What is Demand Management? (Components, Process, Example)

Demand management is a process that can help ensure that demand remains consistent with supply.
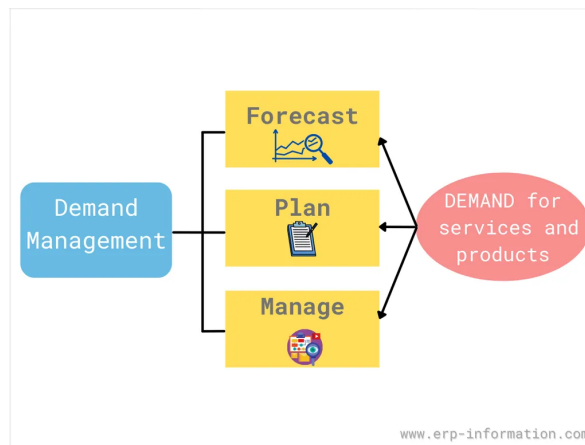
It is a critical part of any organization. Businesses can optimize resources and improve operational efficiency by understanding and managing demand.

In this post, we'll look at what demand management is and the different components that make it up. We'll also explore the process of demand management and provide an example. Let's get started!

Definition

Demand management is the process of administering and controlling the quantity of materials required by an organization as per its projected consumption over a specific period.

You've got to keep track of everything people want to buy and then figure out how to supply them with what they need. It's like being a mind reader, except with actual products instead of thoughts.

themselves. It's

It is also popularly known as **consumption management**. It is the connection between suppliers and customers.

What is Demand Management? - Process and Components

What is the purpose of demand management?

Demand management initiative aims to forecast, realize, and determine customer demand. This enables companies to satisfy customer needs better, help them identify trends, and spend wisely. This is done through various statistical techniques such as trend analysis and time series forecasting.
Companies can also use demand management in developing a well-balanced project portfolio management by the following:
(1) balancing the company's product mix (to meet key demand drivers)
(2) managing inventory levels at stores or warehouses (ensuring that they are not undersupplied nor overstocked), and
(3) Target promotions to maximize target customers' response rates without saturating their market share.

More on Demand Management

Demand management also helps determine the most effective marketing products or service channels.
This includes identifying new markets for your business and improving existing markets by understanding how customers use your product or service.

It is a continuous analysis and improvement cycle where demand is analyzed to improve future performance based on what has been learned from experience.

It goes beyond just demand forecasting and market size; it also encompasses analyzing customer behavior, competitive activity, industry trends, and other factors to maximize opportunities while minimizing risks.

The key factors determining demand management are Pricing, Purchasing, and Supplier.

Components of Demand Management

The main objective of the demand management process is to use available resources to achieve customer demand and satisfaction.

According to Feldman, there are four main steps in this process

- Modeling
- Demand Forecasting
- Demand planning
- Supply planning

Demand planning is dependent on the right tools, information, and operation. Depending on its strategic objectives, product positioning, and inventory needs, it may differ from one organization to another.

Best practices for demand management

Following are the **best practice** for demand management.

Have the right ERP software

While implementing Enterprise resource planning software in your organization, ensure that it can handle forecasting reporting and confirm that it provides transparency and realistic forecast data.

Collect and prepare data

It gives real-time visibility to look at inventory movements to identify the areas to be improved.

A well-defined process with accurate data and information helps improve overall performance. To define the process, follow the below steps.

- Construction of data
- Initial forecasting
- Integration of market intelligence
- Review of sales objectives and financial reports
- Rectify the final forecast
- Monitor the performance

Monitor the demand planner

Based on the historical data and expressive analytics, design a demand planner and have a dedicated team to design the plan, execute it and monitor it.

Advantages and Functionalities

Advantages

- Helps to build a foundation for merchandising, budgeting, and logistics processes.

- Monitor supplier transactions and check for growth or decline, respectively.
- Monitor all related expenditures.
- Build a strong relationship with customers and suppliers. Also, ensure that relationships last with reasonable pricing and other offers.
- Allows you to boost supply chain operations.
- It helps to create more revenues.

Functionalities

- Point out the critical delivery dates.
- Make out the future needs.
- Point out the frequency of demand.
- Link the requirement to the budget.
- Based on past spending and future demands, analyze the expenditure.
- It integrates with activities like strategy, procurement, requirement, and market analysis.
- In the case of strategic purchases, manages industry analysis and commodity analysis.

Demand management process

1. Planning Demand

This process analyzes customer requirements in advance and forecasts IT resources.

Built primarily for IT administrators, this component analyzes, evaluates, and projects customers' future requirements within an IT environment.

