

# Heartland and company



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On April 19, 2008, Walter A. Walsh, Supply Management Manager for Heartland & Company, met with one of his buyers, 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 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 U. S.'s 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 U. S. \$12 billion in 2007.

#### Bearings:

Bearings are devices that allow constrained relative rotation or linear movement between two parts. Bearings are commonly found in furniture drawers, all types of engines and at the intersection of moving mechanical parts. A common type of bearing is the ball bearing (see picture above). Heartland & Company spent approximately U. S. \$90 million on bearings last year. 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 U. S. \$1. 00.

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.

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 highly skilled sales force comprised of professionally trained engineers at New England Works. The company 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 U. S. \$500, 000 to U. S. \$1 million per year. The total of all bearing purchases from New England Works in 2007 were approximately U. S. \$20 million.

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 percent less than New England Works. The total of all bearing purchases from Midwest Bearings in 2007 were approximately U. S. \$8. 5 million.

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? (These two questions are not answered.)

#### 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 giving 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.