

Heartland & Company

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Abstract

Industrial buyers face a number of apparently routine challenges when making sourcing decisions. Some of these decisions include supplier evaluation processes, the allocation of business between two or more suppliers, how the evaluation process affects the allocation decision, and how these decisions are affected by the organization's goals. The case presented in this paper describes the challenges faced by a buyer of one industrial product. The case's thought provoking questions encourage student thinking and provide the basis for stimulating class discussion. This case has been classroom tested.

Keywords: *industrial purchasing, procurement, supplier evaluation, supplier selection, and procurement priorities*

1. Introduction

On April 19, 2008 Mr. Walter A. Walsh, Supply Management Manager for Heartland & Company, met with one of his buyers, Ms. Olivia Newcomb, in his office. They discussed her Heartland & Company cost reduction goals for bearing #B02326620. After the meeting Mr. Walsh began wondering if changes should be made to the way suppliers were being evaluated, if price premiums should be paid to suppliers for performing at a higher level, and how business should be allocated among suppliers performing at different levels. These were issues needing further consideration.

Founded in 1875, Heartland & Company is one of the United States' oldest industrial organizations. It manufactures agricultural and construction equipment as well as commercial and consumer lawn

care equipment. Today, Heartland & Company does business in over 100 countries and had sales in excess of US\$12 billion in 2007.

2. Bearings¹

Bearings are devices that allow constrained relative rotation or linear movement between two parts. The purpose of bearings is to allow motion with a minimum of friction. Friction creates heat and wear of adjoining parts. Bearings are commonly found in furniture drawers, all types of engines, and at the intersection of moving mechanical parts.

An example of primitive bearings is the use of tree trunks laid down under heavy stones in prehistoric times. Two common types of bearing include roller (cylindrical roller) bearings and ball

This case was prepared solely to provide material for classroom discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author has disguised some names and other identifying information to protect confidentiality. The views presented here are those of the case authors and do not necessarily reflect the views of Operations and Supply Chain Management: An International Journal. Copyright © 2009 by Operations and Supply Chain Management: An International Journal and the authors. If you are an instructor and wish to adopt the case for your class, please contact the corresponding author or the special issue editor to obtain the teaching notes.

(spherical roller) bearings. Bearings can range in size from nearly microscopic (watch bearings) to very large (wheel bearings on large earth movers).

Many of Heartland & Company's products require bearings. Consequently, they spent approximately US\$90 million on bearings in 2007. Applications of bearings at Heartland included small (approximately 0.75 inches/19 mm) in lawn care equipment through large (over 15 inches/384 mm) in large agricultural and construction equipment. The firm has a continuing value analysis/value engineering program which, over the years, standardized bearings in a wide range of products and applications. The results of bearing standardization included increased interchangeability among designs, reductions in repair parts system-wide inventories, and increased buying leverage with suppliers. As a result the annual requirements at Heartland for some of their standardized bearings were in the hundreds of thousands.

3. Part #B02326620

One of Heartland's bearings, Part #B02326620, was currently being purchased from two suppliers, New England Works and Midwest Bearings. This bearing was used in a wide range of Heartland products. Annual usage had been steady, averaging 500,000 bearings per year. The price of this bearing was approximately US\$1.00.

4. Supplier Performance

Heartland & Company evaluated its suppliers on five dimensions. As shown and defined in Table 1, they were quality, delivery, cost management, technical support and wavelength. The overall evaluation of a supplier was determined by its lowest scoring dimension. The evaluation system and the 2007 evaluations of New England Works and Midwest Bearings are summarized in Table 1.

5. The New England Works Advantage

While both suppliers offered excellent quality, New England Works was rated higher in delivery, technical support, and wavelength. Walter Walsh felt that these advantages were largely due to a

Table 1. Part #B02326620 Supplier Evaluations

| <u>Dimension</u> | <u>New England Works</u> | <u>Midwest Bearings</u> |
|-------------------|--------------------------|-------------------------|
| Quality | Partner | Partner |
| Delivery | Partner | Approved |
| Cost Management | Key | Partner |
| Technical Support | Partner | Approved |
| Wavelength | Partner | Key |
| Overall | Key | Approved |

Notes:

