



## The New Law of Demand and Supply

Book Notes by Frumi Rachel Barr, MBA, PhD

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**Author bio and credits:** Rick Kash is the founder and CEO of the Cambridge Group, one of the premier consulting firms in the US, whose clients include many of the world's largest and most successful businesses from Merrill Lynch to Gatorade and from Levi's to Abbott Laboratories. Kash serves on a number of community and corporate boards of directors and is a frequent speaker to corporate audiences on Demand Strategy.

**Author's Big Thought:** For more than two hundred years companies have based their approach to business on supply-side economics, concentrating on creating products and services and then attempting, through marketing, publicity, distribution, and promotion to stimulate a demand for them.

Cambridge Group CO Rick Kash argues that in order to succeed in today's market, companies must reverse their approach. Companies must first determine what current and emerging demand exists, and only then create products and services to meet those demands. Kash outlines a specific six-step demand Strategy on how to implement this new approach.

### **Chapter notes:**

#### Demand Strategy

#### How to Outperform the Competition and create an Enterprise that Endures

Demand Strategy requires a change in how you think about your business, and a corresponding change in the sequence by which you run your business. The central thesis is that a business must understand the demand in its market before it creates supply. It is the only way to understand and satisfy your targeted customers better than your competitors.

Businesses use their understanding of demand to differentiate their products so that they align as closely as possible with the demand of the customer targets in the marketplace from which they earn the most profit. Demand Strategy will help you anticipate demand and focus on the most profitable customer demand segments, to better align products before creating new products or services.

*What demand is – and is not*

- Demand is multifaceted – it includes consumers’ desire or need for a product, its features, the availability of substitutes and their prices, the channels customers prefer, the availability of credit, and the convenience of purchasing the product. In today’s global economy, where information flows instantly and technological change is almost continuous, demand is highly dynamic and subject to rapid change.

Demand Strategists identify, then concentrate on, the segments that yield the most profit for their companies. A segment is a group of customers within a given business category who share a set of common demands. It is critical to familiarize yourself with all segments and select those that are most profitable to you as your primary target.

- Demand can be either current or emerging. If you don’t have a good grasp of current demand, it’s very unlikely that you’ll recognize emerging demand – demand that will generate revenue and profits in the months ahead. Since emerging demand can transform an existing industry or even create an industry that will render your product obsolete, it is critical that companies not miss it. Emerging demand can be a predictable, logical shift that evolves from obvious trends. (e.g. baby boomer needs). One of the most famous cases of spotting emerging demand and developing an entirely new product in response to it was Sony Corporation’s creation of the Walkman portable tape player. Companies that use a formalized business system dedicated to identifying emerging demand early achieve the most important innovation successes.

*What demand strategy is:*

Demand Strategy is, broadly speaking, a new way of thinking about the role of demand in running your business. It includes a set of specific steps companies can take to identify the forces and factors that drive demand in their most profitable demand segments. By understanding current and emerging demand, they can build a differentiated supply that meets that segment’s needs better than their competitors can. Applying demand Strategy gives your business four distinct advantages that will increase profits; first, you will be selling what your customers actually want. Second, you will be able to differentiate your company and its products from its competitors. Third, you will be able to reduce costs by eliminating products for which there is limited demand. Fourth, you will be able to sell your goods or services at a premium price because a differentiated product that satisfies demand earns inelastic pricing.

<b>The Six basic Steps of Demand Strategy</b>		
1	Analyze the demand forces and industry factors impacting your business	Create proprietary, actionable insights into the drivers of changes in past, current, and emerging demand  <b>Results:</b> <ul style="list-style-type: none"><li>• Allows you to capture the highest profit demand and the greatest possible returns</li><li>• Demand shifts are anticipated rather than reacted to</li><li>• Earnings surprises due to demand shifts are avoided</li></ul>
2	Select your most	Identify specific demand segments you can satisfy that yield the

