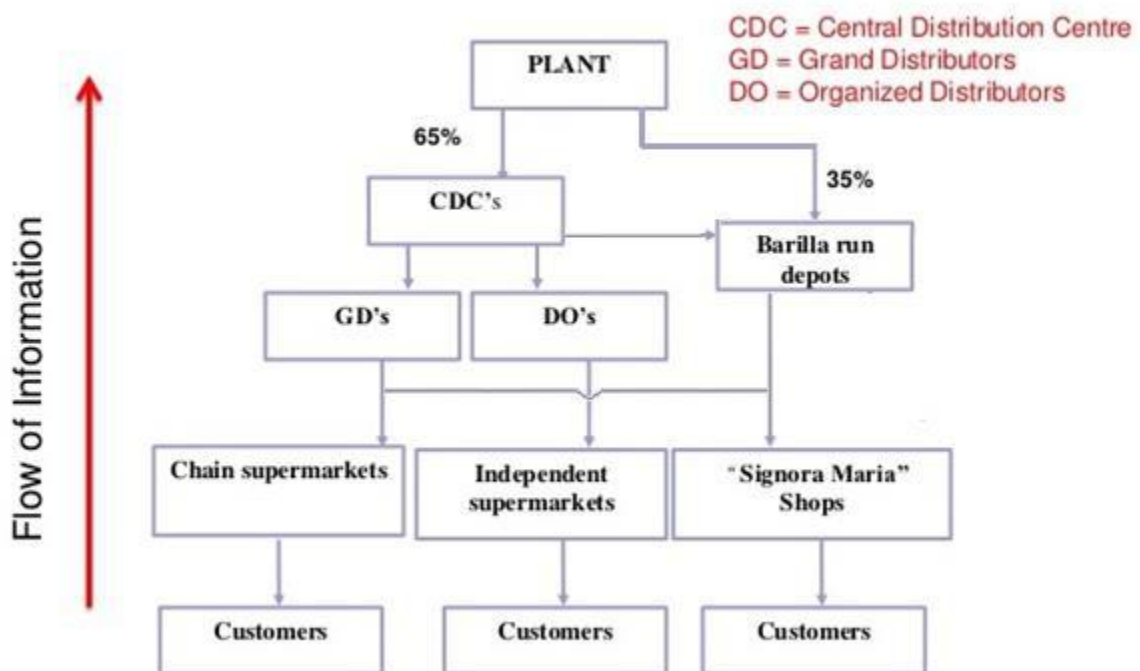


Barilla Spa

It was started as a small shop in Italy and went on to become the world's largest Pasta producer by 1990s. The case of Barilla Spa involves challenges linked to the changing order patterns of distributors. The company had trouble in predicting demand for its products. The fluctuations in demand lead to inventory management issues and problems in manufacturing. Barilla Spa a share of 35% in Italy and 22% in Europe.

Product category: 75% Dry, 25% Fresh.

Distribution



Sales and Marketing

There was a very high brand positioning and spend heavily on advertising. Company does trade promotions were done to push the product into distribution network. Sales representatives were used at various stages and discounts were given.

Issues

- Demand fluctuations
- Production lead time problem and perishability of product
- High manufacturing and inventory carrying costs
- Unacceptable cycle service levels

- Distributors were unable to carry the high volume of SKUs produced

Q1. Diagnose the underlying causes of the difficulties that JITD program was created to solve. What are the benefits and drawbacks of this program?

A. There are two underlying causes of difficulties that JITD was expected to solve:

- ◆ Bullwhip effect or effect of fluctuating demand
- ◆ Stock outs issue that affected Barilla's manufacturing and logistics operations.

The JITD program had the following benefits stated:

For the Manufacturers:

- Reduction of Manufacturing Cost
- Supply Chain visibility for the manufacturer.
- Reduction of Inventory Cycle
- Higher Bargaining Power of the Manufacturers over distributor

For the distributors:

- Improvement in the fill rates to retail stores
- Lesser inventory carrying costs as quantity decided by the seller and based on historical data and seasonal demand
- Distributors can offer additional service levels to retailers at no extra cost.

Problems associated with JITD program:

Internal:

- Sales representatives skepticism towards reduction in their responsibilities.
- Increased competitor shelf space in highly competitive pasta industry across Europe
- Inability to run the trade promotions well.
- Possibility of stock-out in case there was no quick shipment
- The infrastructure was not good enough to handle JITD program.

External:

- It was thought that the power would be transferred to Barilla
- Most of the distributors were not convinced about the program and the effectiveness of the system

Q2. What conflicts or barriers internal to Barilla does the JITD program create? What causes these conflicts? As Giorgio Maggiolo, how would you deal with these?

Internal resistance would be from marketing and sales department of Barilla. They were concerned that if there were a strike or interruption in production, it would lead to more stock outs which would also lead to reduction in sales figures. They thought that the new system would not be able to cope with the changes. Another issue they thought was, if the shelves of the distributors were empty instead of Barilla product, then the distributors might replace them with the products of the competitors. The causes of these conflicts are lack of flexibility in production, and reward structures for sales representatives. They thought it would be difficult to maintain trade promotions under JITD and there would be no bonus for the sales representatives.

