

Barilla spa study

Business



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Barilla SpA Executive Summary In 1990, Barilla SpA, an Italian pasta manufacturer was experiencing problems in manufacturing and distribution systems caused by seasonal fluctuations in demand. To eliminate these difficulties Giorgio Maggiali, the Chief of Barilla's Logistics Department, had been trying to implement the Just-In-Time-Distribution (JITD), system proposed by his predecessor Brando Vitali. JITD can be called a remake of popular " Just-In-Time" manufacturing concept. Although Maggiali had been trying to convince his consumers that the JITD would definitely work, he had not made much progress. The program was met with significant resistance by the distributors and Barilla's own Sales and Marketing organizations. Maggiali was looking for possible solutions of the problem.

In the following analysis we will provide recommendations, which will help Barilla to successfully implement the JITD system and thus decrease its costs, increase efficiencies and its profits. Company Background * Barilla SpA, founded in 1875 as a small family owned pasta and bread " laboratory" gradually grew into a large, vertically integrated corporation with flour mills, pasta plants and bakery product factories located throughout Italy * To compete with over 2000-odd manufacturers, the owners constructed a 1. 25 million Sq. Ft. State-of-the-art pasta plant due to which the owners ran into debt and sold the family owned business to an American firm W.

R. Grace, Inc. n 1971, which brought capital investment and professional management practices to the company * In 1979, the original owner, Pietro Barilla bought back his company and due to the improving market conditions attained 21% annual growth rate in 1980s by expanding the existing businesses to other European countries * In 1990, Barilla was the largest

pasta manufacturer on the world: 35% in Italy and 22% in Europe. In addition to this it held 29% share of the Italian bakery-products market * During the same time Barilla was organized into seven divisions: . Barilla Pasta 2.

Voiella Pasta 3. Braibanti Pasta 4. Bakery Products (medium to long shelf-life bakery products) 5. Fresh Bread (very short shelf-life bakery products) 6. Catering (Cakes and frozen croissants to bars and pastry shops) 7.

International * Per capita pasta consumption in Italy was nearly 18 kilos/year. By 1990, the Italian pasta market was estimated to be around 3.5 trillion lire and the expected growth rate was 20-25% /year Distribution Network Barilla products were divided into 2 categories: Dry| Fresh| * 75%| * 25%| Shelf-life of 18-24 months| * Shelf-life of 21 days| * CDCs held 1 month worth of inventory| * CDCs held 3 days worth of inventory| Barilla's products were distributed through 3 types of total 100,000 retail outlets in the following distribution procedure: Since, Barilla is involved in bakery products which are essentially consumer non-durables; the company paid a lot of attention to efficient distribution networks. Moreover, since all products had limited shelf life, speed and frequency with which products could be replaced, also demanded attention. Barilla produced two types of products namely:-) Dry Products – consisting of long shelf life (10-12 weeks) and medium shelf life (10-12 weeks) 2) Fresh Products – consisting of products with short shelf life (21 days) The various points of the distribution network through which the products move and get stored are:- a) Central Distribution Networks (CDCs) – Northern and Southern CDCs b) Independent Agents (Concessionaries) c) Warehouses (Regional) – Seventy in number d) Barilla Depots – 18 in number e) Large Distributors (Grande Distribuzione) – Chain's own distribution Centre <https://assignbuster.com/barilla-spa-study/>

f) Organised Distributors (Distribuzione Organizzata) –Centralised Buying Organisation which typically carry 7, 000 to 10, 000 SKUs of about 200 different suppliers g) Independent Supermarkets – These large retail stores carried about 4800 SKUs and have 10 to12 days of inventory h) Chain Supermarkets i) Warehouses Barilla Products Dry Fresh CDCs (Dry: 1 Month, Fresh: 3days) Agents (X days) Warehouses (3 days) Depots (2 weeks) Small Shops Large Distributor (2 weeks) Organised Distributor (2 Weeks) Chain Supermarkets (10-12 days) Supermarkets (10-12 days) 75% 25% 35% 65% 90% 10% 70% 30% 150 SKUs 150 SKUs 1-2 days 1-2 days -2 days As expected of a large manufacturer of bakery products, Barilla has an extensive network of distributors, warehouses, and retailers.

