GSCLG

November 2011

GLOBAL SUPPLY CHAIN REVIEW

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2011 SPECIAL AWARD EDITION:

MICHAEL MASSETTI SUPPLY CHAIN EXECUTIVE OF THE YEAR

PLUS:

OPTIMIZING SUPPLY CHAIN PERFORMANCE AND CUSTOMER SATISFACTION

SPECIAL:

FIVE MISTAKES COMPANIES MAKE WHEN TRYING TO EFFECTIVELY MANAGE SUPPLY CHAIN RISK

Michael Massetti
Corporate Vice President,
Advanced Micro Devices, Inc. (AMD)

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Keynote Speaker:
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Message from the President of GSCLG

As President of the GSCLG, I am extremely pleased to present this year's awards edition of the Global Supply Chain Review. **Michael Massetti**, Corporate Vice President, Integrated Supply Chain of Advanced Micro Devices, Inc. has been selected as GSCLG's Supply Chain Executive of the Year.

Michael was chosen as the Executive of the Year based upon the nominations received from our membership for the execution by one of the best overall teams in supply chain, recognized both domestically and internationally. AMD's supply chain has demonstrated a level of efficiency, professionalism, consistency, and scalability which can be attributed to Michael's leadership. It has become the standard of excellence for other companies to emulate. Michael is by far one of the most approachable and well liked executives of our industry.

Michael is responsible for global supply planning, inventory management and control, customer operations, order management, fulfilment, and the supply chain management infrastructure program.

Michael's experience in supply chain has produced an extensive record of cost reduction, innovative supply chain solutions, and organizational transformation. He led the implementation of a new postponement model in AMD's manufacturing process that reduced inventory and improved factory utilization.

We are delighted to present Michael Massetti as the Supply Chain Executive of the Year, and are delighted to share with our readers an interview with Michael.

We are also pleased to present two compelling articles this month - "Optimizing Supply Chain Performance and Customer Satisfaction: Using Statistical Forecasting and an Innovative Configure-to-Order Process to Improve Critical Operational Metrics" by Michael Massetti and "Five Mistakes Companies Make When Trying to Effectively Manage Supply Chain Risk" by Bindiya Vakil and Hannah Kain.

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Message from the President of GSCLG

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Interview with Michael Massetti, Corporate Vice President, Advanced Micro Devices, Inc. (AMD)

Michael Massetti is Corporate Vice President, Integrated Supply Chain, at AMD with responsibility for global supply planning, inventory management and control, customer operations, order management, fulfilment, and the supply chain management infrastructure program.

Before joining AMD in 2008, Massetti was Vice President, Global Procurement & Quality at Tekelec. In that role, he led a centralized global team covering all spend categories and managed all contract manufacturing, OEM hardware, and software that enabled the transformation of procurement from transactional to an advance sourcing function.

Massetti's nine years of supply chain leadership have featured an extensive record of cost reduction, innovative supply chain solutions, and organizational transformation. He led the implementation of a new postponement model in AMD's manufacturing process that reduced inventory and improved factory utilization.

Earlier in his career, Massetti held several leadership positions in supply and program management at Lucent Technologies, Dell and IBM.

Massetti holds a Bachelor of Science in Electrical Engineering from the University of Notre Dame. He also holds his MSEE and MBA from the University of Vermont. He was recognized by *Global Supply Chain Review* as one of the Top 25 Supply Chain Executives in 2009 and by *Supply & Demand Chain Executive* as a 2010 Pro to Know.

Massetti lives in Austin, Texas, where he resides with his wife and two daughters.

How important is Supply Chain Management to AMD's overall business strategy?

AMD serves a global marketplace including computer and electronic gaming manufacturers, distributors, and retail channel partners. Each of them may have unique requirements on the supply chain, but all require high levels of service. Excellence in SCM is essential to AMD's long-term success – the ability to consistently and dependably deliver our products to customers is required for AMD to continue winning new market opportunities.

What primary areas of focus (or key initiatives) is AMD looking at for Supply Chain Management?

AMD continues on our supply chain journey focused on higher levels of customer service, reduced levels of inventory, more flexible manufacturing,and globalization. Developing a competitive edge with a world-class supply chain is essential to continue driving customer satisfaction. An initiative AMD started in 2010 between the manufacturing, demand planning, and supply chain teams focused on improving responsiveness to customers while reducing finished goods inventory and improving factory linearity through a statistical demand model. The results were excellent. We reduced inventory by nearly 50% and improved linearity by about the same. The cross-functional collaboration effort paid dividends in both the income statement and the balance sheet.

