

Free essay about bullwhip effect

[Business](#), [Marketing](#)



The bullwhip effect is an event in the supply chain where there is variance between the orders sent to the suppliers and the sales made to the customers (AAL, 2012). The variance between the sales and the orders affect the supply chain process. It leads to underestimation of demand for the product due to the irregular orders.

One of the impacts of the bullwhip effect is the distortion of the product demand along the supply chain (AAL, 2012). An example is where the customer demand for a product is 15 units, and then the retailer orders 20 units of the product so as to ensure that they do not run out of stock. The distributor then orders 40 units of the product from the producer. The distributor makes such a big order so as to fulfill the bulk purchase requirement by the producer, and also to have adequate stock. The producer then produces 60 units so as to satisfy the economies of scale. The end result of all this is that 60 units are produced whereas the customer demand was only 15 units. The retailer is faced with the task of attracting more customers so as to increase the demand for the product.

The distortion of the product demand along the supply chain is caused by lack of information among the parties in the supply chain. Both the distributor and producer do not have the information about the real customer demand for the product. The retailer needs to communicate the real customer demand to the distributor. The distributor should then inform the producer about the real customer demand for the product. Availability of the correct information can help managers to prevent the bullwhip effect (UA, 2014).

References

AAL, (2012). What is the Bullwhip Effect? Understanding the Concept and Definition. Retrieved from: http://www.aalhysterforklifts.com.au/index.php/about/blog-post/what_is_the_bullwhip_effect_understanding_the_concept_definition

UA, (2014). How to Manage the Bullwhip Effect on Your Supply Chain. Retrieved from: <http://www.usanfranonline.com/resources/supply-chain-management/how-to-manage-the-bullwhip-effect-on-your-supply-chain/#>.

VHYiVnKUdIE