Dimension Definitions

- Quality : Based on rejects per 1,000,000 supplied pieces of all items purchased.
- Delivery : Based on supplier meeting delivery dates and quantities.
- Cost Management : Based on cost management initiative, cost reduction activity, cost index performance, performance during new programs, and global competitiveness.
- Technical Support : Based on supplier ability to provide a wide range of technical support at all stages of supply.
- Wavelength : based on supplier overall attitude, responsiveness, attention to detail, and communication performance.
- Overall : Based on the supplier's lowest performance in any dimension.

highly skilled sales force comprised of professionally trained engineers at New England Works. It responded well to Heartland's technical needs in the areas of product and process improvements. These improvements resulted in substantial efficiency gains to Heartland in the areas of product redesign, product simplification, and assembly costs. Rough estimates by Mr. Walsh placed these gains in the range of US\$500,000 to US\$1 million per year. The total of all bearing purchases from New England Works in 2007 were approximately US\$20 million.

6. The Midwest Bearing Advantage

Midwest Bearings was rated higher than New England Works in the cost management dimension. Their ability to reduce costs enabled them to consistently quote lower piece prices, usually about 2% less than New England Works. The total of all bearing purchases from Midwest Bearings in 2007 were approximately US\$8.5 million.

7. Simultaneous Goals

Heartland & Company placed a high priority on developing long-term, close working relationships with suppliers that met its performance goals. On the other hand, Heartland also pursued an aggressive program of annual cost reduction. Currently, there was no specific company policy

providing guidance on how to manage trade-offs between these two goals. Perhaps factors other than price (such as delivery, cost management, technical support, and wavelength described in Table 1) should be considered when comparing competitors' quotes, especially if this reduced Heartland's long-term costs of acquisition due to the value added by the non-price factors. For example, would a price quote from New England Works be preferable even if it was higher than the price quote from Midwest Bearings, provided New England Works' performance was higher in the non-price factors? And if so, what sort of price premium would be justified?

8. The Problems

Olivia Newcomb and Walter Walsh had to make decisions regarding three related but conflicting issues. First, the supplier evaluation process emphasized the lowest performance on one dimension even though suppliers were evaluated on five dimensions as shown in Table 1. They needed to consider whether or not a different supplier evaluation system would make it possible to better evaluate the strengths and weaknesses of alternate suppliers. Second, Heartland & Company had two often-competing goals, namely developing long-term supplier relationships and generating annual cost reductions. There was no clear guidance as to which goal was more important or how they could be considered together. The final problem was how to allocate the business for Part #B02326620 between New England Works and Midwest Bearings. Included in this problem was the question of whether to pay a price premium and/or give volume preferences to suppliers that provided better overall performance, or to emphasize price over non-price considerations. The following discussion questions focus on these problems.

Discussion Questions

1. What are the advantages of basing a supplier's overall evaluation on its lowest performance on one of the five dimensions (Quality, Delivery, Cost Management, Technical Support, and Wavelength)? What are the disadvantages? Overall, do you think that basing a supplier's overall evaluation on its

lowest performance on one dimension is a good idea or not? Why or why not?

2. Develop importance weights for the five supplier rating dimensions shown in Table 1. Should these weights be equal? Please briefly explain the basis for these weights.
3. Develop a weighted-point system for evaluating Heartland & Company bearings suppliers. Please keep in mind that (a) the sum of these five weighted dimensions must add to 100 points, and (b) Heartland & Company has the current goals of developing long-term relationships with suppliers and generating cost reductions.
4. Make a case for paying a price premium that favors a higher overall rated supplier, such as New England Works. Make a case for not granting a price premium for a higher rated supplier. Which would you recommend? Why?
5. Assume that Heartland & Company is considering paying a price premium to the more highly rated supplier (New England Works) in this year's buy of part #B02326620. If the only two suppliers quoting on this part are New England Works and Midwest Bearings what percentage premium (over the lower price) would you recommend? Please justify your response.
6. Should Heartland & Company single source with New England or with Midwest? Or should they divide the business between the two? Please briefly explain your rationale.
7. Assume that Heartland & Company has decided to divide the purchase of part #B02326620 between New England Works and Midwest Bearings. What percentage would you recommend be bought from each? Please briefly explain your rationale.
8. Heartland & Company (a) places a high priority on developing long-term relationships with suppliers that meet its goals and (b) pursues an aggressive program of annual cost reduction. If you were Mr. Walsh what guidance would you give to Olivia regarding how these goals should be treated? Briefly explain your rationale for the guidance you gave.

Reference

- ¹ Wikipedia, the free encyclopedia (www.wikipeida.com, "Bearing (mechanical)," 2009).

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