How is AMD addressing the market's increasing focus on 'green' supply chains and reducing a company's carbon footprint?

AMD has published its annual Global Climate Protection Plan, which presents our strategy, goals, and commitment to continually reduce greenhouse gas emissions and contribute to global climate protection efforts. This effort spans our products, operations, and collaborative initiatives with our industry, suppliers, customers, government partners, and employees. Our strategy, quite simply, is to make energy conscious, smart choices in our operations and to leverage the collaborative bond with our customer and technology partners, positively impacting our products and supply chain. After achieving previously set climate protection goals, we set new goals in our recently released plan and are committed to continuous improvement. The interdependency of the impact of climate on supply chain is expected to present both challenges to and opportunities for progress for years to come.

What do you think the key Supply Chain Management priority for the coming 2-3 years is for AMD?

AMD must continue to drive supply chain improvements to ensure excellent delivery performance, responsiveness and agility, and, most of all, total customer satisfaction. We want customers to know they can rely on AMD to work with our supply chain partners to develop, deliver, and support world-class technology solutions. One of the more critical elements of this is talent management. We've increased our efforts on talent identification, supply chain skills development, rotational and leadership programs, and global awareness. If we are to compete effectively, our people must be sufficiently armed with the right skills.

What do you think the key Supply Chain Management priority for the coming 5-10 years is for AMD?

AMD's long-term strategies and focus are similar to our priorities for the shorter horizon: cost competitiveness, responsiveness and flexibility, supply risk reduction, and agility. As our customers' markets change and evolve, we need to have a supply chain that anticipates and supports the dynamics in the markets.

What are the biggest INTERNAL challenges for manufacturers to achieve supply chain excellence?

I like to say that supply chains are the most visible when they are very unpopular. It is easy for a supply chain to be noticed when deliveries are poor, when costs are out of control, when there is minimal supply flexibility, and when it is not responsive. Establishing and maintaining organizational credibility through excellent performance on all of the attributes we discussed earlier are critical. Our internal stakeholders cannot worry that the supply chain will not be able to support the customers once they decide to buy, or buy more, from AMD.

What are the biggest EXTERNAL challenges in achieving supply chain excellence?

Similar to the internal focus, it is absolutely critical that customers have total confidence in their decision to buy from AMD. We run a very high volume supply chain that produces tens of millions of parts a year. To be considered excellent means that we have highly integrated processes with all of our suppliers and manufacturing partners. This includes forecasting, inventory management and visibility, high quality execution, and a focus on customer service.

Who is responsible for planning your company's business continuity when facing natural disasters, major disruptions or other geopolitical issues?

AMD's global supply management team, the supply chain planning team, and corporate financial planning all work to ensure we follow our business continuity plan during supply disruptions. We all got tested in 2011 with the terrible earthquake and tsunami that hit Japan. We were fortunate to have both solid supplier relationships and sound multi-source practices that minimized the impact to us. We continue to focus on extending the current state of our continuity program now that we have yet another data point for issues that challenge us.

Tell us more about your career in high technology and supply chain.

If you had asked me 25 years ago about supply chain, I probably would have responded in a very perplexed manner – I was not involved in supply or operations at that point in my career. I progressed through several levels of engineering and engineering management before moving into technical program management. For me, the leap into the world of supply chain occurred in 2002 when I joined Lucent Technologies. Their needs and my experience intersected at the right time and I began what is nearing 10 years in supply chain. Of course, when I speak to supply chain or MBA students, I tell them that looking backwards, I can paint a very compelling story of how every move in my career has been orchestrated to reach the point I am at today. That is quite the stretch. I am very fortunate to have benefited from being part of many excellent organizations with great leaders that have afforded me opportunities to contribute and succeed. At this point in my career, my main focus is doing the same for our developing talent.

What are the main skills and personal attributes that have helped you reach your current position?

Supply chain management is a very broad field. It encompasses managing suppliers, logistics, planning, total cost of management, systems and tools, inventory planning and management, and considerable interaction with people, internal and external to the company. The breadth of my cross-functional experience first enabled me to enter SCM. Since then, the opportunities presented to me allowed my technical skills, business experience, communications, and interpersonal skills to continue to grow. The best part of what I do is interact with my colleagues, our suppliers, and our customers.

