Barilla spa harward business case study

Business

Barilla Spa Hayward Business Case Study Flyleaf Barilla Case Study Davenport University Management 413 April 17, 2013 Table of contents Contents Introduction ere following report is constructed as PAPA style analyzes of Barilla Spa, Harvardbusiness school case study. Barilla, an Italian company that produces pasta, pasta sauces, bread and other related products has been struggling with demand fluctuations and so called “ bullwhip effect”. The case study offers solution to Barilla supply chain problems, an implementation of Lean Model strategy.

The case study is divided into following parts: About Barilla, Problems with demand fluctuations, Moving forward, Chosen alternative and Alternative solution. About Barilla Barilla was originally established by Pitter Barilla in 1877 as a bread and pasta shop n Pram, Italy. In the sass’s, Barilla brothers had differentiated the company by using highest quality product and had build the Burial’s reputation as delivering finest Italian pasta. The company had used innovative marketing methods to develop strong brand image.

The advertisements had modern simple design, pasta was sold in sealed cardboard boxes with a recognizable color pattern and lot of capital was invested into marketing.

In 1990, Barilla was the largest pasta manufacturer in the Enroll, making 35% of all pasta sold in Italy and 22% of all pasta in Europe. “ Barilla has become one of the world’s most esteemed food companies and is recognized Normalized as a symbol of Italian know-how by respecting its longstanding traditional principles and values, considering employees a fundamental asset and developing leading-edge production systems. (Barilla Group, 2012)

Mission statement ‘ Since 1877, Barilla is the Italian Family Company that believes food is a Joyful convivial experience, is taste, is a form of sharing and caring. Barilla offers delightful and safe products at a great value. Barilla believes in Italian nutritional model, that puts together superior quality ingredients and simple recipes creating unique five- senses experiences. Sense of belonging, courage, and intellectual curiosity inspire our behaviors and characterize our people.

Barilla has always linked its development to people’s wellbeing and to the communities in which it operates. Manufacturing and Plant Network Barilla was organized into seven divisions: three pasta divisions, the bakery products division, fresh bread division, catering division and international division. Exhibit 2) ere manufacturing process required each specific type of product having specific needs in terms of temperature and humidity. The manufacture was set up in a way to follow specific order of manufacturing products to ensure smallest variations of temperature and humidity changes to save changeover costs. Distribution ere total sales of Burial’s products consisted of dry (75%) and fresh (25%) products.

Dry products had medium to long warranty (10 weeks to 2 years), whereas fresh products had shelf life from one day (bread) to 21 days (fresh pasta). Most of the reduces were shipped from the plants to the Burial’s distribution centers, one located in the north of Italy, the other in the south of Italy. 90% of products were sold from Burial’s distribution center to the distributors/wholesalers who then distributed the products to supermarket chains and independent supermarkets. Barilla also offered sales discounts to

volume purchases, or seasonal discounts of specific products that had discounted the products throughout whole supply chain.

The distributors were usually purchasing products from Barilla on a weekly basis, while he products were delivered between 8 to 14 days of initial product order.

Barilla has used sales representatives to negotiate discounts, monitor retailer’s stock-outs and competitors strategies so they have insights into discounting, marketing and pricing. Problems with demand fluctuations ere demand fluctuations has become a severe problem for Burial’s supply chain management. Demands fluctuated from week to week and in significant range. The fluctuating demand has created manufacturing and logistics problems Barilla. ‘ arioso products are produced on one production line in an organized manner, Inch makes it inflexible to follow rapids changes in demand and also causing high manufacturing costs. The capacity is then fully utilized during the high demand periods, but not as much utilized during the low demand periods.

, unless the Inventories are continuously piled up Moreover, inventory issues NAS risen as one time the company is struggling to avoid backlog costs and at other time orders are low and inventory is piled up and costs are increasing. Lastly, such fluctuating demand has severe consequences on logistics.

The case suggests that distributors of Barilla product has already been pilled-up with inventory and have no more space for expanding the capacity. Another issue is that the variety of the products are too huge, so the retailers

do not have enough space to put every product onto shelf. Rondo Vital', the logistics director of Barilla, has suggested Just-in-Time Distribution program IDIOT). The simple idea, to get access to the warehouse data of distributors Mould help Barilla to schedule manufacturing processes, logistics and inventory accordingly to save costs and eliminate fluctuations.

Also, distributors obviously did to manage their warehouses well, as case provides information to their regular inventory backlogs and unbalanced approach. Moreover, waiting one week for a order and not knowing whether it is going to be low or extremely high seems to be really inefficient approach. All these would be eliminated by monitoring of distributors' warehouses. After the application of CITED, the products would be then manufactured and delivered according the data acquired from distributors' Morehouse.

