

## **Linking the Demand and Supply Chains**

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Not too long ago, companies in nearly all sectors of the U.S. economy were faced with excess inventory and capacity. Whether that inventory and capacity is internal or held by supply chain partners, opportunities to use those resources to generate revenue are often overlooked. The challenge for executives is to find strategies for transforming those idle resources into revenue and profit.

These same companies face related issues in times of growth with the challenge of limited capacity and inventory. In this case, the forecasting and planning issues are even more complex. Pricing decisions by sales and marketing have a significant impact on forecast accuracy and consequently on the supply chain. Likewise, capacity and inventory decisions by production and supply chain personnel have a significant impact on the optimal prices the firm should charge.

Technologies are now emerging that can help managers understand the total supply chain impact of new orders or market downturns, including pricing analysis and product cost assessment that reflect the true value of inventories and capacity in all economic circumstances. But what are the issues that are emerging from real experience with the linking of marketing and supply chain information?

Some of these issues were discussed at a recent roundtable discussion between senior marketing and supply chain executives from several major North American companies and select academics from top U.S. business schools. Here are some of the early returns on issues to think about regarding the impact of these approaches on corporations and their value chain networks:

- Given globalization and the increased speed at which the economy functions, the costs to the system of sharing bad information or hoarding useful information have gone up dramatically – but companies are nevertheless again beginning to withhold information from partners in order to extract more value for themselves;
- Digital technology has greatly increased the ability to share information in a timely manner – but organizational cultures are not always keeping pace with the changes technology is enabling;
- Real-time tailored product differentiation is increasingly possible and important – but it requires a different and more integrated and visible way of thinking about manufacturing, component standardization, and product collaboration, thereby producing a solution-centric approach;
- Tailored or dynamic pricing is viable – but unlike in the Amazon.com experiment (Amazon ran an experiment offering the same products to customers at different price points but the experiment was shut down in less than 24 hours after a vociferous public outcry), it must be accompanied by clear product differentiation or executed through plausible channel segmentation;
- The importance of accurate forecasting has not diminished with the increased speed of data availability – but it may require forecasting *possibilities* rather than

*probabilities* – a more scenario planning oriented approach rather than a data-oriented extrapolation of the past;

- The value of coordinating marketing and supply chain information has been traditionally thought of as offering the opportunity to make the supply chain more responsive to customer demand – but there are just as many gains to be made from understanding the supply chain opportunity costs of pricing, promotion or product configuration decisions.

Clearly technology is seen as a means of enhancing transparency and transparency is perceived as a key issue. But how welcome that transparency is, or how able to deal with it organizations and individuals are, seems to still be a question at this point. Amongst other issues, it raises questions about speed – is faster always better? Is sharing information always positive for the value chain as a whole? If so, how do you incent individual companies to rationalize this in their businesses? These issues, along with others, must be sorted out. While the trend is clear, as a whole, corporations are still wrestling with where the proper balance between speed, efficiency and transparency lie.

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