

**15.778, Summer 2004
Prof. Gabriel Bitran**

Lecture 16: Class Review, Supply Chain Management: Value of Information

Class Outline:

Barilla (A) case

Questions about case:

- What are the reasons for the increase in the variability in Barilla's supply chain?
- How can the firm cope with the increase in variability?
- What is the impact of transferring demand information across the supply chain?
- Can the VMI strategy solve the operational problems faced by Barilla?
- How can the supply chain meet conflicting goals of different partners and facilities?

Where We Came From

We talked about concepts and ideas (such as the diamond-shaped framework for service operations), moved on to tools (gap model, service guarantees), and then on to matching supply and demand. We are building up toward the integration of the supply chain.

We had several visitors last week: Armand Feigenbaum expressed the need to "manage capital innovation in management", whereas we have called it "a new way of doing business". He said we need to do business in a new way every day. He also said that people are the key – we need people capable of doing what's required of them. We need a dialogue within the company, to have an environment of openness and meritocracy.

Prof. Charles Fine explained his "double helix" concept as a continuous transformation of integration and disintegration within an industry. Small companies attack big companies, causing them to fall apart – disintegration. Companies start to vertically integrate and regroup in different way – integration.

The message is essentially consistent across the speakers if we translate the jargon. The path of the next few years is pretty well understood. It is highly dependent on our ability to incorporate services into what we do. Mr. Feigenbaum said companies are shifting from hard to soft (more service-like) assets. Prof. Fine gave the example of Proctor & Gamble including services with their products when selling to Wal-Mart.

Our case today is highly dependent on service. One member of the supply chain looks at the whole thing and says it's not optimal. They then propose a different way of doing business.

About Today's Readings

Today's readings talk about learning networks so we can have great insight in terms of extracting the value of a network and sharing knowledge. This is based on the belief that the more knowledgeable my supplier is, the better we will do together. Some think we're helping the supplier benefit some other customer, but the true benefit is in the pair wise relationship.

Class Discussion of the Barilla Case Study

For more information, see: Chapter 4, "The Value of Information," from *Designing and Managing the Supply Chain* by David Simchi-Levi et al., 2002, pp. 91-117. ISBN: 007-249-256-2.

Discussion Summary

What we have seen here today is the need to not only change the business model but also to change the behavior of people: how can we work as a team to benefit the whole system? It is an entirely new mentality and philosophy. Today we saw the issue of "who will supply services in the supply chain?" Here, one portion of the chain stepped up and was the boss, turning the members

of the chain into partners, not buyers and sellers as they were before. We saw how a supply chain can be made better. In the terms Prof. Fine used, Barilla was a transactional supply chain but wanted to become a value chain – the difference is services.

Thought Question

How efficient are supply chains? Are they a good model or are we just going to the other side of the “double helix”?