If I were Giorgio Maggiolo I would convince my boss and the CEO of the value of the proposal, because the implementation of JITD needs to happen across the company. The CEO and top management must have belief in me to implement it across the company, and convince others to give some time to the system to make it successful. The view across the company- should be that the relationship with distributors is a long-term one, and hence there should be joint learning, success sharing and alignment of long term goals. The reward structure for salespeople could be reorganized, for example some of their KPI's could be related to reduction in inventory, getting accurate data from stores about sales. The jobs of the salespeople could be redesigned to introduce more job commitment from sales; ideas to design satisfaction into the job could include job enlargement (larger number of tasks and more variety), job enrichment (greater autonomy), job rotation, empowerment and team-working.

Q3. As one of Barilla's customers, what would your response to JITD be? Why?

As one of the customers of Barilla, the following questions would run in my mind:

- Will this program really prevents stock-outs, increase variety, reduce delivery time for me and lower the costs for me? How do I measure these parameters?
- How will this program let me manage my own stock? Will it be profitable for me?
- How will the balance stand? Will Barilla make me more dependent on it?

The reasons for thinking about the question are because I do not want to lose my independence to Barilla. At the same time, I want to improve my performance levels while saving costs which is thought to go to Barilla. I wish to see how profitable it would be for me. The question which needs to be answered is to what extent the JITD program and the need for faster delivery are different. Perhaps both Barilla and the distributors want the same, but approach the problem from different sides.

Q4. In the environment in which Barilla operated in 1990, do you believe JITD (or a similar kind of program) would be feasible? Effective? If so, which customers would you target next? If not, what alternatives would you suggest combatting some of the difficulties that Barilla's operating system faces?

- The current proposed JITD program at Barilla does not look that promising because the problem is slow delivery speed and rigid production process. Reforms need to be taken to improve the relationships between the sales, advertising and logistics departments by redesigning performance measurements system.
- Barilla in the future can look towards a much more efficient and profitable future as a result of implementing these recommendations concerning the JITD system: demand would become stable and lower manufacturing based on the demand would lead to lower manufacturing cost and ease of transport, their operating costs will reduce and these savings would result in better margins and the cycle times would decrease & the cash flow would become even.
- To motivate the distributors to actively participate in the JITD initiative, a consortium of both suppliers and the distributors on a supply chain should be formed to discuss the present problems and come up with solutions. It is always easier to roll out something within the willing participants than throw something to them arbitrarily.
- The latest development in information technology makes Vendor Managed Inventory (VMI) possible for data sharing and synchronizing.

However, it will have following advantages:

- Decrease the Total Inventory in the Whole Supply Chain: JITD helps to reduce inventory held at the distributors. Theoretically, it eliminates the needs for each distributor to hold it own

“Safety Buffer. Therefore, it benefits the distributors through releasing their inventories space and cost

- Better Customer Fill Rate both in Barilla and the Distributors: JITD emphasizes quick response. Since the inventory data and delivery pattern are controlled by Barilla, their central factory and CDCs are therefore easier to schedule their production and deliveries to meet the customer demand. For the distributors, since their flexibility and reaction speed have all been increased due to the lowered inventory level, they surely could have better customer fill rate and less stock outs rate than before.
- Further Distribution and Manufacturing Cost Reduction based on Scheduled Production: The less interruption, the more cost-efficient. But this is only true for bottleneck machines. This is also true for distribution cost. In contrast to the fluctuating due to unknown situations in the past, a better delivery schedule could be built by using complete data obtained from the end-users.

SUGGESTION:

Barilla is currently facing a challenging situation in dealing with its constant production fluctuations due to the demand fluctuation because of which the varying weekly orders that had been created and issued by its distributors. To deal with this recurring issue, Barilla employed various counter measures like holding buffer inventory & asking distributors and retailers to do the same. These countermeasures amplified the problems rather than reducing them made things even worst. However, the implementation of the JITD strategy in this case will involve all Barilla's supply chain partners. The goal of such project is to help the company resolve all present issues without the need of holding and producing additional inventory. This may sound easy, but the implementation of such sophisticated strategy will require time and patience in the short run.

Following is a step by step process on how this project should be implemented:

- Mr. Maggiolo firstly needs to explain JITD strategy to Barilla's executive management and have them approve it since its success depends on their cooperation.

- Convincing of stakeholders, i.e. distributors and retailers. Mr. Maggiolo needs to meet distributors and retailers to iterate the fact that JITD will help them reduce cost of carrying extra inventory & stock replenishment and getting faster deliveries
- Work out an implementation of procedures for daily data transmission from the distributors and retailers to Barilla by using electronic data transmission (EDI) method. Upon receiving daily sales figures from retailers and wholesalers, Barilla should replenish their sold inventory within 48 hours from receiving the data.
- While replenishing their inventory within 48 hours, Barilla should start building their sales data base by collecting and checking of data to generate a significant forecasting base for the future.
- In order to build their data base, Barilla needs data for past one-year period from the day they put JITD for use. Barilla then have to use the historical data of JITD to plan and schedule their production for the subsequent years