	profitable demand segments	<p>highest profits for your company.</p> <p><b>Results:</b></p> <ul style="list-style-type: none"> <li>• Products and offers targeted for specific market segments, versus mass market offers</li> <li>• By satisfying specific demands well, your competitors are less likely to appeal to the same customers</li> <li>• Efficient targeting of budgets maximizes sales at lower costs, resulting in higher profits.</li> </ul>
3	Build enduring value propositions to differentiate your offers	<p>Collaborate with your best customers to build your enduring value Proposition.</p> <p><b>Results:</b></p> <ul style="list-style-type: none"> <li>• A value proposition that differentiates and insulates you from the competition</li> <li>• Allows you to charge more, and avoid discount pricing</li> <li>• Increased loyalty as products/brands deliver on customer expectations</li> <li>•</li> </ul>
4	Identify the strategies and business systems needed to meet your demand	<p>Leverage supply chain and channel sales expertise to achieve superior execution.</p> <p><b>Results:</b></p> <ul style="list-style-type: none"> <li>• Improved efficiency and effectiveness due to alignment with demand</li> <li>• Enables a company to create a portfolio that appeals to multiple target segments</li> <li>• New products/ offers benefits from the company's superior distribution, sales, and marketing</li> </ul>
5	Allocate your resources	<p>Use demand insights to align resources behind best growth/profit opportunities.</p> <p><b>Results:</b></p> <ul style="list-style-type: none"> <li>• Allows companies to align with and satisfy demand at high levels of profit</li> <li>• Shareholder value remains at consistently high levels</li> </ul>
6	Execute demand strategy	<p>Follow a disciplined proven process that directs your supply to customers who most want what your products deliver.</p> <p><b>Results:</b></p> <ul style="list-style-type: none"> <li>• Total organizational alignment</li> <li>• Superior execution that trumps competition</li> </ul>

## The First Principle

### Analyze the Demand Forces and Industry factors that have an Impact on Your Business

Look at what has created demand in the past, what is causing it now, and what is most likely to influence emerging demand.

The purpose of forces and factors analysis is two fold: first, to identify and understand the causal forces that create demand; second, to identify the context within which a business operates. This includes the economics of a company's business category as well as the economic realities that directly affect its business. It also includes changes in pricing, legislation, existing and near-term technology, new channels, new competitors, changes in an industry's structure and the price of materials. In addition, the process focuses on social mega trends and demographics that will potentially affect the demand for goods and services in the future.

#### Forces and factors Analysis

1. Understand past forces and factors – how was demand shaped in the past, how has it changes, and why. By reviewing previous patterns a company's past experience can continue to help shape success in the future. Several years of forces and factors analysis can function as reminders of the influences that cause demand to evolve.
2. Assess Current forces and factors. Among the most significant findings to look for are anomalies, or unexplained discrepancies, in the data.
3. Identify emerging forces and factors. Those just beginning to affect demand and show potential to play an extensive role in shaping it over time. Patterns that look promising must be investigated because an emerging demand can become important very quickly. Understanding it can give a company significant opportunity for competitive advantage. For insightful information define which customers are likely to be the most useful. Include your customers' end customers too.

## The Second Principle

### Select Your Most profitable demand Segments

One of the central premises of Demand Strategy is that every business category must be divided into segments so that you can understand how customers must be divided into segments so that you can understand how customers in each segment are motivated and why they make decisions. Only after knowing that can you practice demand Strategy.

In every industry, total demand can be divided into segments, groups, or clusters, of customers who buy for similar reasons. Knowing as much as you can about each segment allows you to create supply that will satisfy its specific demand. Although there are many ways to classify or segment an industry, demand segmentation is the most useful for a business. Because it clarifies existing demand, such segmentation identifies immediately actionable opportunities to improve a business by focusing on high-priority demand segments.

The goal is to select the segments that are likely to yield the highest profits, considering your business system, infrastructure, competition, and core competencies. Once you have done that, you have taken an enormous step toward seizing control of your company's performance and profitability.

Understanding what each segment values gives you a substantial competitive edge. It also allows you to match your supply to what that segment values. In doing so, you gain pricing power because you have the opportunity to create differentiated supply that earns relatively inelastic pricing.

Viewing the market through the lens of demand segmentation allows you to reach three crucial ends. The first is a better understanding of the volume and economic value of various segments. This data can enable you to focus and allocate resources on the specific demand segments that can give you the most profit. Finally, you can get wonderfully rich direction for innovation, differentiation, and communication in simple preference comparisons.

It is equally vital that you determine which demand segments your competitors are focusing on, and then choose one that gives you the best chance of differentiation.