Given the dynamics of the technology and semiconductor markets, how do you keep your entire organization motivated?

The one thing about being in supply chain is that you can clearly see your impact on the business. We set aggressive performance and improvement targets every year and have made solid progress every year. With our key performance indicators and overall supply chain metrics, we can show the team the progress they've made. It's all about instilling confidence in the team, keeping the challenges real and achievable, and stopping to appreciate the accomplishments along the way and thanking them for the efforts.

Who do you rely on for advice?

I have worked hard to establish and nurture a network of former colleagues and professional associates through professional networking venues like LinkedIn. I share questions and challenges with the people who I have worked closely with and whose opinions and experience I value. Of course, my boss, John Docherty, is the visionary behind AMD's supply chain and operations strategy, and he has plenty of advice for me.

What have you learned as Corporate Vice President, Supply Chain that has surprised you or changed the way you do business?

Probably the biggest positive surprise for me is how committed and dedicated my colleagues at AMD are. I'm proud to be part of a team that understands the challenges and comes to work each and every day driving to make us better. We focused extensively on supporting and developing our global team. I am very pleased with how we've stuck together through the vagaries of our market.

Turbulent times should be the best time to implement changes. However, companies tend to paralyze due to uncertainty in the market or their human capital. What is your advice to maximize the opportunities to implement changes during tough times?

You must have a long-term strategy and plans, constantly review those, but most importantly, do not stray too far from the vision of the organization and the company. Albeit, you may have to make course corrections along the way like varying the adoption rate of SC technology investments, changing priorities and schedules, moving faster to out-source or in-source, and so on. To me, the most important element is the focus on the people in the organization and to ensure they fully comprehend the plan and have the skills and tools to be successful. They need to see, hear, and feel the commitment of the SC leaders to help deal with turbulence and know they are on a path to success.

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Optimizing Supply Chain Performance and Customer Satisfaction: Using Statistical Forecasting and an Innovative Configure-to-Order Process to Improve Critical Operational Metrics

By Michael A. Massetti, Corporate Vice President, Integrated Supply Chain at Advanced Micro Devices, Inc.

A supply chain's focus on customer service levels has enabled business growth but challenges the desire to maximize working capital and asset utilization in factories. AMD supports supply flexibility for customer satisfaction while striving for best-in-class demand and supply planning practices. The Central Demand Planning (CDP) and the Supply Chain (SC) teams worked together to improve forecast accuracy by building a statistical model which categorizes the risk of building product ahead of orders. In addition to categorizing risk, the SC team implemented a postponement step in the test cycle to strategically position low risk product. When orders are placed late in the cycle or within lead-time, AMD can fulfill the orders quickly with minimal impact to its production efficiency.

Situation

Today's global marketplace and volatile economic conditions make it essential for supply chain organizations to develop and execute strategies that optimize company costs while delivering differentiated value to customers.

AMD strives to optimize its "triangle of metrics" - delivery performance to customers, inventory optimization to maximize cash, and forecast accuracy. Many dependencies and factors relate all three points of this triangle of metrics into a unified supply chain. Here we focus on two elements of this essential model: how to improve forecast accuracy and how to use manufacturing postponement to reduce and optimize inventory while maintaining and improving service levels to customers. The first relates to introducing a statistical model to better predict what products will be requested to ship and billed during the quarter. The second is a new concept called "Finished and Unmarked," or FUM.

Breakthrough Leadership

Beginning in Q1 2010, CDP built and back-tested the intra-quarter statistical model (IQSM) for two quarters for all microprocessor products. In Q2 2010, Supply Chain began testing the configure-to-order (CTO) process. In the second half of 2010, both initiatives became operational. CDP analyzed the demand plan versus available capacity to establish the amount of inventory to be postponed at a point in the test process called FUM for later completion. Depending on capacity, production levels were set at agreed-to linearity levels with the factory. If capacity was heavily utilized, a higher amount of finished goods were produced to avoid shortages at quarter's end.

Solution

IQSM projects likely end-of-quarter billings with a 95% confidence interval based on historical billings linearity. This capability exists by product line, by product family, and by customer. In addition when compared with the sales forecast and backlog, IQSM identifies risks and opportunities. To optimize inventory, it is critical to understand and manage the demand plan relative to the likely quarterly billings outcome. This allows demand planners and the supply chain to correctly position inventory at the right point to meet sales while not building up finished goods. This helps avoid growth of aged or obsolete material. In addition, understanding this relationship allows both teams to monitor capacity and make decisions about factory utilization should the expected outcome of the quarter changes.

