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BUSINESS STRATEGY & GROWTH

Balancing Supply and Demand

By Leyla Hussein • 8 October 2018

A client of mine once celebrated a record production run, then spent the next six months staring at a warehouse full of stock nobody wanted. He had made more than his market could absorb, and every unsold unit was money sitting still. On the same trip I met another owner with the opposite problem: demand he could not meet, customers walking away, sales he would never get back. Two businesses, two different failures, one shared cause. Neither had the balance right.

Supply and demand is simply the balance between what a business can deliver and what its market actually wants, and the two biggest levers are price and quantity. Your selling price is shaped by what your suppliers charge you to produce and deliver, and by how **necessary your product is to your market**. If the supplier price moves, your selling price moves with it, and if it rises, demand may fall. Quantity works the same way. Make too much when demand is low and you are left with excess stock and lost profit, holding inventory nobody is buying. But demand can also run higher than the quantity you provide, and then you lose potential sales. Getting price and quantity right means holding the balance between who supplies you and how much your market demands.

Getting the measures in place

Reaching that balance, the point economists call equilibrium, takes preparation. Research your market first. Is it B2B or B2C? Who has been buying, and what are their demographics? Do they need your product, or buy it out of interest, valuing it without treating it as essential? Research future demand by surveying your existing market, then look at possible new markets for growth. Second, understand your suppliers, and everyone involved in producing or delivering your product, which includes your own workforce. Build good relations, because that helps with negotiation and motivation, and lets you see change coming before it arrives.

Adapting to change

If you truly understand how important your product is to your customers, you know how to adjust price and quantity when supplier costs shift. Perhaps your strategy is penetration pricing, undercutting your **competitors**, and that low price is the whole reason you sell well. If your costs rise, your price rises, and the further it climbs, the more likely customers are to leave for a cheaper alternative. It is different if your product is a genuine necessity for your market. Then a price change is unlikely to stop them buying, because the value they place on it exceeds the price, and that value trumps the number on the tag.

There are also times when your price has not changed at all, yet sales still drop. That comes from forces acting on your market, economic, political, environmental, social. Maybe the country where most of your clients sit has slipped into recession and no longer has the spare capital to reach your prices. Your product is still wanted, but the market no longer values it above other, more pressing needs.

Holding it steady

Understanding your market and keeping strong relations with your suppliers removes most of the variables you can actually control, and knowing how much to sell, and at what price, is the key to steady sales. The variables outside your control will still push at that balance, which is exactly why you need a real grasp of your market's values and needs, so you can reach for the right **contingency plan**, minimise the losses and protect your sales.