Selecting your demand segment is usually the most important decision you can make.

### The Third Principle

#### Build Ensuring Value Propositions Through Differentiation

Every Demand value Proposition (DVP) had multiple platforms, or planks; while the individual planks of the DVP are important in and of themselves, together they form an integrated picture of your proposition and the value you promise to deliver. A DVP is the promise you make to customers, as well as a summary of the strategy you will use to compete.

Companies tend to fall in to one of two camps: those that have an enduring strategy and those that resort to episodic strategies. Companies with episodic strategies lack the information, the comprehension of the market, and the confidence that are required to create a successful, competitive proposition. Highly successful companies usually have an enduring strategy.

All successful DVPs have multiple planks. This is because all products and service offer several benefits. In addition, the multiple planks, when taken together, create an integrated value proposition that is greater than the sum of its individual parts. Appealing to a demand segment with multiple planks protects it from its competitors. Although a competitor may imitate one or two benefits, it is nearly impossible to replicate all of them. MacDonald's five planks, quick service and good-tasting food, cleanliness, consistency, special attention to children, and community citizenship, are the premises upon which their enduring value proposition competes.

A company's high-profit target segments should deliver anywhere from 50 –60 percent of its sales volume. The remaining volume will come from other segments that use its products occasionally or are widening their choices of products and services. It is the high-profit-yielding customers who select the planks that make up the company's specific value proposition.

Once the DVP had been drafted, its planks should be reviewed by members of senior management to determine their practicality and profitability. The next step is to prioritize the demands of the high-profit-yielding customers. Usually when managers do this there is a 70% variance within the group. From this exercise they can immediately see the differences that exist internally. It can be a powerful way to point out the gaps between what they think their customers want and what their customers say they want. Once they see the incongruity, management teams tend to become markedly more open to change and markedly more open-minded. Whatever the variance between management's views, the company cannot maximize its results if it is not aligned with the demand of the customers who yield the highest profit. No company can achieve its full potential until all members of senior management are working together toward the same goal. One of the great benefits of the DVP is its use as a guide for aligning senior management.

A business performs best when its people share common goals and strategies, and when its products or services are designed to address two particular objectives: relevance to the targeted demand segment and differentiation from what the competition is offering.

### The Fourth Principle

#### Identify the Strategies and Business Systems Needed to Meet Demand

The most successful Demand Strategists depend upon their strategies to guide their business systems. The design and implementation of the four elements of their key business systems – 1) research and customer interface systems, 2) operational processes, 3) organizational functions, and 4) technological support – reflect the Demand Strategies they develop that drive product differentiation and create competitive advantage.

Each area is critical, and must be coordinated with the others to ensure success. Each needs an individualized strategy and a system that works in conjunction with the others. Your systems must work together to deliver the DVP that you have developed for your targeted demand segments.

#### *Research and customer interface*

These systems are a critical starting point because they set the objectives for all your other business systems. As research and customer interaction identify changes in demand and new customer expectations, this information must shape the operational, organizational, and technological systems used to deliver on demand.

The customer interface includes both the ways customers are involved in developing offers, who and how, and the ways they are served, determining exactly what types of customers to include in these tests is a critical part of conducting test research successfully.

Research is frequently limited to reporting what happened in the past rather than identifying current and emerging demand. The customer-focused projections developed by research departments are often faulty. First, they typically fail to include the perspective of customers' own end customers. Second, they frequently include all customers in the research rather than focusing on the company's most profitable demand segments. Finally, sometimes ask the wrong customers, unprofitable segments or infrequent users, and draw incorrect or misleading conclusions from their input.

#### *Operational systems and strategies*

The second set of strategies involves the production and delivery of products and services to the target demand segment. These systems and strategies also track demand, govern the way decisions are made, develop innovations on an ongoing basis, and determine the flow of information. Demand-driven companies develop strategies and systems that respond to customers' needs, then measure if they are meeting them adequately. Their first step is to understand demand, then to develop the operational processes, organization, and technology items that can best meet that demand.

