Part 2

Supply Issues

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1 CJ Industries and Heavey Pumps[1]

In October 2007, CJ Industries (CJI) had just been awarded a 5-year contract with Great Lakes Pleasure Boats amounting to U.S. $10 million per year, commencing in July 2008. CJI would be providing a number of key engine components for Great Lakes' luxury line of pleasure boats. The award marked an important milestone for CJI, in that it was the culmination of several years of hard work and dedicated service, supplying Great Lakes parts for their boats on an as-needed basis. The contract had significant long-term follow-on potential as well, if they could continue to show Great Lakes they had the capabilities to be one of their valued, alliance partners. In addition, with this contract Great Lakes would represent approximately 30 percent of CJI's annual sales, so performing adequately on this contract had a significant long-term financial impact on CJI.

One of the parts, a bilge pump, was an item that CJI had been purchasing from one of their suppliers, Heavey Pumps, a small local specialty pump manufacturer, on an informal, non-contract basis. The remaining items were all built in-house by CJI and supplied to Great Lakes from one of their two finished goods warehouses located near the Great Lakes production facilities. Heavey Pumps was producing and delivering 50 bilge pumps at a time at a cost of U.S. $1500 per unit and built to Great Lakes' specifications, to one of the CJI warehouses, whenever an order was telephoned in by CJI. The delivery costs (about U.S. $500 per 50 pump shipment, depending on the carrier used) were included in the U.S. $1500 per unit price. This scenario typically occurred about every four to six months. Normally, CJI would order another batch of 50 about eight to ten weeks ahead of time, and Heavey had always been able to supply the pumps before CJI's stock was depleted.

Though CJI had sufficient excess capacity to ramp up production on the parts to be supplied in the Great Lakes contract, they were not sure about the ability or willingness of Heavey to increase their production of the bilge pumps. The new demand for bilge pumps starting in July would be 50 pumps per month, and potentially more, depending on Great Lakes' demand, and the ability of CJI to perform on the contract.

There were a number of issues that Nik Grams, the purchasing manager who put the contract together with Great Lakes, needed to work out with both Heavey and the production manager at CJI, in order for this contract to be met with as few problems as possible. The issue with Heavey Pumps was whether or not they could guarantee delivery of 50 pumps per month to one of the CJI warehouses. This had been the one item that had "slipped through the cracks" on the contract with Great Lakes, and it now loomed as something that could conceivably put the contract in jeopardy. There were potentially additional equipment, labor, and other production costs for Heavey associated with the extra demand for bilge pumps, not to mention extra delivery costs as well. Heavey had been a reliable supplier for CJI for a number of years, but nothing else had ever been purchased from them. In addition, because the demand for these pumps was rather low and the deliveries were sporadic, no performance records had ever been kept for them. Mr. Grams had also not known specifically about the quality history of the Heavey bilge pump, although he could not remember ever getting one returned by Great Lakes for any reason. Up until now, the pump issue did not seem like anything to worry about.

Another possibility for CJI would be to make these pumps in-house. Nik Grams knew that CJI had the capability to make this pump, but it would require an initial capital investment of about U.S. $500,000 according to the CJI production manager, along with the clearing out of some space, and the hiring of three additional employees. With only about nine months remaining until the contract start date, it would be tight, but the production manager had assured Nik that they could do this, if needed. While Mr. Grams didn't doubt the production manager's assurances that the production line could be ready, he wasn't sure that going to this added expense was a good investment for CJI, given their lack of pump manufacturing experience. There were also at least two other bilge pump manufacturers that Mr. Grams knew of, but both of them were about 500 miles farther away from the CJI warehouses, and he had never used either of these firms in the past.

This whole thing seemed to Nik like an ideal job for his special project buyer, Bob Ashby. He figured he had maybe a week or two to hammer out a plan to assure contract compliance with Great Lakes, and Bob was known for his ability to put things together quickly. So, he called Bob.

Discussion Questions

1. What are all the issues here, from both CJI's and Heavey's perspectives, that need to be researched by Mr. Ashby?
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.
3. How can CJI assure continued contract compliance and additional contract business from Great Lakes in the future?