Polaroid case analysis

[Parts of the World](), [European Union]()

Synopsis: Polaroid Corporation, headquartered in Cambridge, Massachusetts, was a company marketed a wide variety of instant photographic products for consumers and industries. After the deregulation of US motor industry consolidation of the warehouses in US took place, which resulted in an improved service level and reduced costs.

Overwhelmed by the consolidation results, the management wanted to consolidate the subsidiaries’ warehouses in the Europe to a direct distribution. There were around Twelve European subsidiaries each where headed by general manager. Of that France, Germany, Italy and United Kingdom together have accounted 70 – 80% of the sales. The Polaroid had three primary production areas in Vale of Leven, Scotland, Enschede, Netherlands and one in Cambridge itself. The site at Enschede also served as a central distribution site and export center known as International Distribution center (IDSC) that served all the international subsidiaries.

Each European subsidiary had their own warehouse to cater as a buffer and for customizing the orders, special packaging and rush orders. As the measures for the economic integration of the European Community also made the direct distribution as an impetus option which could be used to save the transportation cost by 25%. But there was a resistance by the general managers of the European subsidiaries because of various problems like layoff, Buffer reduction, depriving theresponsibilityand above all, they felt that IDSC management team didn’t had the management skill. They were also skeptic about the outcome after implementation.

Tom carrol, Director of International Distribution and customer service had different options before him. Like total handover to a third party or implement the direct centralized distribution. For Direct distribution, in the first place, he was contemplating in picking the first subsidiary to be centralized among the different options of Austria, UK, Italy and Germany Case Analysis: Problem Statement: For effective implementation of Centralized warehouse system in Europe for reducing the operational cost in spite of mounting opposition from the General Managers of European subsidiaries Options:

Following are the different distribution system present to serve the European subsidiaries from Enschede, 1. To upgrade present IDSC warehouse to handle direct distribution to all the European Subsidiaries 2. To have a central ware house in Enschede and two satellite regional warehouse in southern France and a facility in Denmark 3. To allow a third party logistic provider to handle the direct distribution and warehousing in addition to the transportation service Reasons for opposition to plan: Following are the different concern raised by the General Managers of All the European Subsidiaries, 1.

Doubt on the capability of the ISDC in Encshede to handle the requirements of all the European subsidiaries 2. Concern on lose of flexibility to respond to changes in the market which the subsidiaries considered the reason for their success 3. There is no financial benefit seen in reducing the inventory level as the subsidiaries are not charged for the inventory they hold 4. Doubt on whether the cost savings quoted could be achieved 5. Loss of warehouse was seen as substantial loss in their power 6. Subsidiaries considered the quality of Enschede as weak 7.

Will lose a buffer between central distribution system and the customers 8. ISDC blamed for inbound transportation delays 9. Country specific objections like, a. Idiosyncrasies of trucking industry in Italy would make it difficult to do business differently b. Belgium and Netherland has achieved direct distribution only because of the fact that they had small sales volume and they were located close to Enschede 10. Opposition from Unions in different subsidiaries against the layoff could cause serious problems like high severance package and possible strikes Benefits Of Centralized Warehouse system:

By implementing Centralized warehouse system, Polaroid would achieve a net annual savings of $5. 7 Million. Savings through reduction of workforce will be $2. 5 Million and Warehouse rental savings will be $1 Million Factors supporting Central Warehousing: 1. Successful implementation in US and savings derived 2. Forthcoming liberalization of cross-border transportation 3. Efforts by Logistic providers for pan-European service capabilities 4. Post liberalization transportation in Europe would reduce by 5-25% Analyzing Service Demand pattern:

Country| Photographic Dealers| Hypermarkets/Retailers Warehouse| Wholesalers| Special Markets| Direct service | Nature of Service Demand (Remarks)| France| 70%| 20%| 10%| -| -| 1) Shipment of products directly to individual 2) Direct delivery to retail outlets &retail establishments| Germany| 0%| 85% - 90%| 10%-15%| -| -| 1) Highly demanding compared to other European subsidiary 2) Strongly opposed late or incomplete orders| Italy| 45%| 10%| 40%| 5%| | Characterized most flexible| UK| -| 20%| 45%| 20%| 35%| Some of Accounts considered extremely demanding|

From above table we could infer that Germany and France are seeking high level of service which calls for high operational cost. So if Central warehouse system is being implemented it would be better if they first start with Italy as the customers are not much demanding and also the account size is equivalent to other subsidiary. The successful implementation in ITALY would act as good reference point. Analyzing " Candidates" for Implementation:

Country| Positive Factors| Negative factors| Other Remarks| UK| Extensive support from Rod Bishop, Manager UK| Servicing customers considered risky as sea transport required| Stringent service requirement from Bishop| Austria| Small Account| Located far from ISDC| Success in Austria will not have great impact as the account served is low| Italy| Product Theft in transit| Low service level demanded. Customers highly flexible| Memorandum Regarding distribution| From above table and from service demand pattern it can be clearly seen that Italy would be the best option for rolling the plan as 1.

Much of the demand arises from the dealers (20 main dealers) and 45% from Wholesalers , therefore the cost of servicing would be less as compared to UK's some of the important accounts which calls for greater service 2. Also the customers in Italy are flexible which implies that they will tolerate the poor service quality in initial period of direct distribution implementation Analyzing Net inventory level and Order, Line fill rate: Country| Line Fill rate| Order Fill rate| Net Inventory level ($ in Million)| France| 97%| 91%| 6. 1| Germany| 92%| 69%| 4. 53| UK| 92%| 75%| 4. 32| Italy| 76%| 51%| 6. 28| From above table it is clear that though the inventory level in Italy is very high they have very low order and line fill rate. This shows a poor inventory management system and also improper ordering of SKU’s which might not be moving I the market. Therefore Italy seems to be a best candidate for implementing the Centralized distribution as the presence of Warehouse does not add much value to the business.

Conclusion: Polaroid can go for Centralized Warehouse management strategy, to start with Italy and then slowly moving to other subsidiaries like France and Germany where service demand level is very high. Also Polaroid should look for the option of including third party logistics because they will have expertise in managing warehousing and transportations better than Polaroid. Calculations: Given data: 1. France , Germany, Italy and UK make nearly 70% t0 80% European sales 2.

Total European sales = $504. 5 Million 3. Sales of Germany = 30% of total European sales 4. COGS/ Total sales ratio = 0. 5073 (from exhibit 1) Assumptions made 1. 70% of European sales are equally contributed by UK, France and Italy 2. Average price per unit = $125 3. Average inventory value= $ 7. 12 million (based on Exhibit 7) Parameters /Country| Germany| France| UK| Italy| Sales ($) (in Millions)| 151. 35| 117. 72| 117. 72| 117. 72| Sales (Units)| 1210800| 941733| 941733| 941733|

Distribution channel| Wholesaler (10-15%) Retailers (85%)| Specialty (70%) photographic dealers Hyper markets (20%) Wholesalers (10%)| Wholesalers (45%) Direct service (20%) Retailers (15%)| Photographic dealers (45%) Wholesalers (40%) Hypermarkets (10%) Special markets (5%)| Current Capability| Dedicated Warehouse| Dedicated Warehouse| Dedicated Warehouse| Dedicated Warehouse| Line fill rate| 95%| 95%| 94%| 88%| Order Fill rate| 81%| 90%| 94%| 62%| Annual Inventory turn| 11| 8| 8| 8| Labour savings (in 1000 $)| 570| 488| 242| 243| Facilities savings (in 1000 $)| 150| 300| 150| -|