories." It's a matter of global strategy for Kodak, a company that either had to adapt to changing times and technologies, or shrink, Alice-like, into nothing. Turning lean and presumably mean isn't easy, it takes a significant management focus, energy, and knowhow. One reason is that inevitably, some of the decisions were tough ones and included dismissals. Key to the painful process of significant organizational change is communication with the workers, says Waldman, who has a piece of advice. "The managers have to be deeply involved in the process, be aware of every problem, however small." Also, don't dawdle. Even if it's hard to do, bite the bullet and get on with it, Waldman adds. Managing also means making tough, unpopular decisions, mainly regarding personnel. Sometimes people are perfect for one position but as the times change, they lose their edge. Drag it out and you may pay a heavy price, he warns.

by Zohar Yami and Golan Meltzer

Israel, which is part of Kodak's Graphic Communications Group, employs 900 people, about half of whom engage in R&D.

"We serve two GCG divisions. Because of the complex company structure, each branch manages several supply chains simultaneously", says Kodak Israel CEO Avi Waldman. It works because the company's organic structure is built around supporting this multiplication of chains without losing group integrity: on the one hand, each team is oriented to the division with which it works and with the division procedures. On the other hand are standardization and unified tools, to assure that Kodak's divisions work as a united group, he says. Another aspect that helps the site to maintain its effectiveness and efficiency is the structured global measurement system. Waldman: "All the measure and targets are also widthwise. It's valid to the supply chain, and also in the division and product levels". Central to managing a global company with multiple

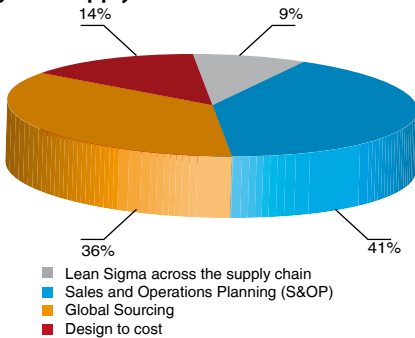
branches is a good connection between the local supply chain and the global company supply chain. The two chains may conflict, in inventory management for example. "We can see a dilemma between the local and the global optimum", says Waldman. "When our inventory targets are given, the branches are placed in a situation of competition. Naturally we aspire to be the best". Ultimately, however, what matters is the greater company good and all the divisions must attain their inventory targets, he explains. Because of the broader view, Kodak Israel often finds itself adjusting towards the end of the quarter, to adapt to the global target. Maintaining optimal levels of inventory in each channel and at the hubs is an extremely complex challenge, says SanDisk's Doron Myersdorf. "In our industry, market price per gigabyte might drop on a daily basis. We need to constantly make decisions at the inventory levels and adjust according to the changing supply/demand market balance. And we must also have an-

Coordinating supply chains with Mother

Top managers tell all about their supply chains

Maintaining global supply chains is part and parcel of being a multinational corporation with branches all over the world, each of which has its own unique set of needs, as well as synergies with the other arms of the mother organization. Top managers of leading companies, local arms of multinationals, or global companies by their own right, share their views of trends, dilemmas, and challenges in the world of supply chains. Among the findings were:

In your opinion, what trends will lead the global supply chain field?

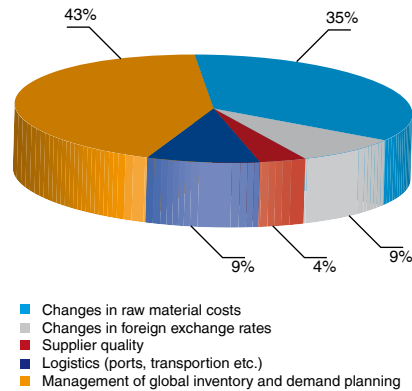


- About 60% of the local branch companies coordinate their supply chain with the parent company, but the other 40% do not
- About 22% rely wholly on a clear "global sourcing" strategy
- About 52% employ subcontractors to handle shipping and distribution, but they do their planning alone
- Only about 5% fully employ comprehensive "Lean Sigma" methodology (to attain better quality faster)

The main challenge: changing input prices and inventory management

Most of the managers say their main headache is coping with the changing prices of raw materials and that a main challenge is inventory

In your opinion, what are the dilemmas and challenges that a supply chain manager of a global organization is faced with ?



management policy. But the trends at the forefront of the global supply chain field in the years to come will be sales and operation planning, and global sourcing, they believe.

Today most raw materials arrive from the far east and India, (about 39%). The local market also constitutes an important source (35%).

However, the cost of importing raw materials from the east has been rising for years. We project that companies will be procuring more and more of their inputs from sources nearer to home, including Eastern Europe and Russia, at least insofar as possible. Don't write off the far east as a source of raw materials just yet.

Regarding various indices, such as return on equity, inventory turns, and service levels, most of the respondents said their company positions itself at the point of average or higher. One can only suspect company's have limited knowledge of their competitors performance and best in class performance level.

swers for sudden shortages of flash, such as happened when the iPod Nano came out". Local and global levels also interface in the sales and operations planning (S&OP) process. Kodak's Waldman

big diversity of markets and products, made them focus on centering the manufacturing of the main runners in close proximity to allow greater flexibility for CM location and hubs for the other products.



SanDisk flash card. iPod nano increased the demand for flash

describes a monthly procedure that starts with collecting information from the field and continues with meetings with relevant people from the group – around the world. At the end each branch get its target and must stick to it. Nor may they hurt the standard of service by reducing inventory, he says. The real challenge, says SanDisk's Myersdorf, is to maintain agility while managing production and logistics in multiple locations around the world. SanDisk's experience in

"We operate as one global team that meets virtually on a regular basis," he sums up. We use the same supply chain systems and unified business processes. It doesn't matter where each local supply chain organization is located."

Zohar Yami, Partner, Tefen Israel

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Life in the shadow of the tiger

Western companies have been known to find themselves at a competitive disadvantage against eastern, mainly Chinese, counterparts, mainly because of labor cost gaps. Kodak Israel also had to cope with competition from the far east. First on the to-do list is to acknowledge that the competition has an advantage, to define it precisely and then to formulate the counterattack, counsels Waldman. Kodak Israel's answer was Romania. "If we import parts from countries that aren't 'cost countries', meaning places where production costs are low, we can create enough efficiency to be competitive even with China," he says. SanDisk had a rather different solution to face the new reality of globalization and Chinese mass production. Its idea, says Myersdorf, was to base its production in Asia too. "This way we take advantage of cost-effective production sites," he explains. After all, why bite the tiger if one can cuddle up to it?

To summarize the main take-aways clearly coming out from the research is that there is a significant difference between best-in-class supply chains and the low end ones. The critical to success factors are thinking Lean, in the supply chain level, creation of a global supply chain operating systems which includes terminology, alignment of people skills and capabilities, and a structured measurement and control system to allow for greater visibility, agility, and synchronization.