It uses statistical analysis, best practices, and current demand cycles to evaluate future customer needs.

It also serves as an input to capacity planning to provision required IT resources based on current and expected future demand.

2. Communicating demand

Communicating demand is an essential component of demand management. Therefore, management will implement qualitative methods to forecast the market and share with the stakeholders.

Once the firm understands the demand, it is also vital to make the same known to several aspects of the business to ensure they leverage the production accordingly.

3. Influence demand

As part of supply chain management (SCM), Businesses should focus on retaining customers, service levels, and supplier relationships.

Companies should build additional policies to face sudden changes in demand and supply.

4. Prioritizing demand

Identifying and prioritizing projects forms an essential part of the demand management process.

Organizational capacity, risk assessment, financial value, and implications must be carefully assessed while forming policies.

Challenges of demand management

While implementing demand management faces some fundamental challenges. They are

- Lack of knowledge about automated algorithms.
- Maintaining balance for sales and retailers to generate demand design to find the timing, level, and location.
- Lack of organized data structure for receiving, storing, and retrieving the point of sale information from retailers.

Factors that affect demand

Many factors will influence demand. Here I am listing a few factors.

External factors

- **Market situations:** It is a significant factor that directly affects the demand—for example, recessions and strikes.
- **Competitor's step:** If your competitor starts giving the same product or services with good quality at less price, then there will be a chance of a sudden reduction of demand for your product or service.
- **Seasonality**: Some products' demand increases or decreases depending on seasons. For example, ice cream, woolen cloths, umbrellas, school bags, etc.
- **Trends**: Market trend is one of the major factors that increases or decreases demand.

Internal factors

- Pricing approach
- Maintenance
- Customer relationship
- Promotion and advertisement for products/services
- Product alteration

Demand management tools

Following are the popular software tools for demand management systems.

- Oracle Demand
- SAP Advanced Planning
- Infor Demand Planning
- Logility Demand
- Kinaxis RapidResponse
- NetStock

FAQs

What are the components of demand management?

Demand management comprises three main components: forecasting, pricing, and promotion. Forecasting helps businesses anticipate consumer demand, while pricing and promotion help encourage consumers to purchase goods and services. By understanding and utilizing all three components of demand management, companies can help ensure their success and stability.

What is an example of a demand management strategy?

One example is adjusting prices to raise them if you have too much inventory or lower them to move things out faster.

Ultimately, the goal is to match supply with demand as closely as possible to minimize wasted resources and maximize profits.

Advanced Technologies in Demand Management

Artificial intelligence and machine learning are helpful in demand management. These are the top future technologies that can be used in SCM. Each of these is discussed further below.

Machine Learning in demand forecasting

Some businesses rely on their sales staff to anticipate consumer demands. Unfortunately, this frequently results in over-or understocking, which can cause shortages or surpluses. Machine learning may help you make more accurate forecasts and reduce the uncertainties in demand prediction.

The company can use machine learning in demand forecasting by incorporating data from different sources such as social media, news feeds, and on-site activities on shopping portals. In addition, machine learning has been found effective for demand forecasting in cases where forecasting is prone to human bias.

> For example, a case study on high street fashion retailers demonstrated reduced forecast errors by 10% using machine learning compared with traditional methods.

Companies may also use **social media insights** to derive demand forecasts. For example, social media mining techniques are used for unstructured text data analysis and can enhance time series analysis leading to accurate demand forecasting.

It can derive insights from customer conversations, analyze products' satisfaction levels, and forecast future demands. Sentiment analysis may be conducted **using natural languages processing techniques** such as speech tagging, parsing, and sentiment lexicons.

Artificial Intelligence

AI systems rely on learning algorithms to predict demand patterns in different situations. For example, the AI can predict demand patterns based on past data, recommend optimum inventory levels maintained at warehouses, and determine the right time to replenish stocks.

> *In a study, a company used artificial intelligence with machine learning techniques to forecast sales of fashion apparel items to choose the right quantities of things to be ordered from the supplier. This study indicated that machine learning techniques with artificial intelligence could aggregate demand forecasts at multiple levels and reduce forecast errors.*

Conclusion

Demand management is a process that ensures the supply and demand of your products stay in balance.

Any company needs to have some strategy for demand management. Still, it can be beneficial if you're

An excellent way to start is by looking at each sale funnel step and using tools like forecasting software to simulate forecast scenarios. Hence, you know what could happen when new product launches, promotional campaigns go live, or inventory levels change over time.

We hope this post has been informative enough about how robust demand management strategies work and where they fit into the broader scope of business operations.

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