

Case Study 2

Due Date: By midnight EST/EDT on the last day of Module 3

Save the file as your lastname_cs-2 (e.g., lindbergh_cs-2.doc or .docx).

The Santek Images Business Unit

Consolidated Products is a \$21 billion company headquartered in Atlanta, Georgia. The company's five business units, which offer a wide array of products and services, are the result of an aggressive strategy of mergers and acquisitions starting in the late 1980s. The corporate staff is surprisingly small, comprised of general management, legal staff, and human resources. Part of the reason for this small staff is due to the eclectic array of businesses housed within one corporate entity. A *Business Week* editor recently commented that "Consolidated Products could easily be broken up into five separate companies, since at one time it was five separate companies." The editor also said that if the company "ever learned how to leverage its size in the marketplace, Consolidated Products could be a Wall Street powerhouse!"

While Consolidated Products is a global corporation with facilities around the world, it operates each business unit as a highly independent and decentralized company. The corporate culture is best described as entrepreneurial, with each business unit being headed by an executive vice president who has complete profit and loss accountability. One of the business units, Santek Images, is the focus of this case.

Santek Images

Santek Images produces instant film and the imaging products that use that film for industrial applications. Increasingly, Santek has shifted much of its production requirements to overseas producers. The outsourcing of finished products, also called contract purchasing, represents a 180-degree shift from the vertically integrated model that Santek pursued during the 1970s and 80s. A key driver behind the outsourcing of non-core products was the realization that previous ways of doing business could not support 10-20 new-product launches a year, which is the target that Santek's executive vice president has established.

Many products at Santek use self-contained instant film, which Santek refers to as media. Only one other company in the world has similar technical capabilities. However, Santek now faces intense competition from digital technology, forcing the unit to make digital imagery part of its *image acquisition* core competency. Most outsourcing at Santek now involves product hardware, such as the product casing, rather than media.

There are several reasons why Santek insources media while outsourcing hardware.

Most of the innovation valued by customers occurs within media rather than hardware, making media a primary area to focus research and development efforts. Furthermore, the margins for media products are higher than the margins for hardware products. From an investment and financial perspective, limited corporate resources are best allocated to media rather than hardware. While hardware is necessary, it does not offer the best financial and innovative opportunities. This does not mean that hardware is not important. Santek recently suffered through an embarrassing recall because a contract manufacturer produced a finished product casing that cracked when exposed to high temperatures (above 90 degrees).

Asian suppliers provide virtually all outsourced hardware requirements. While Japan is the epicenter for hardware manufacturing, other low cost areas in Asia are emerging. Outsourcing to Asia offers two major benefits—access to technology and low cost. As with most electronics and their supporting components, U.S. and European producers are no longer competitive.

Beginning in 2002, Santek began to actively search for contract or outsource manufacturers, particularly for camera hardware. Unfortunately, there was no organization in place to formally support that effort. While a small OEM group worked to find contract manufacturers during the 1970s to 1995, Santek did not endorse or focus on outsourcing as a key corporate strategy. As a result, creating an outsourcing organization was not a major concern at Santek.

In 2001, Santek formed a contract purchasing organization, which has primary responsibility for hardware outsourcing. The contract-purchasing director (also referred to as the outsourcing director) reports to the vice president of new product delivery. This group has responsibility for procurement (identifying and qualifying outsource manufacturers), product quality, and working with contract manufacturers during new product development.

To date, the contract-purchasing director believes his staff has done a good job of shifting production from internal to external sources. In addition to managing two international procurement groups, the contract-purchasing director is responsible for managing relationships with the outsource providers. After several years of outsourcing, the director of contract purchasing, Steve Keller, started to notice that the performance gains from outsourcing were flattening out quickly. When he recently surveyed his contract manufacturers about their perception of doing business with Santek, he was surprised by their answers.

Of the 12 contract manufacturers currently used, seven thought of Santek as just another customer. These suppliers did not believe there was anything unique or special about the relationship. Three other suppliers expressed serious concern about doing future business with Santek since they were dedicating their capacity (through longer-term contracts) to other customers (who were not competitors of Santek). Two other suppliers expressed an interest in developing a closer relationship with Santek. It appeared that these suppliers were developing new technology and products that aligned well with Santek's future product plans. These two also had the longest working relationship with Santek of the current suppliers. Steve could not help but wonder if his group could do more to develop or elevate the relationship with these two suppliers. And, if he could develop the relationship, could his group achieve greater performance improvements?