On a weekly basis, demand planners and the supply chain team review an analysis comparing IQSM, sales forecast, B+B, and current ship plan at various levels of detail. The following questions are answered:

- What are the likely quarterly billings versus forecast and budget plan?
- What risks & opportunities exist?
- Should we change the plan (volume and mix) to minimize finished goods inventory? What is the likely resulting ending inventory if we do not change?
- What capacity do we have if upsides to demand occur?

To run an efficient factory a linear production plan throughout the quarter is ideal. Often billings are back-end loaded. It is not cost effective to build capacity to map production toa skewed loading. That is, capacity required to meet the late demand surge would be completely under-utilized during the first part of the quarter. The challenge, given back-end loaded billings and the flexibility to respond to changes in demand, is the need to build product in the beginning of the quarter to linearize factory utilization. IQSM also helps characterize and sequence risk of the likely quarterly billings, helping the supply chain determine which products should be builtin which sequence. In the next section, FUM will be explained in detail, which is how the supply chain utilizes IQSM to preposition the appropriate product.

FUM is apostponement point after test and before final marking in the manufacturing process, which differentiates a highly similar parts into distinct product SKUs. Since implementing FUM, AMD has reduced factory variation by 50 percent, contributing to supply chain agility, lower costs, and more optimal inventory. FUM is a configure-to-order strategy that reduces dependency on forecast accuracy of product mix and improves support of upside demand inside lead-time. This allows AMD's factories to operate build-to-forecast, build-to-order, and configure-to-order processes concurrently. Supply chain segments production based on standard ABC volume classification and by using the IQSM output to validate the plans.

Postponing production at FUM delays building AMD's inventory of microprocessors until an order is received. The manufacturing flow is the point at which AMD differentiates microprocessors into the SKUs that consumers order. At FUM there are options to create four or more unique SKUs from a single postponed part. This adds significant flexibility to AMD's inventory and enables efficient satisfaction of constantly changing customer demands.

Holding the material at FUM provides the flexibility of waiting to select the final SKU until customers demand it.

- First, material that would have normally been differentiated and finalized based on a market forecast is now held at FUM until an order is received.
- Second, to improve factory linearity, extra material is inserted into the back-end production flow during low points and processed up to FUM to await marking based on actual or predicted orders.

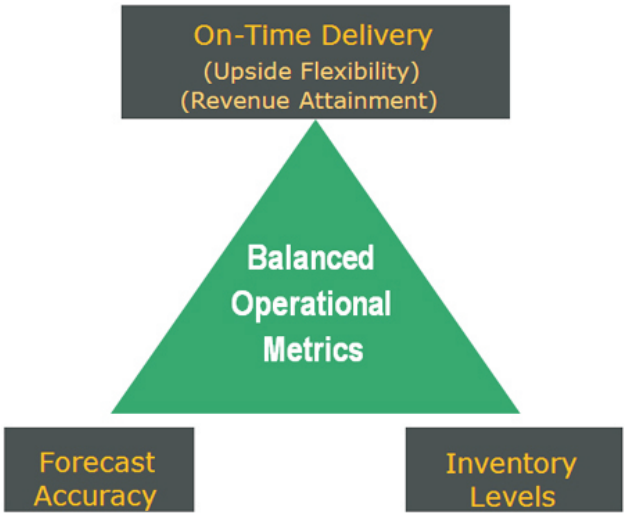
High customer demand drains the accumulated FUM. By holding material - instead of finished goods - in FUM, AMD's supply chain reduces finished goods inventory while still responding to demand changes. FUM allows AMD to simultaneously optimize materials inventory and maximize market responsiveness without pushing factories into overtime.