The implementation of CITED has met with some resistance from marketing and sales departments that were concerned about how discounts would e managed and about possible decrease in sales. Once the program has been decided to be implemented by new logistics director, Giorgio Magical, the response from distributors was very weak.

Some of the distributors has responded with skepticism and doubted the CITED program. Most often, they were unwilling to share the information and perceived Barbell's suggestions as win-lose solutions. The collaborative approach was lacking, which was the root problem of implementation of TIT program.

Moving forward Push CITED in more effective way Current CITED approach is basically Lean supply chain model where communication long the supply chain is improved to eliminate waste from ineffective production, distribution and inventory. Lean supply chain models consists of seven key elements: Nasty reduction, Lean supply chain relationships, Lean layouts, Inventory and setup time reduction, Small batch scheduling, Continuous improvement and Workforce empowerment. All these elements are effective tool to improve efficiency of Burial's supply chain and decrease costs.

Especially, developed communication across the supply chain would help Barilla to better forecast the demand and adapt the manufacturing, inventories and distribution accordingly. Having CITED fully implemented, it would be the most effective solution to solve the root problem of Barilla – lack of communication from distributors about their inventory levels. Further relationship could be established across the supply chain, so not only inventory levels would be communicated, but demand forecasts, discounts and other related communication could be exchanged.

Ultimately, the relationships could be developed into strategic alliances, so the supply chain effectiveness would be ensured, all Nests removed and cooperation would result in continues development. In the long term, that is the most feasible solution for Barilla and further implementation of IT into Burial's supply chain, which will come sooner or later, will even enhance of effectiveness to I J AD Radio truculence identification, R d ERP could b implemented in the future.

Some other problems will however arise with CITED.

Firstly, it would be difficult to pursue CITED across current supply chain, as many of the distributors are not willing to open their mind to effective win-win solutions and seem to be stubborn. Secondly, well established discount methods would become a problem. These discounting models are one of the reasons inventories are piled up and would have to be eliminated or at least partially decreased with lean model. The most severe problem is that currently, distributors wait to empty their stocks so they can order big quantities at once, which results in highly fluctuating demand.

The meme discount models could be kept in a reasonable level to still maintain low transportation costs but avoiding low fluctuations in inventories. It is important to mention that the volume discounts that are so well established in the industry practices could be a challenge to change. Improve demand Forecast Due to difficulties to communicate with distributors, Barilla could try to focus more on forecasting demand based on consumer behavior. Burial’s sales representatives’ knowledge and connections could be used to monitor trends inside the retail stores.

Monitoring of discounts, retail sales and communication with retailers could help Barilla to improve demand forecast. Consumer survey could be used to better understand consumer behavior and other quantitative methods could be used to forecast consumer demand.

These could possibly be connected with marketing surveys, so the benefits would go beyond the supply chain. Possibly, consulting companies or forecasting software could enhance the effectiveness of this approach.

However, the understanding of distribution inventory management and their input into demand forecast are key aspects of Burial’s demand forecast. Therefore, understanding of consumer and retailer behavior would be probably not enough to resolve the current problems. Change in production structure Currently, Burial’s production strategy is based on level production strategy, where machines are organized in certain cycle to ensure effectiveness of production and low changeover costs. Therefore, the inventories of Burial’s distribution centers are piled up, and inventory costs are high.

On the other hand, during high demand periods, there is a risk of increase in backlog costs and further adaptation to production schedules is costly. Barilla may consider to change the production strategy that would allow more flexibility in production of various products. Products that are produced on one production line could be split into two production lines according the specific features to ensure more flexibility. However, initial cost of purchasing machinery could be high and capacity utilization will decrease, resulting n increase of production costs.

Also, employee utilization will decrease respectively. Still, such strategy could turn out to be effective, with new development of technology, creative solutions could be implemented that would decrease the overall production costs and especially inventory and backlog costs.

However, in-depth analyzes of all options is needed to consider new machinery and new designs of production. The volume sales could be then more effective and company will be able to follow more aggressive sales

strategies. The economic order quantity model could e implemented with focus to decrease warehouse expenses and handling charges. Ender managed inventories Once Burial’s distributors are reluctant to give access to their inventories, Barilla may decide to collaborate with them from the opposite approach. Distributors could send person to manage Burial’s distribution centers and ensure more balanced regular orders and better demand forecast.

