

What do Stock Markets and Manufacturing Companies have in Common?

Imagine if everyone had the same information at the same time, imagine if everyone would know what is relevant information and what is not, imagine if everyone knew what to do with that information to make the right decision and finally imagine if everyone had the means to act and do the right thing. Would that be socialism at its best or would it be capitalism at its best? Does it matter? There would be an equalizing force to make sure that everyone has the same advantage, the same information and the same means to act on that information, If two countries went to war and both had the same info and the same means which one would win? For every action there will be an equal and opposing reaction. Is that an efficient market? Is there any advantage for anyone if all parties have nothing over the other? Can anyone win? Can anyone get richer than the other? Can anyone make something that no one else has? People get rich because of inherent inefficiencies of the market: “I know something you don’t know. I have something you don’t have. I can have access to Chairman of the Board, I know what he wants and I provide it for him. You don’t have the same info, therefore I get richer, you get poorer!”

Stock exchanges are good examples of an efficient market place where information and the means to act on information can make the difference between haves and have-nots. With the creation of internet and widespread availability of information, there is a possibility of creating very efficient market places where everyone can have instant access to the right information. The difference would be who can use the information faster and better and who has the means of deploying the right decision. It can be safely assumed that the financial institutions have a clear advantage in the latter.

Therefore it all boils down to who can make better and faster decisions. If I have better market information then I can make more of what the market needs: red sweaters instead of green ones, hence reduce my inventory and increase my profit by making the right items. Anyone can bid lower and lower to sell a service or a product competing with other bidders, the winners are those who know when to stop and how to minimize their cost of supplying the item. Anyone can promise to deliver the badly needed items the next day. Unfortunately being unreliable and not delivering on your promises can lead to unhappy customers and quick loss of market share. Anyone can claim, we have what you want and deliver when you want it (not many examples here since they are all extinct!). Only those who know what can be done and how it can be delivered at lowest cost will thrive and prosper. These are real examples where information leads to lower cost, higher profit and bigger market share.

Companies offering goods have zillions and zillions of data. They have data regarding their manufacturing processes, outsourcing partners, equipment, people and their skill levels, competitive information and pricing, history of demand and supply etc. The real challenge is how do they use this data? As we discussed earlier, data is available to all however one needs to make some sense out of it. In our earlier example of the stock market, the financial institutions use their analytic systems in order to make decisions as to how much to buy and sell of their holdings. In companies that offer goods the same applies. Companies need to be equipped with systems that have modeling and predictive capability to “read” all the data and then show what can be expected. This is more than just business intelligence. The latter deals with past data and trends. Predictive systems such as Demand Planning and Supply chain planning and Multi-echelon Inventory Optimization have models of the real world and can project what the consequences are in the future based on all the data that is available for manufacturing, for demand, from suppliers, inventory information, pricing and so on.

Such systems can absorb all such information and deliver credible alternatives to the management to act on in an almost real-time manner. In the absence of predictive models, one can only rely on antiquated strategies of the past which can only be subjective, slow and haphazard!

For your suggestions and comments or if you need additional information, send us an email to info@adexa.com with the subject line “My Predictive Systems.”

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