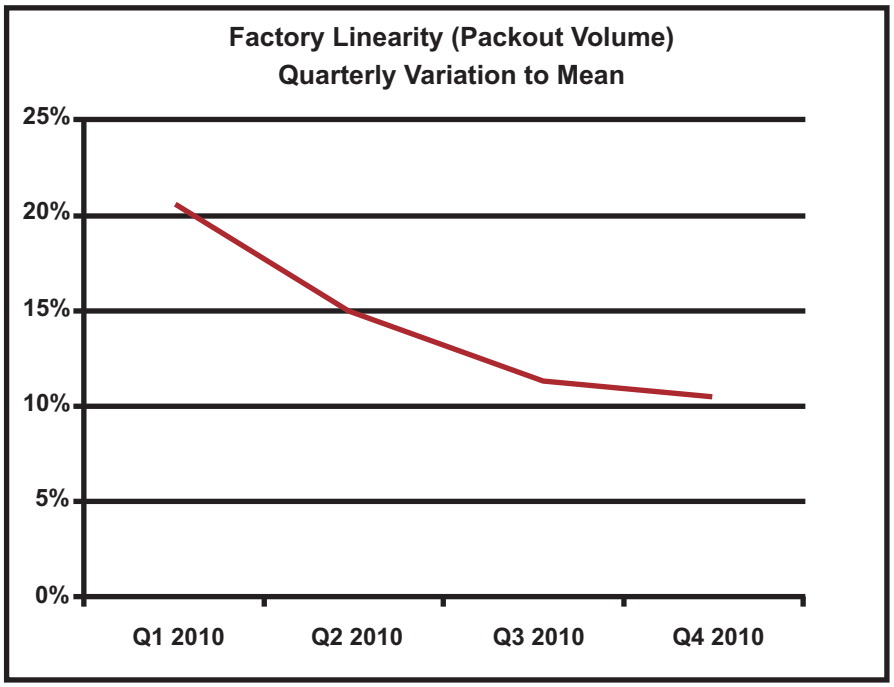
The decision to delay material prior to shipment at FUM is a postponement tool to help balance three metrics: finished goods inventory, forecast mix accuracy, and factory loading.

Outcomes

Results show significant improvements in factory linearity and finished goods inventory levels. Within a three quarter period, inventory of finished goods have declined by 32%.Overall, it is the direct result of predicting the likely end-of-quarter billings more accurately and managing the demand plan accordingly. Factory linearity variance has been reduced 50%. By prepositioning the correct WIP, which can be finished into several products through FUM, AMD is better able to manage factory linearity even though it must build product well ahead of billings.

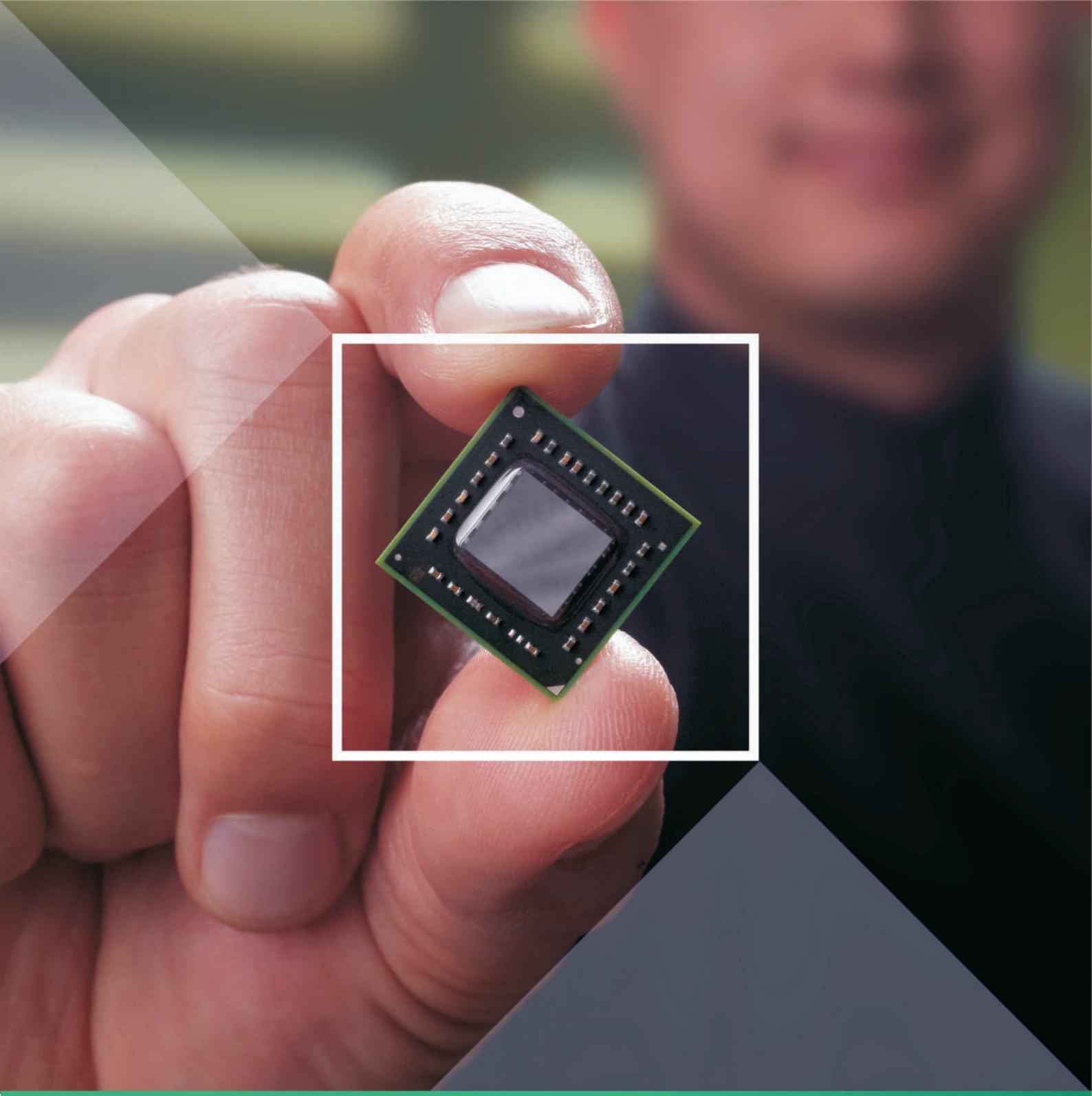
A robust supply chain must respond to shifts in customer demand. AMD has worked aggressively to meet changing demand while operating a cost-efficient and high-performing supply chain. The key is to do it profitably and in a way that optimizes working capital. Through IQSM and FUM processes, AMD is demonstrating that it can achieve both goals.





