How to wed supply and demand
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New technologies have made low demand production possible in companies. Among its many advantages are the almost total elimination of inventories and a significant reduction in costs.

In the middle of the nineties the car manufacturer Volvo found itself with an excess number of green cars. The department of sales and marketing launched aggressive campaigns of offers and discounts to distributors in order to try and get rid of the surplus. The campaign was successful. However, the people in charge of production, basing themselves on the data for sales of green cars, decided to increase the production of cars of this colour to assimilate the increase in demand. The final result was a very large inventory of green cars at the end of the year.

Nightmare
The exact opposite happened in Hewlett-Packard with the introduction of their personal computer line Pavillion. In response to the launch, their main competitors, Compaq and Packard Bell, started a policy of cost reduction that provoked a fall off in demand for those PCs. HP’s manufacturing department decreased production, only to find out later that the marketing department had decided to equal the price cuts of the competition. For HP, their Christmas campaign turned into a genuine nightmare due to the impossibility of being able to meet the number of orders. These examples show that demand is not only a component of the supply chain, but also of marketing, sales, and financial processes. The lack of coordination between different departments subtracts from the effectiveness of demand management, which demands the sharing of information from all corporate divisions. Today demand management tools allow any company to know the state of their sales in real time.

Forrester reckons that North American companies will invest a total of 35,000 million dollars in the next five years in improving their monitoring and management processes, and in optimising their supply networks. However, the majority of tools are insufficient when it comes to managing demand effectively. This is due to the fact that low demand production tools do not take the effects of all possible eventualities into account, like variations in price, new distribution policies or the actions of the competition. In order to coordinate the production of demand in all departments, the company must clearly know its internal processes. Only in this way is it possible to set parameters and quantify the elements that can influence them, like the effects and interdependencies of some over others. This type of control is possible thanks to management of business processes tools (BPM: Business Process Management), which allow you to outline possible future scenarios and anticipate, for example, the consequences of a marketing move carried out by yourself or the competition. According to estimations by Gartner,
at present these tools are moving some 83,000 million dollars and, by 2006, will be generating 114,000 million.

BPM means one more step on the way to realising the dream of the extended company, whose supply system is connected to the system of its suppliers and customers. It is a question of trying to achieve that, in the moment a consumer acquires a product, the whole distribution chain, from the final salesman to the supplier of the raw material, registers the sale and anticipates the effect it will have on demand in order to adjust production. This would bring with it a drastic reduction in the number of inventories and a huge reduction in costs. However, it is necessary to realise that exact low demand production is not simply a question of installing and applying an application or tool that automates the negotiation process, but that it also obliges a company to go even further. In fact, only companies capable of using information technology to redesign their critical processes will really obtain a competitive advantage over the competition.

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How can the Internet integrate all departments in low demand production?

**The net as a vehicle**

*Pedro Alberto Gómez, Manager, PwC*

Low demand production is based on three fundamental pillars: personalisation of supply and customer relations; interactivity between all the participants in the value chain; and flexibility of supply, production, and logistical processes and salesmen to respond to the fluctuations in demand. The Internet is a technology capable of responding agilely and efficiently to these three questions, besides being able to solve another of the key low demand production questions: ubiquity. However, the Internet is not a destination, but rather a vehicle. The net must be above all a medium for facilitating the process of decision making and prioritising -within the physical flexible limits of the value chain-, communication between all the participants in the value chain, and the synchronisation of all productive factors.

**First gather data, later process it**

*Jaume Ribera, IESE Teacher*

Integration implies the gathering of data, its processing and the taking of integrated decisions, besides the transmission of orders and their transformation into actions. At this point there is no doubt about the capacity of the Internet to transmit data or consult levels of stock or orders at different stages of the chain. That is to say, to gather information. Processing this information is the next step. In this sense, the Internet does not essentially change the existing outlook, unless the owners of all the processes, who can belong to different companies, standardise them and make them available to other shareholders. There are two other important factors. Firstly, the reduction of time, which offers better results with lower levels of stock. Secondly, the possibility of skipping stages both in the flow of information on orders and in the despatch of products or services, especially when they are digitalised, which cuts periods of service and intermediate stocks.