

# Barilla spa assignment



Barilla SpA (Barilla), is an Italian manufacturer that sells pasta to retailers largely through third-party distributors. Barilla has been experiencing widely fluctuating demand patterns from these distributors. Such unpredictable patterns are problematic because a specific sequence of pasta production is used that minimizes the incremental changes in kiln temperature in order to keep the changeover costs low and the product quality high.

This process makes manufacturing unfortunately unresponsive to changes in anticipated demand. In order to address this issue, Brando Vitali's has proposed a Just-in-Time Distribution (JITD) model, which is a continuous replenishment strategy under which the responsibility for determining shipment quantities to the distributors would shift from the distributors to Barilla. Such a system would result in Barilla pushing its pasta to suppliers based upon its demand forecasts.

Implementing a JITD system should have the effect of reducing channel costs improving service levels to distributors for Barilla, and improving service and reducing Distributor inventory. PROBLEMS Barilla has been experiencing significant problems in its implementation of the JITD model. Preventing Barilla from effectively implementing a JITD system are: 1) internal opposition from its sales staff; 2) lack distributor buy-in stemming from a fear of loss of power; 3) an inability to collect needed information; and 4) the traditional Italian trade promotions system.

EVALUATION CRITERIA The main decision to be made by Barilla is not whether Barilla should apply the JITD model, but whether it can be applied. The benefits of introducing a successful system are numerous to an industry

where both manufacturers are suffering from thinning margins. To Barilla a successful JITD would result in a decrease in distribution, inventory and manufacturing costs. To the distributors it would result in decreased inventory costs and a reduction in stockouts. This decision that Barilla faces is how such JITD would be implemented.

In evaluating the solutions to the JITD's major problems we will use four main evaluation criteria: 1. ) Cost Savings to Barilla – The reduction inventory and transportation costs incurred by Barilla. 2. ) Cost Savings to Distributors – The reduction in inventory incurred by the distributors. 3. ) Service Level – As defined as the percent of retailer orders filled from distributors' inventory.

4. ) Internal resistance – Making adjustments to insure that internal “ buy-in” for the JITD is high. SOLUTIONS TO JITD IMPLEMENTATION PROBLEMS LOSS

#### OF POWER

An obvious concern of Distributors in allowing Barilla to implement a JITD system is that it gives Barilla the power to push product into distributor warehouses as it wishes. Such a system in the eyes of the distributor can result in obvious abuses as it could be used by Barilla to move inventory from the CDC to the Distributors in order to decrease costs to Barilla at the expense of the Distributor. This concern can easily be mitigated by structuring the contractual supplier-distributor relationship in way that gives the Distributor the power to deny any shipment.

In this way the Distributor still has the power to say no if it feels that the order is excessive. As most Distributors currently keep a 2 week supply of product on hand, and the JITD proposes to significantly cut inventories,

theoretically there should not be many situations where the Distributor will be forced to ‘veto’ shipments as they should not be many situations where inventory will build up to the point where the distributor is not comfortable with the level. INFORMATION:

In order for Barilla to use a JITD it requires that each distributor provide data on what Barilla products it has shipped out of its warehouse to retailers during the previous day, as well as the current stock level for each Barilla SKU. This information can then be used by Barilla to make its own replenishment decisions based on its forecast. Hitherto distributors have been very reluctant to share this information citing their lack of confidence that Barilla can create better estimates.

There are three alternative solutions addressing this problem: Firstly, buy information for Distributors. One of the larger Distributors has already offered to sell the information. It is likely that many other Distributors would similarly part with this information for the right price. Unfortunately such an exercise would create a dangerous precedent that could be difficult to reverse in the long run. Though it might be useful to purchase such information until the JITD method catches on it could create an expectation for such payments to continue in the long run.

Secondly, gather information from point of sale. Another information source which JITD forecasts could be generated from is data from retail outlets. This is an interesting proposal as retail outlets already take inventory on a daily basis. However, it is unlikely that such a system can be implemented in the near future due to the lack of relationship between Barilla and the retailers

and the fact that many retailers do not have the necessary computer equipment to properly monitor and communicate this information to Barilla efficiently.