About the Author:

Michael A. Massetti is Corporate Vice President, Integrated Supply Chain at Advanced Micro Devices, Inc. In September 2011, Mr. Massetti was awarded Supply Chain Executive of the Year by The Global Supply Chain Leaders Group (GSCLG). The award is presented to the individual who received the highest aggregate ratings in making significant contributions to the advancement of the Supply Chain Management profession and maintaining sustainable, responsible business practices in its global operations during the past year.



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Five Mistakes Companies Make When Trying to Effectively Manage Supply Chain Risk

By Bindiya Vakil, President & CEO, Resilinc and Hannah Kain, President & CEO, ALOM

Supply chain resiliency is the ability of a company to recover from a disruption, as determined by the time and cost of recovery. It is a function of everyday decisions such as which suppliers the company sources from, how the volume is split between sources, where manufacturing facilities are located, how much inventory and second sourcing has been put in place, etc.

Bindiya Vakil, President & CEO, Resilinc

Yet, there are many factors eroding the resiliency of today's supply chains. Over the last 15 years companies have adopted lean and just-in-time (JIT) practices as well as build-to-order type capabilities in a big way. This means that global supply chains are overly optimized to operational parameters such as lead times, and often have low levels of buffers that would help to withstand disruptions. In addition, business metrics focus heavily on cost reduction and inventory turns - short-term incentives tied to these metrics further result in decisions at every level, which further erodes resiliency in the supply chain. A growing focus on cost, inventory reduction and lean in the backdrop of a globally dispersed and multi-tiered supply chain has resulted in small disruptions causing a big impact.

Traditional supply chain management practices leave vast gaps in resiliency because supply chain risk management is fundamentally different from everyday operations management. When companies fail to recognize and appreciate these differences, they fail to manage risk effectively. Outlined below are five mistakes commonly made in managing supply chain risk and ways in which companies can improve the resiliency of their supply chain.

Hannah Kain, President & CEO, ALOM

1. Quantifying Everything by Spend and Not by Impact

Supply chain functions are typically prioritized by spend. When asked to name critical suppliers or parts, most supply chain professionals will identify the top 20 percent of parts or suppliers that constitute 80 percent of the total spend. Resource, time and budget allocations are also organized by spend, and it has worked well - until now. Over the past 15 years, the global dynamics have changed. With the ease and cost to setup offshore operations and outsource parts of the supply chain to sub-contractors, companies now have multi-layered supply chains spread across the globe. Often, disruptions occur in the long tail - the 80 percent of suppliers representing 20 percent of the spend - especially if the low spend category relies mostly on single-sourced or custom material.

