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Thus, some combination of a price increase or a reduction in promotional activity could dampen demand to bring it in line with supply.

- **Increase capacity.** Just as the demand forecast carries with it certain assumptions, so too does the capacity forecast. It's possible that capacity could be increased through adding additional shifts, outsourcing production, acquiring additional sources of raw materials or components, speeding up throughput, and so forth.

• **Build inventory.** Often, it is the case that in some months, capacity will exceed demand, whereas in other months, demand will exceed capacity. Rather than tweaking either demand or supply on a month-by-month basis, the firm could decide to allow some inventory to accumulate during excess capacity months, which would then be drawn down during excess demand months.

These are all worthy alternatives to solving the "demand is greater than capacity" problem. The question, then, is which of these worthy alternatives is the best alternative to solve the short-term problem while achieving a variety of other goals?

The answer is, "it depends." It depends on the costs of each alternative. It depends on the strategic desirability of each alternative. Because each situation will be unique, with different possible alternatives that carry with them different cost and strategic profiles, it is necessary to put these available alternatives in front of knowledgeable decision makers who can determine which is the best course of action. That is the purpose of the rectangle labeled in Figure 7-1 as "Demand/Supply Integration." The financial implications of each alternative are captured in the arrow labeled "Financial Goal." The strategic implications of each alternative are captured in the arrow labeled "Strategic Direction." All these pieces of information from all these different sources—the Demand Forecast, the Capacity Forecast, the Financial

Goal, and Strategic Direction—must be considered to make the best possible decisions about what to do when demand and supply are not in balance.

This simple example could be turned in the other direction. Suppose that the demand forecast for three months hence is 10,000 units, and that the capacity forecast for that same time period is 15,000 units. Now, the firm is faced with the mirror image of the first situation. Now, instead of dampening demand with price increases or reduced promotional support, the firm can increase demand with price reductions or additional promotional support. Instead of increasing production with additional shifts or outsourced manufacturing, the firm can reduce production with fewer shifts or by taking capacity down for preventive maintenance. Instead of drawing down inventory, the firm can build inventory. Again, the answer to the question of "what should we do?" is "it depends." The correct answer is a complex consideration of costs and strategic implications of each alternative. The right people need to gather with the right information available to them to make the best possible decision. Once again, DSI.

To further illustrate this "ideal state" of DSI, consider a different example. This time, assume that the demand forecast for three months hence and the capacity forecast for three months hence are both 10,000 units. (I know, that's unlikely, but let's assume it anyway.) Further, assume that if the firm sells those 10,000 units three months hence, the firm will come up short of its financial goals, and the investment community will hammer the stock. Now what? Now, both demand-side and supply-side levers must be pulled. Demand must be increased by changing the assumptions that underlie the demand forecast. Prices could be lowered; promotional activity could be accelerated; new distribution could be opened; new salespeople could be hired. Which is optimal? Well, it depends. Simultaneously, supply must be increased to meet this increased demand. Extra shifts could be added; production could be outsourced; throughput could



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