#### *Organizational systems and strategies*

For a company to change its approach from a supply-driven perspective to a demand-driven one, everyone in the company must work together toward the central, organizing goal of implementing demand Strategy. The changes may involve creating cooperative, cross-functional teams that can move across traditional departmental boundaries. Benefits include:

- Keeping all functions closer to demand and an understanding of it

- Driving absolute clarity in communications rather than having messages altered or garbled with each handoff to another silo
- Resolving potential issues and gaining agreement to plans and priorities across functions before the fact, rather than trying to solve them midstream
- Aligning all functions to work toward a common goal rather than having each department focus on its own objectives

### *Technological systems and strategies*

In demand Strategy, technology's value must be based on whether it adds value, real or perceived, that enables you to create supply or customer service that brings you closer to satisfying demand. Technology considerations refer first and foremost to information technology, but also include innovations in any areas, manufacturing, packaging, distribution – where it creates advantages in fulfilling demand. Technology can rejuvenate and transform even the most successful companies. Technology alone can neither solve a fundamental misalignment with demand nor fix a flawed business model. Technology should be improved when your DVP is in place. The goal of technology is to enhance each part of your proposition, which is the enduring formula by which you have chosen to compete.

To determine the best technological strategies and systems for your business, you must develop a fact base about the business you are in, the demand segment you have chosen, and the unique combination of demand forces and industry factors at work in your market. Only then can you see and assess the technological opportunities open to you and decide which options will provide the greatest advantages in driving your Demand Strategy. This assessment will also show you how the new technology will interact with your research and customer interface, organizational and operational systems and strategies.

### The Fifth and Sixth principles

#### Allocate your resources and execute your Demand Strategy

A CEO's single most important job is the allocation of resources. Doing it correctly gives the organization the best chance to carry forward its strategic and tactical plans. Allocating resources correctly means using your dollars, the skills of your people, and intangible resource such as brand equity, intellectual capital, and customer relationships in order to get the highest financial return and have a greater impact on the market than you competitors. The key is in determining priorities. Nowhere is it more evident that you must understand demand before creating supply than in resource allocation. More often than not, the real problem facing most businesses is not limited resources but limited insights into demand and how best to use resources. Demand Strategy allows you to realize cost efficiencies by aligning your resources against demand. If you spend the right amount on what your target demand segment values, and very little on what it doesn't, you will get the highest return on your investment.

Principles to guide more effective resource allocation:

1. Both current and emerging demand must be assessed when making resource allocation decisions. You must understand how changes in demand might impact profitability of your current business.
2. Resource allocation decisions should leverage not just dollars and people but all of the company's assets, including brands, talent, intellectual capital, and key relationships.

3. To succeed, you must have a clear understanding of the features and activities- service, convenience, product features, customization, and other benefits – that drive demand for your business and how investments in key areas can improve your performance.

There are several demand Strategy Criteria that will help you calculate the right percentages of your total resources so that each business will be nourished according to its contribution to your company's profits:

- Impact of the various forces and factors on your business
- Current size and growth potential of your business
- Current and expected profitability
- Changes in the size of segment(s) targeted by business units
- Changes in your share of market, in demand share, or in the nature of your competition
- Size and growth of emerging demand versus current demand
- Ability to differentiate from competitors
- Level of insulation from competition
- Core competencies
- Competitive activities
- Distribution channels
- Profit margins
- Percent of portfolio your willing to have at risk

Implementation:

- A gap analysis is often a good way
- The analysis reflects where you stand on your DVP in relation to where you wish to be
- For resource allocation to succeed, it is essential that each level of the company understands and behaves according to the priorities established by the Demand Strategy.
- Implementation of the allocation plan needs to be mapped out in detail including the whys, the whats, the hows, the whos, and the when and wheres.
- When you deploy resources within an organization it is vital that you regularly track performance on the measures that have been agreed upon earlier, such as differentiation relative to the competition, segment level profitability, and margins.

**Reviewer's recommendation:**

This is a must read in today's economy and global market conditions. The book is rich with examples like the Demand Strategy created by Gatorade, Countrywide Credit Industries and EMC's Demand Strategy.

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**About the reviewer: Frumi Rachel Barr, MBA, PhD**

Many CEO's find themselves asking "What now?" to sensitive situations that only an experienced former CEO can understand. Frumi is brought in to solve problems and often remains to work with you, as your confidante and secret weapon. She has an uncanny knack of getting to the heart of your corporate climate and maximizing your team's performance, profitability and sustainability.

To schedule a free ***Break From the Pack to Success*** consultation email

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