

Barilla spa – executive summary



EXECUTIVE SUMMARY Barilla SpA, world's largest manufacturer of pasta based in Italy is experiencing extreme demand variability resulting to operational inefficiency and increased cost. To combat the key issues stated my decision is to implement the Just In Time Distribution (JITD). This new system, contrary to current system Barilla has will eliminate Bullwhip effect and stock outs by having centralized information, there will be data transparency between Barilla and distributors.

Distributors will provide actual sales data which will be the basis of forecasting and production thus increasing in efficiency in operation and alleviating stock out among distributors. JITD will lead to improved supplier-customer relationship which in the long run can be perceived as a win-win situation. Internal resistance coming from Sales and Marketing will be resolved by involving the top management and by presenting the benefits of the JITD in figures and by emphasizing that role of Sales team in JITD is of paramount to the implementation.

External resistance will be combated by thorough discussion presenting the long term benefits of all parties involved. Implementation of JITD as soon as possible will position Barilla on even stronger pasta producer and will potentially increase growth rate of the company resulting from increased business efficiencies and reduced cost. Barilla can have a pilot run on the DO (Distribuzione Organizzata) where sales representatives functions are dominant, sales representatives are one of the key factors on the success of JITD implementation.

Weekly meeting between Barilla and DO will have to take place for couple of months upon implementation to monitor its status. ISSUE IDENTIFICATION A.

Immediate Issue Because Barilla is facing extreme variability in demand week by week which causes operational inefficiencies, high inventory and stock outs, Maggiali is fighting for the implementation of Just In Time Distribution (JITD) system despite of the internal objection from Sales and Marketing team and external resistance from distributors. B.

Systemic Issues •Poor Forecasting system Nature: StrategicTiming: Short term & Long term Most distributors like GDs and DOs check inventory levels and place orders with Barilla once per week using simple periodic review. They do not follow any forecasting model; they just do replenishment ordering without minimum/maximum quantity. Barilla has no visibility on actual data, their basis of production is per distributors' information per week and this causes pressure on manufacturing & distribution team of Barilla. Too many SKUs & High level of inventory Nature: StrategicTiming: Long term & Short term On dry products alone, Barilla offers 800 SKU. Pasta is made in 200 different shapes and sizes and has more than 470 packaged SKUs. Typically distributors carry 150SKU out of 800 SKUs Barilla leaving high inventory on the CDC. There is high level of inventory across the chain; overall there is about 2 months of inventory on the entire supply chain at any given time. •Frequent Trade Promotion leads to Bulk Ordering Nature: Tactical Timing: Short term

Barilla has 10-12 canvass period which each corresponding to a promotional program. During the canvass distributor can buy as much as he wants in order to avail the promotion and this is welcomed by sales representatives because their incentive is dependent on achieving sales goal for that canvass period. Barilla also offers volume discount and transportation

discount in full truck load order quantities. The situation leads to bulk ordering which causes demand fluctuation. •Long Lead time Nature: StrategicTiming: Long term and Short term

Distributors place order to Barilla once per week only using simple periodic review system and lead time is eight to fourteen days, due to long lead time distributors either order high inventory or it results to stock out at distributor's customer. ENVIRONMENTAL & ROOT CAUSE ANALYSIS Barilla is the largest manufacturer of pasta in the world, making 35% of all pasta sold in Italy and 22% of all pasta sold in Europe. However, Barilla suffers from Bullwhip effect due to huge variability in demand that resulted to operational inefficiencies such as increased cost on transportation, distribution & inventory. stock out (see exhibit 1). On the production itself the set up are very specific, the company is incapable of meeting fluctuating demand because they consider sequential production to avoid huge set up cost. When demand fluctuates manufacturing and distribution team experience too much pressure. Barilla has complex distribution; presence of multiple intermediaries slows down the delivery lead time to ultimate customer. Carrying too much variety on dry products, 800 SKUs also leads to long production lead-time because they maintain sequence of production based on size and shape of pasta to reduce set up cost.

Stock out occurs due to the fact that distributors maintain only 2 weeks inventory and delivery lead time from CDC is 8-14days. On table below it is evident that stock can happen in DC/DO level because 2 weeks delivery lead-time and maintaining 2 weeks inventory on the shelf. Price changes due to promotions and incentives cause demand fluctuation as well. Barilla has no

visibility on what is happening in reality with the flow of their products in the market. Barilla lacks centralized information and sophisticated forecasting capability and because of this bullwhip effect occurs (see exhibit 2).

Due to severe fluctuation in demand Barilla is pushed to increase the buffer of finished goods to avoid stock out and this only means increase in raw materials inventory, carrying cost, transportation cost and production cost which is detrimental to the growth of the company. Since Barilla's production is based on input of distributors, Barilla in the long run may lose the market share if distributors find that other brands are selling more and decide to carry competitor's product instead.

Lack of knowledge on the actual sales data on the market will have a negative effect on Barilla; it has to establish smooth business relationship with all the supply chain channels and not only with the distributors. .

RECOMMENDATION From my overall analyses given the facts presented I strongly recommend to proceed with option number 1- to implement JITD. Reason is because thru JITD Barilla will have the centralized information and will have access to actual sales information which they will be using to plan procurement of raw materials, production, logistics , safety stock , inventory accordingly .

Also, thru JITD Barilla will have a chance to establish good supplier-customer relationship with the distributors and even with the supermarkets, this is very critical in running successful business. Barilla will have the control of production and not based on the order of distributor. Ultimately Bullwhip effect will be managed. First phase would be to implement with the DO because of the presence of sales representatives on the area. It would be so

much easier to implement the plan since sales representatives of Barilla often spends 90% of the time in DO.