

Role of Demand Management as a Risk-Diminishing Practice

Role of Demand Management as a Risk-Diminishing Practice

Student Full Name

Institutional Affiliation

Course Full Title

Instructor Full Name

Due date

Abstract

This paper aims to show the relationship between the use of demand management and demand forecasting by companies and the decreased risks that businesses face in their operation. The purpose of the paper is to find relevant factual data that such a relationship exists through an analysis of relevant information on the concepts of demand, risks that companies face, and demand management and forecasting. It was found that demand management and forecasting are effective means to decrease and eliminate risks in the companies' operation, especially those related to resource distribution and order processing. Therefore, the principles of demand management and demand forecasting should be actively used by businesses to achieve greater efficiency, decrease expenses, and increase revenues.

Keywords: demand management, demand forecasting, demand, risk

Role of Demand Management as a Risk-Diminishing Practice

Demand management and demand forecasting mean nothing else but the control and administration of demand flow. In its operation, a company faces a wide variety of risks of different natures. However, since the purpose of every company is to generate revenues from providing services and products to consumers, demand is highly significant for every producer. It is a fact that the operational strategies of many companies cannot be implemented in real-time as new orders are made because goods or services need to be made in advance. While a business can measure the volume of demand at the current moment or over the recent time, it also needs to estimate what it will be in the future, in the short and long term. There is no doubt that a business can't make a completely correct and precise statement about the future volume of demand since there will always be some degree of error and estimation. However, the principles of demand management and demand forecasting provide companies with tools on how to make such estimates as precise as possible and diminish the impact of errors. Through the use of special techniques, businesses are able to collect data, analyze it, and obtain results that can later be used to forecast the future volume of demand to include it in the operational strategy.

Therefore, demand management and demand forecasting allow for avoiding additional operation costs, such as excessive or urgent manufacturing or delivery, and there are a number of techniques that businesses use to stimulate demand and adjust it to the previously forecasted levels.

Importance of Demand as an Economic Principle to an Organization

Demand is one of the most important fundamental concepts for any company. Since the ultimate goal of any business is to make revenues by selling goods and services to consumers, the volume of demand determines the volume of required production and subsequent sales (Romano, Grimaldi, &

Colasuonno, 2016). Therefore, one of the primary objectives of any company is to estimate the current level of demand, forecast any potential future changes, and take measures to stimulate its growth. There are two implications of the volume of demand for a business. First, it determines the level of supply that a company needs to present in the market. Since there is a correlation between the volumes of demand and supply, a business may speculate on the prices to alter its revenues. However, it is also affected by the competition in the market and the scarcity of the goods and services produced by a company (Ma et al., 2017). Secondly, demand impacts the prices for substitute and complementary goods, where the first category gets more expensive when a product becomes cheaper, and the price of the second category changes in direct relationship with its complementary product. Therefore, by knowing and attempting to forecast and impact demand, a company can influence the price of its products and services and, consequently, revenues.

Defining Demand Management and Demand Forecasting: What Demand Management Is

Due to recent technological advancements, companies have experienced substantial changes to their production, and a dilemma has emerged, which may be solved with demand management and demand forecasting. With the use of new equipment, managerial techniques, and business strategies, businesses could produce more products and services with an even greater efficiency than ever before. They are still not confident about the volume of demand as well as the potential future changes to it. As a result, the overall efficiency of each individual company is not at its maximum level (Ma et al., 2017). However, there is a method that is used to solve this problem, and it is referred to as demand management.

The simplest definition of demand management is a control of the consumer demand for services and products produced by a firm ("Demand Management Meaning," 2017). However, the theoretical framework that it is based on is significantly more complicated, and it offers a wide variety of advantages and tools for a company, especially in terms of risk management and diminishing. Demand management includes both the collection of internal projects and ideas and external factors and the environment (Romano, Grimaldi, & Colasuonno, 2016). Besides, it incorporates the analysis of current and former activities to produce a valid analysis of future activities, which are characterized by a certain degree of certainty. Therefore, demand management is used to affect and improve the core needs of a business: the production of goods and services.

What Demand Forecasting Is

Due to recent technological advancements, companies have experienced substantial changes to their production, and a dilemma has emerged, which may be solved with demand management and demand forecasting. With the use of new equipment, managerial techniques, and business strategies, businesses

of operational risks (“Survey methods employed in demand forecasting,” 2016). Any company must determine the future scope of demand and sales since they influence current production costs, expenditures, and profits.

Demand forecasting is also used by businesses to achieve a more efficient allocation of resources in the process of production, avoid excessive waste, and determine the pricing strategy (“Survey methods employed in demand forecasting,” 2016). Therefore, this practice is not voluntary for companies but rather competitive because it deals with key aspects of an operation. However, despite the significant importance of demand forecasting for businesses and the extensive theoretical framework that has been developed so far, there are some cases when it is not applicable. According to Sbrana and Silvestrini (2013), the effectiveness of demand forecasting applications is the lowest when the sample size is small or the demand planning framework has been misspecified. Nevertheless, the potential disadvantages are far outweighed by the potential advantages of this practice for a firm.

[The next sections of this paper have been omitted for this sample.]

Role of Demand Management and Forecasting as Risk Diminishing Practices

Demand management and demand forecasting play a major role in risk-diminishing practices. Their application allows for diminishing and eliminating uncertainty that is related to consumer behavior. By possessing information on the forecasted demand volumes in the short and long terms, businesses can make more effective decisions regarding resource distribution and pricing policies because there is no need for urgent or excessive production (Sbrana & Silvestrini, 2013). Finally, these practices make the strategic planning process more effective as the input information used in this process is more precise.

Conclusion

Demand management and demand forecasting are the fundamental principles used by businesses to address the risks that they face in their operation. By collecting primary and secondary data using a wide variety of techniques, companies can analyze this information to use it later in their pricing and strategic policies. These two concepts have short and long-term objectives, whereas the latter is more important because it allows the company to set more distant goals and plan ways to achieve them. Overall, the role of demand management and demand planning as risk management practices is to provide companies with approximate data on the future volumes of demand. It is then used to adjust the supply so that the resources are distributed efficiently and there are no wastes or excess or urgent production.

References

Cambridge Dictionary. (2017). Demand management meaning in the Cambridge English Dictionary. Retrieved August 13, 2020, from <http://dictionary.cambridge.org/dictionary/english/demand-management>

Ma, Y., Wang, N., Che, A., Huang, Y., & Xu, J. (2017). The bullwhip effect on product orders and inventory: A perspective of demand forecasting techniques. Taylor & Francis Online. Retrieved August 13, 2017, from <http://www.tandfonline.com/doi/abs/10.1080/00207543.2012.676682>

Romano, L., Grimaldi, R., & Colasuonno, F. (2016). Demand management as a critical success factor in portfolio management. PMI. Retrieved August 13, 2020, from <https://www.pmi.org/learning/library/demand-management-success-factor-portfolio-1-0189>

Sbrana, G., & Silvestrini, A. (2013). Forecasting aggregate demand: Analytical comparison of top-down and bottom-up approaches in a multivariate exponential smoothing framework. *International Journal of Production Economics*, 146(1), 185-198. <http://dx.doi.org/10.1016/j.ijpe.2013.06.022>

Ava Research. (2016). Survey methods employed in demand forecasting. Retrieved August 13, 2020, from <https://avaresearch.com.au/survey-methods-employed-in-demand-forecasting/>