Strategies for Demand and Supply Integration

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Abstract: Effective demand-supply integration (DSI) is an increasingly acute problem in industry, prompted by pressure from large retailers on manufacturers to provide higher levels of service while reducing inventory costs. Meanwhile, the advent of online ordering has further complicated matters by creating multiple distribution options. I identify two basic DSI strategies- internal and external collaboration, point out interrelationships between those strategies, and discuss various tactics currently used by companies to improve demand-supply integration. Keypoints:

- Simple presentations of sales forecasts aren’t sufficient to ensure that supply functions will respond to meet demand requirements. Collaboration between demand and supply functions is essential as well.
- Sales and Operations Planning (S&OP) is an internal process by which the various functions can be brought together to agree on a plan that meets customer requirements within the resource constraints of the company. Among its many benefits, S&OP can change the company’s operational culture from one that is internally focused to one that better understands the benefits of working with other companies in the supply chain.
- External collaboration tactics include vendor-managed inventory (VMI); collaborative forecasting, planning, and replenishment (CPFR); retail-event collaboration; and various stock-replenishment methods currently in use by major manufacturers and retailers. These tactics require sharing information between companies, joint agreement on the responsibilities of the individual companies, and a good deal of trust among all parties since the responsibility for integrating supply and demand is often delegated to the supplier.
- External collaboration tactics can also be used to inform S&OP of current and future demand from customers.