Thirdly, introducing a pilot project. Obtaining information is much more accessible if Distributors are convinced that Barilla can actually reduce costs and increase service through its own forecasting. This can be demonstrated using a pilot project that would demonstrate the difference decrease in stockout rates, and the amount of warehouse space used due to the implementation of the JITD strategy. In order to implement such a pilot project, Barilla should contact a distributor and offer significant discounts in order to get them to sign on.

We recommend this third option as it best satisfies the aforementioned criteria, and it is likely to be the most effective in the long run.

DISCOUNTS/PROMOTIONS Well established in the Italian grocery industry, promotions and volume discount cause significant fluctuations in demand for Barilla. The promotion system encourages distributors to deplete inventory and buy during the appropriate canvas period, or to make purchases by the multiple truckload to receive further sales representative induced discounts. There are two alternative solutions addressing this problem: Firstly, keep prices fixed/ onstant. Instead of constantly adjusting prices through promotions, Barilla instead could decrease all prices equally to all distributors by incorporating the savings that result from the elimination of trade promotions and the increased efficiencies resulting from the JITD system. Such a strategy would be unfair for the larger distributors who buy more and are accustomed to greater discounts, and such a strategy would

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also not be aligned with Italy's trade promotion culture and may result in significant pushback from Distributors. Secondly, negotiate volume discounts and push canvas discounts.

Barilla can still keep its canvas discount system by building it into their forecasting model. Thus allowing Distributors discounts during the appropriate canvas period, but by not allowing them to stock up inventory to maximize these discounts (as only the amount recommended by the forecast is discounted). Furthermore, volume discounts can still be offered in the form of refunds. Instead of giving discounts for each order, the amount purchased over a monthly period can be used to calculate the size of discount the distributor receives.

Thus larger purchasers still receive their expected discounts. INTERNAL PUSHBACK Within the current system, the sales representatives are playing important roles, and many fear that their responsibilities in managing inventory and setting up promotion would be reduced if JITD system is implemented. The lack of buy-in especially by the sales team can be a huge problem as they are the ones who would be in constant communication with the Distributors. Negative perceptions of the salespeople will reflect poorly on Barilla's ability to implement a JITD, and may result in poor Distributor buy-in.

Barilla could require that each sales person be trained to monitor the JITD system, and give commissions to those salespeople who convince their distributors to buy-in to the program. In so doing, the sales representative will still play an important role in the new system, and therefore encourages

them to participate and support the JITD system. JITD DISTRIBUTOR TARGET

The JITD program eventually should be implemented throughout the entire distribution system. However in order to make implementation as smooth of a process as possible it is important to target smaller sections of the distribution channel initially. Three alternatives for an initial distributor implementation exist; the Grande Distribuzione(GD), Distribuzione Organizzata (DO) and Barilla run depots. The benefits of using GDs are that they are the largest part of the supply chain and presumably they follow more standardized processes within the company. The large size may make it difficult to implement thus it may make more sense to initially use one or two GDs.

DOs would be more difficult as they serve independent supermarkets and thus they use less sophisticated and less standardized inventory procedures and are also more vulnerable to pressure from other suppliers. If the GDs do not immediately sign on running a pilot project with the 18 Barilla Run Depots would make the most sense as information would be more available. However as it is an internal part of the distribution chain, its success may be less convincing to sceptical distributors. As such we would suggest that the JITD target the Depots first, the GDs second and the DOs last.

Conclusion: The JITD system has the potential to substantially reduce costs if it is implemented correctly. In order to do so Barilla should begin implementing JITD within its own Depots and expand with pilot projects with the Distributors. The aforementioned analysis discussed a variety of methods by which to make such implementation more viable than it was in the past. However, such a list is in no way conclusive. Ideas such as reducing the

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number of SKUs and rearranging distribution channels should also be explored in the long term as they can also result in substantial cost savings.