However, due to sheer volumes and complexities we can see that each of the products of Barilla is delivered to the end consumers after a lot of delay. Which essentially consumes a significant portion of the product’s shelf life, and hence the end mile retailer needs to sell its products quickly before the products become unfit for consumption. Small Shops: – These shops receive products which move through a chain of CDC and Depot. Hence they get products after a lag of about 1 month and 3 weeks Chain Supermarkets: – Products are received through a chain of CDC, Large Distributor and in-house inventory. Hence, products on an average are sold after 2 months of shelf life is consumed Independent Supermarkets: – Products are received through a chain of CDC, Organised Distributor and in-house inventory. Hence, products on an average are sold after 2 months of shelf life is consumed Warehouse: – Fresh Products are usually stocked up and local retailers buy from them.

Assuming Agents have an inventory of 1 week. These units can sell their products only after about 10 days of shelf life is already consumed. Hence, it is clear that available time for the last mile retailers to sell off their products gets reduced significantly. About 65% of their dry products take about 2 months to reach in the hands of consumers. This problem needs to be addressed.

Sales and Marketing * Barilla advertised its brands heavily and was positioned as the highest quality, most sophisticated pasta product available. It engaged well known celebrities and tried to inculcate loyal relationships with Italian families * It used a push strategy in the grocery distribution network as pasta was a high involvement commodity in Italy * In addition to this, Barilla introduced the concept of “ Canvass period” which were typical promotional programs and had duration of about 4-5 weeks. During these periods the distributor could buy as much products as desired to meet the present and future needs, at discount prices. Also, volume discounts like transportation payment and 2-3% incentives for full truck-load quantities were offered * More sales representatives were used at DOs than GDs and did the following: * Helped merchandise Barilla products * Set-up in-store promotions * Took notes of competitors’ prices, stock outs and new product launches * Worked out ordering strategies for the retailers, explained promotions and discounts to the distributor * At CDC they helped in discussing new prices/promotions and solve problems/disputes

Just-in-Time Distribution (JITD) Modelled after the just-in-time manufacturing concept, JITD proposed that instead of following the tradition practice of delivering products to distributors on the basis of whatever orders those distributors

placed with the company, the company's own logistics organization would specify the appropriate delivery quantities - those that would effectively meet the end consumers needs and would evenly distribute the workload on Barilla's manufacturing and logistics system. Impetus for the JITD Program Barilla increasingly felt the effect of fluctuating demands, which strained the manufacturing and logistics operations. * Holding sufficient finished goods inventory to meet the distributors orders was extremely expensive Expected Benefits To Manufacturer: * Reduced manufacturing Cost * Increased Supply Chain Visibility * Higher bargaining power over distributors * Reduced inventory | To Distributor: * Reduced inventory carrying cost * Better services * No stockouts * Improved fill rates to stores| Resistance to JITD Program There was both internal and external resistance to the JITD program.

The sales representatives feared reducing in responsibilities and there was fear of inability to run trade promotions, and lack of sophisticated infrastructure for the program. Also, the distributors were not convinced about the program and saw in threat in the perceived power transfer to Barilla. Distributors were sceptic about the success of the JITD program. Issues Addressed by JITD High Inventory levels: Allows Barilla to better forecast demand fluctuations and better manage the production and distribution schedule, thus reducing the inventory at CDC's and DC's * Stock outs : Improved forecasting technology would help reduce the stock outs * Demand Fluctuations : JITD would allow to stabilize the demand fluctuation due to the pull oriented nature * Organizational Deficiencies : Better production planning, reduced cost, etc * Distributor relationships: Improves distributor relationships Issued Unaddressed by JITD * SKU complexity * Cost

benefit analysis * Stakeholder issues * Supply chain wide information system

Conclusion and Suggestion JITD address a large part of the issues in the current supply chain of Barilla, and would help Barilla stream line production thus reducing manufacturing cost. It would help maintain lesser inventory and eventually improve relationships with distributors. Barilla needs to address total cost of implementing JITD verses the cost of the current issues to ensure that benefit is there in implementing the program.

Also there is a need for increased acceptance of the program in the market, so Barilla needs to make efforts towards convincing the distributors about the benefits of the program. The cost benefit analysis needs to be prepared and shared with all the parties involved in order to convince them about the cost benefits to all and not just Barilla. Barilla should implement the JITD program in phases, on a region by region basis. It should start with the local customers, which would minimize the resources required and can act as a testing ground for the program and help streamline the process. Using the example of the successful implementation locally it can convince other distributors and customers of the benefits of the program and spread it further.