



## Part 2

### Supply Issues

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# I CJ Industries and Heavey Pumps<sup>1</sup>

## Teaching Note

This is a short and fairly straightforward case dealing with first and second-tier suppliers and forming alliances. Currently, CJI is buying 100–150 bilge pumps per year from Heavey Pumps, and the new demand will be 50 pumps per month, about a fivefold increase, to satisfy the new contract with Great Lakes.

### Discussion Questions

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- 1. What are all the issues here, from both CJI's and Heavey's perspectives, that need to be researched by Mr. Ashby?**

The primary issues for CJI are:

- CJI had signed the contract with Great Lakes prior to any discussions about ramping up production with Heavey. This needs to be addressed quickly.
- No delivery performance or quality performance history had been kept on Heavey.
- No make vs. buy analysis had been done on the bilge pump.
- CJI may need to find another supplier quickly.

The primary issues for Heavey are:

- Heavey would need to look at their existing customer orders for the foreseeable future to see if they had enough available capacity to quadruple their output of bilge pumps for CJI. They will be approached very soon by CJI.
- Heavey would need to assess the production, warehousing, purchase and transportation costs to determine a new unit price, should they decide they have the available capacity.
- Heavey would need to decide if they should attempt to enter into a long-term agreement with CJI, provided they want to produce bilge pumps for CJI.

- 2. Should CJI continue to use Heavey to supply pumps, should they make them in-house, should they consider one of the other suppliers, or should they do some combination of these alternatives? Discuss the advantages, disadvantages and risks of each of these alternatives.**

- Continue to use Heavey. This would be the easiest and probably the best decision, provided Heavey is agreeable, provided their production quality can be assessed, provided the price is right, and provided they can meet the delivery timing and volume requirements. The advantages are that Heavey has been reliable and they are a known entity. Other suppliers might not prove to be as reliable.

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- b. Make the pumps in-house. Evidently, CJI has decided sometime in the past not to make the pumps in-house. They may lack the specific know-how—they need to hire 3 more people if they do this. There is going to be a learning curve associated with this, and 9-months may not be enough. They also have to “clear out space.” This may take a while. Advantages would be more control of quality, timing, quantity and prices.
  - c. Use a different supplier. Talking to other suppliers to get a quote or recommendation probably is not a bad idea regardless. CJI has used Heavey for some time, and may not really know what the competition is or is capable of doing. With the short time frame, though, replacing Heavey now may be asking for trouble.
  - d. Use some combination of the above. This might also be a good idea, particularly if Heavey is unwilling or unable to supply 50 pumps per month at a reasonable price. Depending on the available suppliers, getting one “on-board” might be a good idea anyway (i.e., using Heavey for 40 per month and using another supplier for 10 per month). This may spread the risk of stockouts. Or, CJI may also want to begin producing a few, until they adequately can assess their ability to make the pumps. Adding other sources of output for an item may be a very good idea in this case.
- 3. How can CJI assure continued contract compliance and additional contract business from Great Lakes in the future?**

To assure contract compliance, CJI must develop a performance measurement system built around the contract. They need to monitor delivery performance, quality performance and performance in the other areas negotiated in the contract. To keep the contract and get more business from Great Lakes, CJI must be a good supplier—they must manage their relationship well with Great Lakes—offer good customer service, a competitive price and acceptable quality.