Barilla would form a small team that would be Morning inside Burial’s distribution centers, while Barilla may cover the costs. In other words, Barilla will pay distributors to send a person to their inventory to help estimate demand according his data that wont be shared with Barilla.

Such approach could be implemented with key distributors. However, the approach seem to be very limited compared to CITED. If distributors would show an interest in collaboration, CITED would be much more effective solution compared to vendor managed inventory, especially when looking into sustainability and future potential of CITED.

Chosen alternative: Lean supply chain Due to the enormous potential of Lean supply chain model to significantly improve overall supply chain, the best option would be to work more strategically on pushing the idea to distributors.

It is the most viable solution, directly resolving the root cause of the problem with demand fluctuations. Not only effective problem resolution, but also future potential of CITED, in other words Lean Model, is the best decision Barilla can make. It would allow better cooperation across supply chain which

would significantly increase the competitive advantage of Barilla. At first, Barilla has to Improve the ways they communicate the idea to distributors. Training in interpersonal skills, negotiation skill and persuasive techniques is advised.

Right people should be chosen to present the ideas to distributors. Once approaching the distributor, further research about the distributor's company, vision, operational culture should be collected. Also, study of how decision making processes within the organization of distributor should be studied. Approaching a client with an approach that the company has better solution might come to an resistance. Rather, Burial's negotiators and/or top management people should try to meet the distributors with an approach to find solution together.

They might ask distributors specific questions they can help Barilla with and establish more collaborative relationship. Negotiators eight ask whether the distributors have problems with delivery speed or with discounts offered by Barilla and start from there. Negotiators should know what distributors' vision and mission statement states, and what the company put focus on, so Barilla might want to suggest help in those areas. Relationships and open communicative environment should be developed alongside the trust, which is the key issue in this particular problem.

Later on, proposal of Lean system could be made as it would create win-win situation. However, putting it straight away into agenda will cause resistance of distributors.

Also, cultural aspects have to be considered as well as psychological aspects of key decision makers. Even it might sound too calculating, in its essence it is only about becoming a better communicator, Inch would help Barilla to push the idea of Lean model. Further collaborative development of Lean concept can be done by Barilla and its distributors.

During the process of implementation, Barilla should ensure effective communication with distributors as well as effective internal communication, change and risk management training to better adapt to change to Lean model. Organizational learning should be put into place. All these aspects need to be considered and planned by Barilla, either using internal subject matter experts, or external consulting.

Minding the fact that the size of organization of distributors is much smaller then Burial’s, distribution development projects could be run by team of experts to help distributors to adapt to a change and win-win situation is ensured.

Further implementation of forecasting methods mentioned in ” Improve demand Forecast” part could be implemented and would work more effectively when distributors are involved. Further meeting of experts from different levels of supply Chain would be possible due to collaborative approach and will help to enhance effectiveness of demand forecasting and supply chain itself. The relationship of Barilla and its suppliers could be developed into strategic alliances to develop Collaborative planning, forecasting and replenishment (CPRM).

Such strong cooperation and also Lean model itself would ensure companies collaborate together in optimization of the supply chain, improvement of demand forecast, marketing, and inventory and distribution management. It is important to understand that companies will sooner or later be forced to form such collaborations by the intention and that such collaboration will ensure sustainable development and financial growth.

The Burial’s root problem with fluctuating demand will be completely eliminated. Gained marketing knowledge can be further implemented into manufacturing, inventory management, distribution and marketing.

Especially effective discounting methods could be developed via cooperation of organizations Nothing the supply chain. Volume purchasing can be eliminated or decreased and new discount models can be established that wouldn’t disturb the smooth flow of Burial’s smaller batches of products to its distributors. The reduction of variety of products loud be considered, as previously mentioned as problem, however, the decision should be left to marketing experts and sales representatives and based on knowledge gained from retailers and consumer surveys.

E-procurement could be Implemented to fasten the order process speed, decrease administration costs and eliminate human errors.

Outsourcing delivery could be considered to save the delivery costs, ensure flexibility of transportation and decrease transportation costs caused by fluctuations. Lastly, further doors are open to RIFF and ERP systems once the collaboration across the supply chain is ensured. Further Lean six sigma model can be developed to enhance the effectiveness of Lean model alone.

Alternative solution In case, the application of Lean model would work very slowly, Barilla can combine some of the alternative solutions to eliminate the problem with fluctuating demand causing high manufacturing, inventory, backlog and delivery costs. At first, Barilla may try to implement vendor managed inventory by having employees of key distributors working in Burial’s distribution centers.

Depending on to what extent it Mould work, Barilla might want to cancel volume discounting model to ensure strictures do not fluctuate with their orders.