

## Demand Management Disney Style

Many companies simply assume the seemingly obvious proposition that, to put it simply, demand is demand and their responsibility is to gear their operations to meet that demand. Certainly, most managers utilize advertising and specials to create demand and promote certain products, but these initiatives tend to be broadly aimed and not dynamic in nature.

A few very well run companies have learned how to *manage demand* in a dynamic, responsive way – at a very granular level – and to fit it to their supply. This gives them constantly full capacity, terrific customer satisfaction, and very consistently high levels of profitability.

Demand management is one of the most powerful profit levers, but surprisingly few managers consistently take advantage of it.

### Disney's demand management

Disney has a long history of effective demand management. Several years ago at MIT, we developed a workshop for executives of our affiliated companies on state-of-the-art customer service. The head of customer service at Disney World was among those presenting to the group. She described in detail how Disney has perfected both the art and science of customers service and effective demand management.

For example, Disney has done many careful studies of how long people will wait in line before they need to be distracted. Through these studies, they have determined exactly when to engage the waiting guests with wandering characters, videos, mirrors, and other measures. They also lay out their lines in a serpentine fashion so the guests can't see how long the line really is, and so that they experience a feeling of constant progress.

A fascinating *New York Times* article

([http://www.nytimes.com/2010/12/28/business/media/28disney.html?\\_r=1&scp=1&sq=disney%20tackles%20major%20theme&st=cse](http://www.nytimes.com/2010/12/28/business/media/28disney.html?_r=1&scp=1&sq=disney%20tackles%20major%20theme&st=cse)) published about a month ago explained how Disney has continued to develop its techniques for demand management. Here are some of the key points:

- Disney World has outfitted an underground nerve center with state of the art video cameras, computer programs, digital park maps, and other tools to detect waiting problems and deploy countermeasures in real time.
- In an insightful move, the company outfitted the flat screen TVs in the nerve center with devices that depict the various attractions with green, yellow, and red outlines to represent wait time gradations.
- If wait time is mounting, the center can alert the attraction to increase capacity (e.g. launch more boats), or dispatch a character to entertain the people waiting in line.
- Alternatively, the operations center can route participatory mini-parades that guests can join toward attractions with shorter lines to siphon guests and balance capacity. Through

these measures, Disney has significantly increased the average number of rides per visitor.

- Underpinning Disney's capacity management is a complex, computerized system that projects demand based on an analysis of hotel reservations, flight bookings, historical data, and even satellite weather information.
- Disney is currently experimenting with smartphone apps that give directions to attractions and characters, and soon to the nearest restaurant with the shortest wait.
- The company has also started adding video games to wait areas to further increase guest tolerance for long lines.

Disney managers have combined careful research, creative insight, and tailored technology to develop, deploy, and perfect measures like these. Through this process, they have met their primary objective of maximizing customer enjoyment, while at the same time fitting demand to their supply without the guests ever knowing it.

### **Dell's demand management**

Dell catapulted to prominence as a PC producer with its well-known direct model. This business model enabled Dell to effectively manage demand and fit it to its supply dynamically and in real time. Here are a few of the demand management techniques Dell developed.

- Dell purposely selected customers with relatively predictable demand, especially corporate accounts, and avoided first-time buyers.
- The company instituted a series of monthly and weekly meetings to match supply and demand, bringing these into alignment on an ongoing basis.
- Dell's managers developed daily processes to manage demand dynamically, and align it with supply. For example, if demand increased unexpectedly, purchasing could quickly shift to alternative suppliers. In addition, Dell's sales managers gave the order takers incentives to shift customers to the makeable set of products (which were shown on their screens); the order takers also were encouraged to bundle available products with an attractive umbrella price.
- The company changed its pricing on particular configurations daily to steer demand toward the available models.
- Suppliers were selected based only 30% on cost, with the other 70% based on quality, service, and flexibility.
- When in doubt, Dell's managers over-forecast high-end products, because it was much easier to sell up, and high-end products had a higher shelf life.

These measures, and others, allowed Dell to systematically manage demand, and relentlessly fit it to its supply. (I describe Dell's business model in more detail in my new book, *Islands of Profit in a Sea of Red Ink.*)

## **Management challenge**

Note that Disney provides services, while Dell produces physical products. But both companies developed extremely effective processes that combined research, creative insights, and targeted technology to dynamically manage demand at a very granular level, and fit it to their supply. In the process, they maximized customer satisfaction while *also* maximizing their capacity utilization, asset productivity, and profitability.

Dynamic demand management at a granular level is one of the most powerful ways for a company to expand its islands of profitability, and to turn around the marginal business that constitutes its sea of red ink.

The challenge for all managers is to develop as a core business process the systematic knowledge, creative insights, and targeted technology that will enable them to constantly monitor their demand and fit it to their supply.

Those who do so will realize the twin objectives that mark the highest-performing companies: high levels of customer satisfaction along with sustained and growing profitability.