

Our Economy's Transition to Oversupply

Last week, I said we would discuss how to zero in and better handle the demand economy, and we will also look at how to make your offering target the demand that you want to create. We will actually do that next week, so we can first understand how we have transitioned into an economy of oversupply. Let's review why economic demand has changed. In the book "[How Companies Win](#)," [Kash and Calhoun](#) describe four phases of transitions moving from a supply based economy to a demand based one.

The first phase involved [market equilibrium](#), which lasted from 1947 to 1990. After World War II, places that had avoided destruction kicked into a level of prosperity that last for decades. Other areas took longer to adjust but entered the industrial and information economy over time, continuing to create demand as we became more global. With the advent of many different [supply chain management](#) approaches and thinkers like [Edwards Deming](#), we continued to lower cost and improve the supply as more demand was created. These good times stayed in balance for a long time . . . until they didn't.

The period of oversupply started in 1991 and continued through 2007. An aging population in the developed world, the end of the [Cold War](#), and [globalization](#) created this phase. This generated a significantly large number of companies adding their offerings to those of the multitude of businesses already out there. The internet popped up during this period, which also created a medium to communicate and share knowledge. This brought many more companies to the table. Productivity increased. Then, the first bubble hit during the early 2000s and was followed by more, which led to the true slowdown in demand.

The demand contraction of the [Great Recession](#) hit during 2008. This created a global slowdown not seen since the [Depression](#). The housing market was decimated, and unemployment shot up, continuing a reduction in demand that has lasted to present day. This was followed by [stimulus](#), increasing the debt. To solve this problem, the government will need to spend less and possibly raise taxes, which will likely lead to even less demand.

We now have a [Demand Driven Economy](#). A hypercompetitive business environment characterizes this fourth area, and it will continue into the future. This flat demand will put a crunch on profits and drive a lot of businesses to disappear.

The companies that have a better understanding of the demand situation will be able to position themselves for a demand offering that will drive more business. More on that next week.