

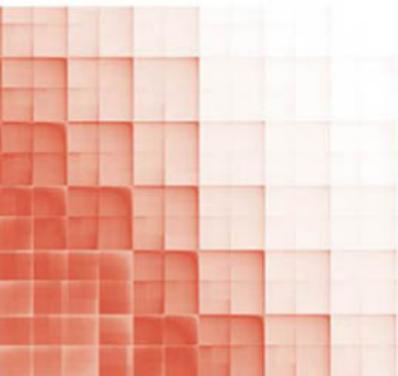
# Improving Preparedness in Supply Chain Risk Management at Jacket

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Matteo Kalchschmidt, Università degli studi di Bergamo**

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**PEARSON CASES IN SUPPLY CHAIN MANAGEMENT AND ANALYTICS**



The case is reprinted from *The Supply Chain Management Casebook* by Chuck Munson

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with Jury Gualandris and Matteo Kalchschmidt

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# Improving Preparedness in Supply Chain Risk Management at Jacket

**Jury Gualandris<sup>†</sup> and Matteo Kalchschmidt<sup>‡</sup>**

Pietro Ravelli raised his head from the paper he had just finished reading. Indeed, he now perceived that his problem was not unique and that some insights could have been drawn from what has been experienced by other managers. Still, after so many years, the “risk management” issue was not completely clear to him. He understood that risk is a multidimensional concept and that it is not wise to consider remedies successful in other business contexts as universal solutions. However, he considered that good ideas could come by looking at the behavior of companies that experience supply risk under different environmental conditions. To this end, he usually spends a couple of hours more in the office to peruse recent publications covering supply chain risk management (SCRM).

After serious negative experiences, risk management had become a major buzzword in all of Ravelli’s meetings. As supply chain manager of Jacket, his responsibility is to guarantee efficient flows of inbound goods. Since a couple of historical suppliers had incurred delays and quality problems, causing negative drops in Jacket’s production and a temporary inability to satisfy customers’ needs, Pietro’s attention is now radically oriented toward the reduction of supply vulnerabilities.

Jacket, established in the mid-1960s, develops and manufactures fluid and gas control solutions (i.e., control valves and on-off valves).

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The company was founded by three small companies in 1962 that decided to share their competencies in the design and production of control valves. Started as a small corporation, in the 1980s it grew significantly, mainly through acquisition. In the mid-1990s, it was acquired by Catervision, a multinational group operating in the fluid and gas control industry that owns more than 30 companies around the world. Jacket currently hires almost 500 employees. It produces control valves in the northern part of Italy, and these are sold using the sales force of the Catervision group. In 2011, revenues exceeded \$225 million with high margins.

Jacket operates in a fragmented market where business uncertainty and complexity are significant. The growing variety of market requirements and the increasing uncertainty surrounding both customer needs and the trajectory of various technologies have forced the company to operate on a make-to-order basis and arrange its business into different interrelated projects. In such a scenario, suppliers' delays or quality problems can have greater impacts on the firm's performance, both in terms of costs and reputation.

Jacket's products are managed along four product families. The procurement function manages more than 5,000 different items. These many supplies do, however, share similar characteristics in terms of material, geometry, and technology. Such goods are acquired from a few global leaders that have similar production capabilities and produce substitutable products. Supply markets are highly concentrated, and, although vendors have always shown high reliability, opportunistic behaviors are likely to occur (i.e., suppliers may collude on the price of their products or set their production capacity in a way that allows them to exploit customers' surplus). The company employs vertically specialized workers that are permanently linked to a certain production task, and it relies on an efficient production process. The production sequence was identified years ago and is still considered optimal for maintaining good manufacturing performance.

Before beginning his career at Jacket, Pietro Ravelli operated as purchasing manager in several industrial companies. In 2005, he joined Jacket as supply chain manager, and since his first year at Jacket, his attention has focused on the quality and cost of supplies. To reduce purchasing costs and optimize transportation efficiencies,

he decided to establish single-sourcing relationships. These are characterized by complete, detailed contracts, with little latitude in the transaction parameters of time and cost. This practice allows Jacket to obtain quantity-based discounts. Furthermore, aiming at assuring high quality of final products, Ravelli decided to develop a vendor rating system that primarily accounts for the quality of supplies.

Nowadays, however, Ravelli is more concerned about the *reliability* of Jacket's supplies. He has recently read about four interesting and relevant cases.

## Case 1: Helmets

The first case describes Helmets, which produces circular saw blades, cutter heads, router bits and other accessories for the wood-working market. After a major fire that shut down the operations of one of its suppliers, Helmets was able to effectively react by relying on an alternative vendor with which the company used to have spot exchanges. The company, indeed, purchases more than 80% of supplies via a multiple-sourcing strategy. At Helmets, the adoption of SCRM practices is limited: the multiple-sourcing strategy is the only lever that reduces supply chain vulnerability. The company does not have structured supply policies or procedures. Proximity and price drive supplier selection, and no information regarding vendor lead times and financial performance are collected and monitored. Furthermore, Helmets does not share key resources (e.g., knowledge, financial, and human capital) with suppliers. Instead, it simply collaborates with a small subset of them to optimize logistics processes. Internally, the firm has implemented highly automated production lines, and employees have very specific skills. The production process is highly efficient but at the same time scarcely flexible.

Helmets is located in the northern part of Italy, just 30 minutes away from Jacket's headquarters. Thus, Ravelli decided to visit the company to gather further insights. After a brief discussion with Giuppelli, the purchasing manager of Helmets, Ravelli understood that the contexts in which Jacket and Helmets operate greatly differ from a risk perspective. Helmets mainly purchases raw materials with standard quality certifications (e.g., ISO 2859 and Acceptable Quality Levels standards) from local suppliers (i.e., 60% of goods

are purchased in Italy; 100% of goods are purchased in Europe). Moreover, the exogenous uncertainty of the woodworking market, as described by Giuppelli, is not critical. Customer needs are quite stable, and technology of both products and processes is consolidated (e.g., product life cycles average eight years).

## Case 2: Puffs

The second case describes how well-known car manufacturers are managing their supply chains. By strictly monitoring their entire network and by requiring greater quality and higher levels of service, they are pushing upstream partners to increase their reliability and adopt SCRM levers extensively. The extensive adoption of such practices, however, seems to produce negative impacts on partners' economic performance. Specifically, the article focuses on Puffs, a specialized producer of thermoplastic components for electric accumulators. The company is part of a group operating worldwide, and it supplies the automotive chain. In Puffs' specific sector, market needs and technological trajectories are described as stable and predictable. Puffs manages only a few dozen different kinds of raw materials acquired from big multinational companies. As a consequence of the pressure from supply chain customers (i.e., car manufacturers), the company arranges purchases into categories by considering product and market peculiarities (i.e., level of goods' customization and complexity, market concentration, and probability of thinness) and leverages backup sources (i.e., more than 50% of purchases are managed through dual sourcing). Puffs monitors all its vendors on a monthly frequency by assessing both their operational reliability (i.e., by assessing delivery performance and also auditing safety levels and maintenance programs) and their financial stability (i.e., by evaluating past and expected cash flows).

The customer requirements have caused Puffs' internal costs to rise, but the firm has not realized positive returns from its new SCRM practices. Given Puffs' circumstances and the characteristics of its supply network, the dual sourcing and certain other SCRM directives mandated by Puffs' customers seem unnecessary. For example, Puffs is facing higher transaction costs due to the duplication of procurement processes and the higher potential for friction. At the same