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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 nature, although 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 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 is able to measure the volume of demand at the current moment or over the recent time, it also has a need to estimate what it will be in the future, in the short and long term. There is no doubt that it is not possible for a business to 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 into the operational strategy. Therefore, demand management and demand forecasting allow 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, et al. para. 9). Therefore, one of the primary objectives of any company is to estimate the current level of demand, forecast any potential future changes to it, 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 the 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 scarcity of the goods and services produced by a company (Ma). 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 is able to 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 there also emerged a dilemma, which may be solved with demand management and demand forecasting. With the use of new equipment, managerial techniques, and business strategies, businesses became able to produce more products and service 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). However, at the same time, 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" para. 6). 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 environment (Romano, et al. para. 2). 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

Demand forecasting is another important activity for any business in the modern economy. Although it is somewhat similar to demand management, these are not identical concepts as they pursue different objectives (Sbrana and Silvestrini 185). Demand forecasting is the most essential tool used by businesses for their survival under conditions of severe competition in the market, uncertainty, and a wide variety of operational risks ("Survey methods employed in demand forecasting"). Any company has a large need for determining the future scope of demand and sales since they influence current costs of production, 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 wastes, and determine the pricing strategy ("Survey methods employed in demand forecasting"). 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 as well as the extensive theoretical framework that has been developed so far, there are some cases, when it is not applicable. According to Sbrana and Silvestrini (186), the effectiveness of demand forecasting application 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.

[Sections of this paper have been omitted for the purpose of this sample.]

Role of Demand Management and Forecasting as Risk Diminishing Practices

Demand management and demand forecasting play a major role as risk diminishing practices. Their application allows diminishing and eliminating uncertainty that is related to consumer behavior. By possessing the information on the forecasted volumes of demand in the short and long terms, businesses are able to make more effective decisions in terms of resource distribution and pricing policies because there is no need for an urgent or excessive production

(Sbrana and Silvestrini 191). Finally, these practices allow making the process of strategic planning more effective as the input information used in this process is more precise.

Conclusions

Demand management and demand forecasting are the fundamental principles used by businesses to address the risks that they face in their operation. By collecting the primary and secondary data using a wide variety of techniques, companies are able to analyze this information to use it later in their pricing and strategic policies. These two concepts have short and long term objectives, where 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 the provision of companies with the approximate data on the future volumes of demand. It is then used to adjust the supply in such a way that the resources are distributed efficiently and there are no wastes or excess or urgent production.

Works Cited

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