Barilla Case Study

Barilla SpA Part A

Barilla SpA is the world’s largest pasta manufacturer.
- The company sells to a wide range of Italian retailers, primarily through third party distributors.
- During the late 1980s, Barilla suffered increasing operational inefficiencies and cost penalties that resulted from large week-to-week variations in its distributors’ order patterns.

Questions:
- What exactly is causing the distributor’s order pattern to look this way?
- What are the underlying drivers of the fluctuations?

Causes of Demand Fluctuations
- Transportation discounts
- Volume discount
- Promotional activity
- No minimum or maximum order quantities
- Product proliferation
- Long order lead times
- Poor customer service rates
- Poor communication
Demand Fluctuations

- The extreme fluctuation in Exhibit 12 is truly remarkable when one considers the underlying aggregate demand for pasta in Italy.
- What does the underlying consumer demand pattern for pasta look like in Italy?

What is the impact of demand fluctuation seen in Exhibit 12?

- Because the plant has high product change over costs, Barilla has either inefficient production or excess finished goods inventory.
- Utilization of central distribution is low
  - Workers
  - Equipment
- Transportation costs are higher than necessary.

Barilla SpA Part A (continued)

- To address this problem, the director of logistics suggests:
  - Implementation of Just-in-Time Distribution (JITD) with Barilla’s distributors.
- What is the JITD System?
  - Decision-making authority for determining shipments from Barilla to a distributor would transfer from the distributor to Barilla.
  - Rather than simply filling orders specified by the distributor, Barilla would monitor the flow of its product through the distributor’s warehouse, and then decide what to ship to the distributor and when to ship it.

Evaluation of the JITD Proposal

- Clearly the variation in demand is imposing additional costs on the channel. What do you think of the JITD proposal as a mechanism for reducing these costs?
- Why should this work?
- How does it work?
- What makes Barilla think that it can do a better job of determining a good product/delivery sequence than its distributors?
Two Key Concepts Behind JITD

- Replace sequential optimization with global optimization
  - Who will optimize?
- Eliminate some of the ‘false’ economics that drive traditional ordering processes
  - What does this mean?

Implementation Issues
Resistance from the Distributors

- “Managing stock is my job; I don’t need you to see my warehouse or my figures.”
- “I could improve my inventory and service level myself if you would deliver my orders more quickly; I would place my order and you would deliver within 36 hours.”
- “We would be giving Barilla the power to push products into our warehouse just so that Barilla can reduce its costs.”

Implementation Issues
Resistance from Sales and Marketing

- “Our sales levels would flatten if we put this program in place.”
- “How can we get the trade to push Barilla product to retailers if we don’t offer some sort of incentive?”
- “If space is freed up in our distributors’ warehouses… the distributors would then push our competitors’ product more than ours.”
- “…the distribution organization is not yet ready to handle such a sophisticated relationship.”
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How Can Maggiali Solve the Implementation Problems?

- Demonstrate that JITD benefits the distributors (lowering inventory, improving their service levels and increasing their returns on assets); Run experiment at one or more of Barilla’s 18 depots
- Maggiali needs to look at JITD not as a logistics program, but as a company-wide effort; Get top management closely involved
- Trust

Barilla (B) Case

- What did Barilla learn from the experiments in Florence and Milan?
- How should Barilla change the way it attempts to sell the JITD concept to its distributors?
- If you were a Barilla distributor, would you sign onto the program after seeing these results?
Evaluation

• How do you evaluate the implementation process Barilla used with Cortese?