In order to ship a product, every single part needs to be present - this is the fundamental challenge for supply chain practitioners. The biggest mistake in optimizing everything based on cost/spend is that the overall impact to business is ignored. Custom paint, connectors, power supplies and other low spend items and even some kinds of labels with no alternate source can become single points of failure in the supply chain. After all, we can't ship a car without paint, or a laptop missing a connector or button. A hybrid approach looks at the revenue impact of losing a particular part or supplier, and considers single-sourced, custom dependency on low spend suppliers.

2. Not Getting to the Root Cause of the Problem - Visibility

The fundamental challenge with risk management today is the lack of visibility across global supply chain dependencies. The answer to "What is my true supply chain?" is incomplete at best. There is often no visibility into where parts come from or who is building them. Are dual-sourced parts truly dual-sourced or are there single-sourced dependencies one or two levels up the supply chain?

While there is widespread acknowledgement of the problem, very few have done what is needed to gain visibility and enable control. Once these questions have been effectively answered and the impact of losing a part, site or source has been determined, a prioritization strategy needs to be formulated to help identify high impact areas of the supply chain that need immediate mitigation. This will help deal with not only large catastrophic events, but also many smaller location-related disruptions that supply chain practitioners encounter on an ongoing basis.

3. Consistently Putting Risk Management Under Immediate, Short-Term Priorities

The world of supply chain management is highly dynamic. Organizations must constantly address operational challenges such as shortages, demand increases, excess, supplier issues, delivery delays and quality problems, while often being under intense budget constraints. As a result, organizations often must flit from one issue to another; always reacting or scrambling to address problems. Key decision makers lack the time to step back and assess the supply chain proactively or take efforts to gain greater visibility and control.

Rewards and incentives are also tied to achieving short-term goals around cost savings, inventory turns, time to market, etc. This incentive misalignment causes indiscriminate inventory reduction and a push to source

or manufacture in areas with high supply concentration. Since proactive supply chain risk management is the one activity that is at odds with targets, incentives and rewards, it is the one activity that is easier to deprioritize. In order to ensure that this doesn't happen, risk management / mitigation efforts need to be tied to metrics and incorporated into processes and reviews that are supported with regular reinforcement and incentives from the top level down.

4. No One Person is Accountable for Risk Management

A 2008 Procurement Strategy Council report indicated that the vast majority of CxOs hold the Chief Procurement Officer (CPO) accountable for response to supply chain disruptions[1]. However, it is not at all clear who the CPO holds accountable in his/her organization. Most companies do not have this responsibility assigned to a person or group within the supply chain or procurement organization - i.e. someone who can take leadership at an operational level. This means, when there is a crisis, there is a large amount of confusion and lack of coordination as extraordinary response actions fall outside the normal scope of activities.

Every crisis needs a leader for effective response coordination and recovery - often putting the supply chain leadership in the spotlight. A May 2011 study by W P Carey revealed that leadership is as critical as effective systems for a crisis response[2]. A strong leader, appointed in advance, trained and equipped with information, tools and a solid crisis response infrastructure can help the CPO appear to be in control, rather than at the mercy of the event.

5. Subconsciously Endorsing the Diving Catch Approach

A crisis, even a small one with low to no impact, is an opportunity to learn and take proactive steps for risk management. However, this critical point is not sufficiently appreciated. Often we think we got lucky when we are not impacted or are able to recover quickly. A crisis war room is also perceived to be the place where employees get exposure to top executives, only adding to the resistance to dedicate resources to proactive risk management. If product gets to the customer by paying 20 times premium and 10 times freight expedites, the execution team appears to have "saved the day." While necessary in extraordinary times, this type of "diving catch" approach for every situation has a dramatic impact on profitability. A post-crisis assessment would reveal the true cost to the business of such an approach.

A post-crisis assessment is very important in gaining insight into what went wrong and where investment and attention is needed to ensure an organization is better informed, more in control, more coordinated and less impacted the next time. Smaller disruptions should be perceived as drills and training for when a larger event strikes. Rewards should be in place for crisis aversion rather than crisis response. This is the best way to ensure that proactive risk management becomes embedded in an organization's culture.

Conclusion

Supply chain risk management has to be thought of as a strategic investment and viewed in the context of long-term gains. To be effective, it needs a fundamentally different approach from traditional supply chain management. As long as these differences go under-appreciated, companies will not focus efforts where they are truly required, nor will they solve the visibility-related issues that are at the root cause of the problem. In the end, companies are not empowering or encouraging people to make resilient choices proactively, which means they will be in a reactive mode in every disruption - scrambling to catch up.

