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Incorporating Uncertainty

The latest software technology can be helpful and in combination with the current plan provides visibility on future stock projection and can be combined with a supplier calendar for even more visibility.

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By Alessio Lolli.

Generating a trusted forecast for demand and supply even while incorporating uncertainty and optimizing inventory can seem like a daunting task ... or is it? For many supply chain planners, it looks that way at first glance because forecasting and

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about how you currently incorporate these uncertainties into your planning process.

For example, how do you take demand uncertainty and use it in your planning models or your planning process? The **second step** is to ask similar questions about risks. Risk is the exposure to loss or factors and events that could result in not achieving goals and ultimately how the business is impacted. The risk is more about the business outcome.

If demand comes in higher than I expected and I don't have enough inventory, then I risk losing revenue because customers can't buy the product, I want them to buy. So how do you incorporate these risks into your planning process? Will demand be higher than expected? What if I don't have enough inventory? Then I risk losing revenue. The **third step** is considering how you are incorporating these uncertainties and risks into your planning process.

This can be a challenge for a lot of organizations, especially if you are not used to doing it. Are you truly modeling and planning to incorporate uncertainties, or are you making the best guesses and assumptions? The **fourth step** is finding the appropriate forecasting method for your organization. There are many different forecast models, but they generally boil down to four main categories with pros and cons for each:

- **Point Estimate** – very easy to understand, but there is no sense of range, variance, or likelihood
- **Range** – easy to understand, hard to implement
- **Best, Worst, and Most Likely** – commonly used in planning, analysis is often incorrect and can be misleading
- **Probability Distribution** – conceptually its easy, real probability distributions are complicated and hard to implement

Each model clearly has its pros and cons, here are two quick and important tips on

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planning allows planners to quickly work with suppliers to acquire scarce inbound materials. Visibility to supply requirements over a longer horizon allows for long-range planning alongside shorter-term decisions, making plans more reliable.

The latest software technology can be helpful and in combination with the current plan provides visibility on future stock projection and can be combined with a supplier calendar for even more visibility. While sometimes you know roughly what to expect, as in seasonal variability, there are many instances you can't predict what might happen. Often, there is little time to prepare, so supply chain planners must make quick, effective decisions in the face of uncertainty.

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