Given the widespread globalization of the supply chain and the extreme impact of disruptions on corporate results, supply chain risk management is on the fast track to become a corporate governance issue requiring the attention of not only the CPO, but also the CEO and eventually the Board. The reality of the new globalized world is that we are going to face disruptions from one corner of the globe after another. It is time for companies to invest in the necessary tools, processes and leaders to ensure they have a well-oiled and trained machine for swift, coordinated crisis response every time they are faced with a supply chain disruption.

1. "Defense of the Enterprise: *2008 Supply Risk Management Benchmarking Survey*." 2008. Procurement Strategy Council. Online: https://psc.executiveboard.com

2. "Most Valuable Asset During Supply Chain Disruptions: Strong Leader or Great System?" May, 2011. W. P. Carey & Co. LLC. Online: www.wpcarey.com

About Resilinc:

Resilinc offers an end to end cloud-based solution for proactive supply chain risk management deployed with large and mid-sized High Tech companies. Delivered on the Force.com platform, their highly scalable supply chain mapping solution helps capture global locations where parts originate and quantify revenue impact of losing a supplier, part, site or region as well as risk scores. Their crisis solution involves crisis preparedness tools, disruption monitoring and response capabilities, as well as enterprise social networking to capture the collaborative elements of a truly effective risk management platform.

About ALOM:

ALOM is a Fremont, California-based supply chain management provider that has been ISO-certified since 1998. Services include materials and inventory management, logistics, assembly, light manufacturing, fulfillment, and reverse logistics from 14 locations across North America, Asia and Europe. More information is available at www.alom.com.

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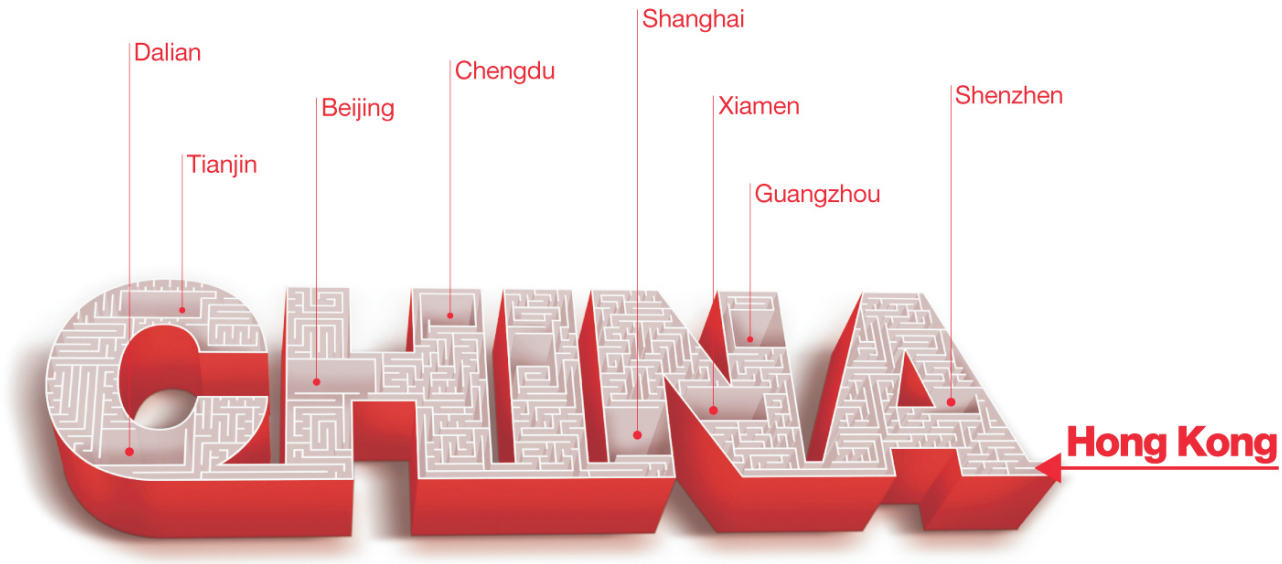

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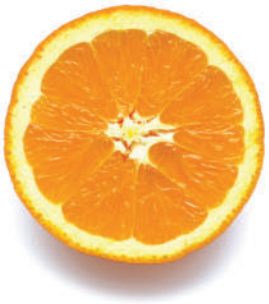

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