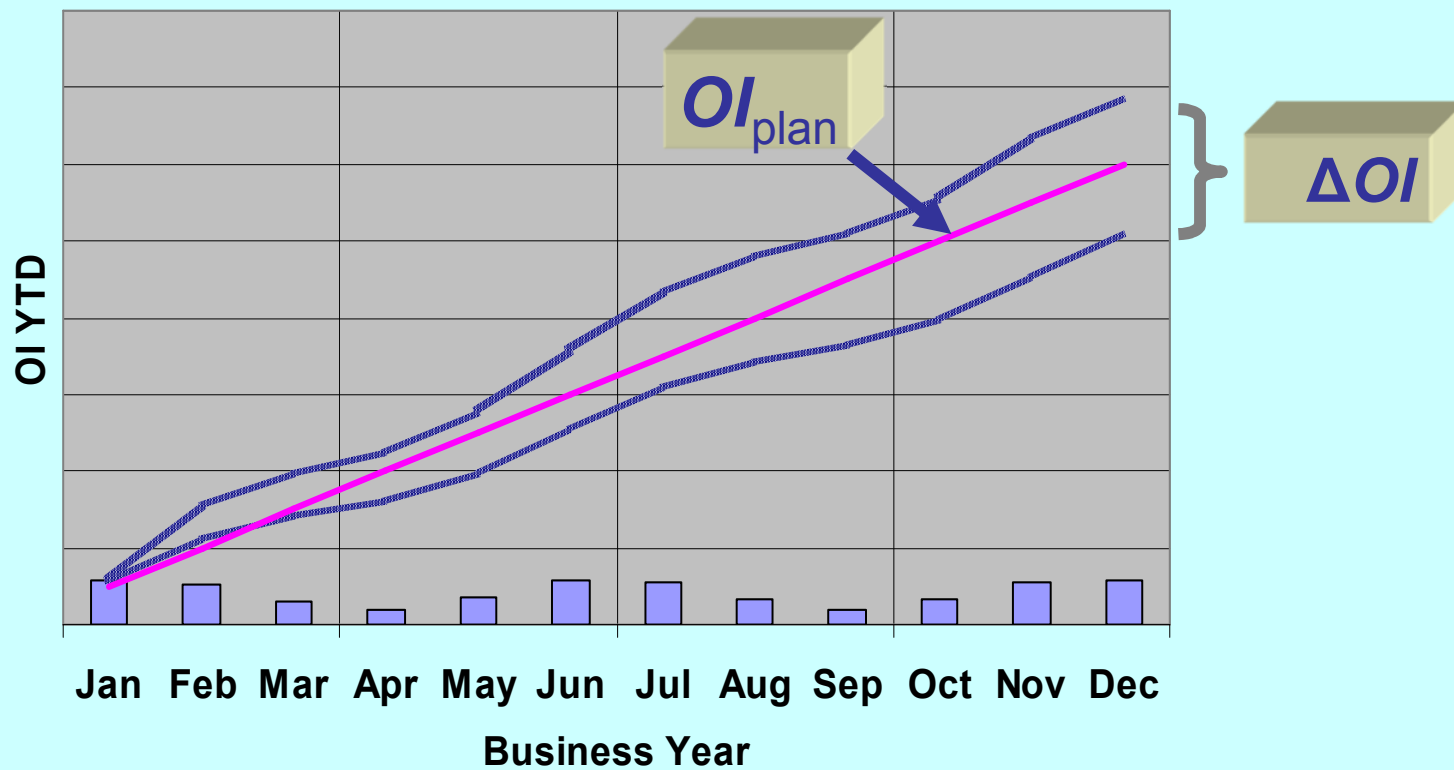


Reasons for possible variations/deviations from OI_{plan}

1

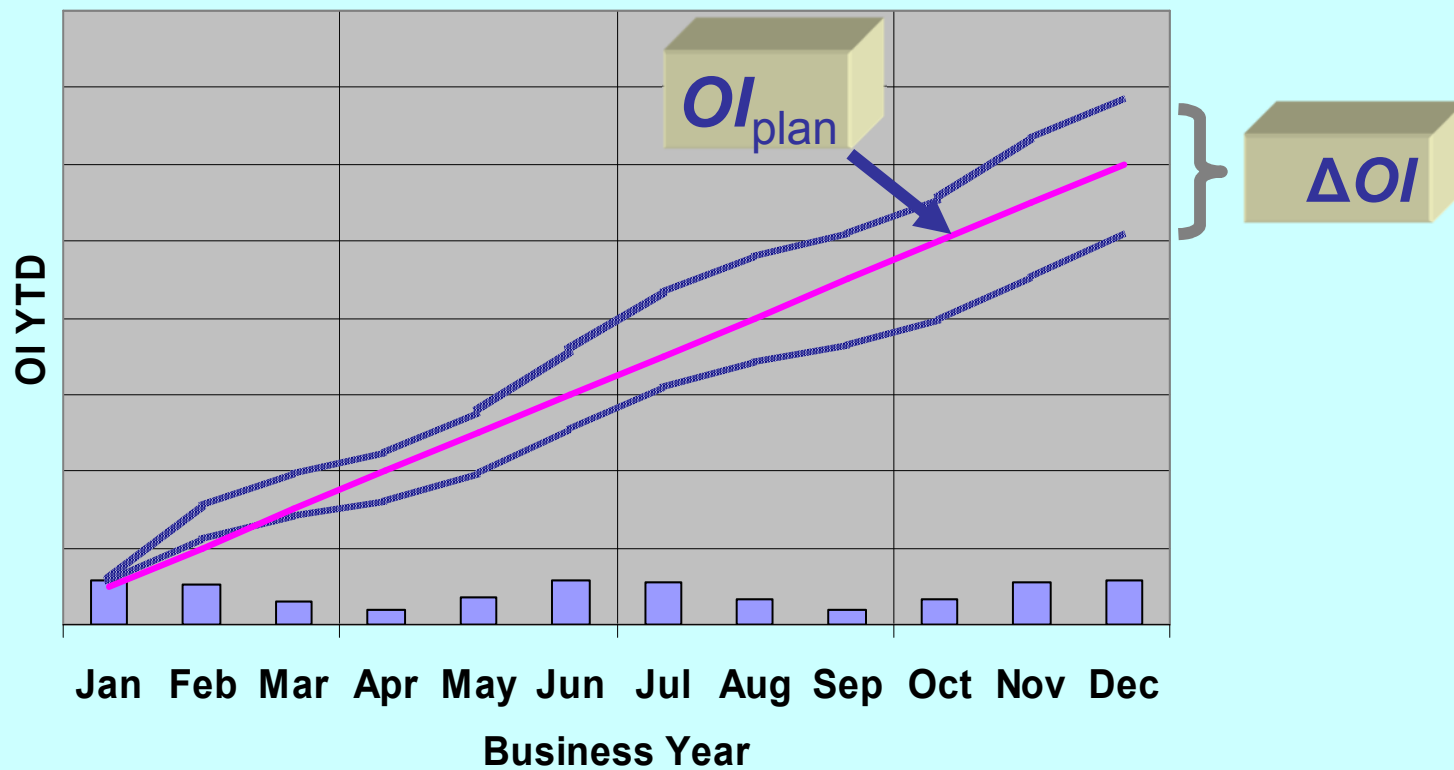
Uncertainty of forecasting the business



Reasons for possible variations/deviations from OI_{plan}

1a

FX rate fluctuation



Reasons for possible variations/deviations from O_{plan}

1 Uncertainty of forecasting the business

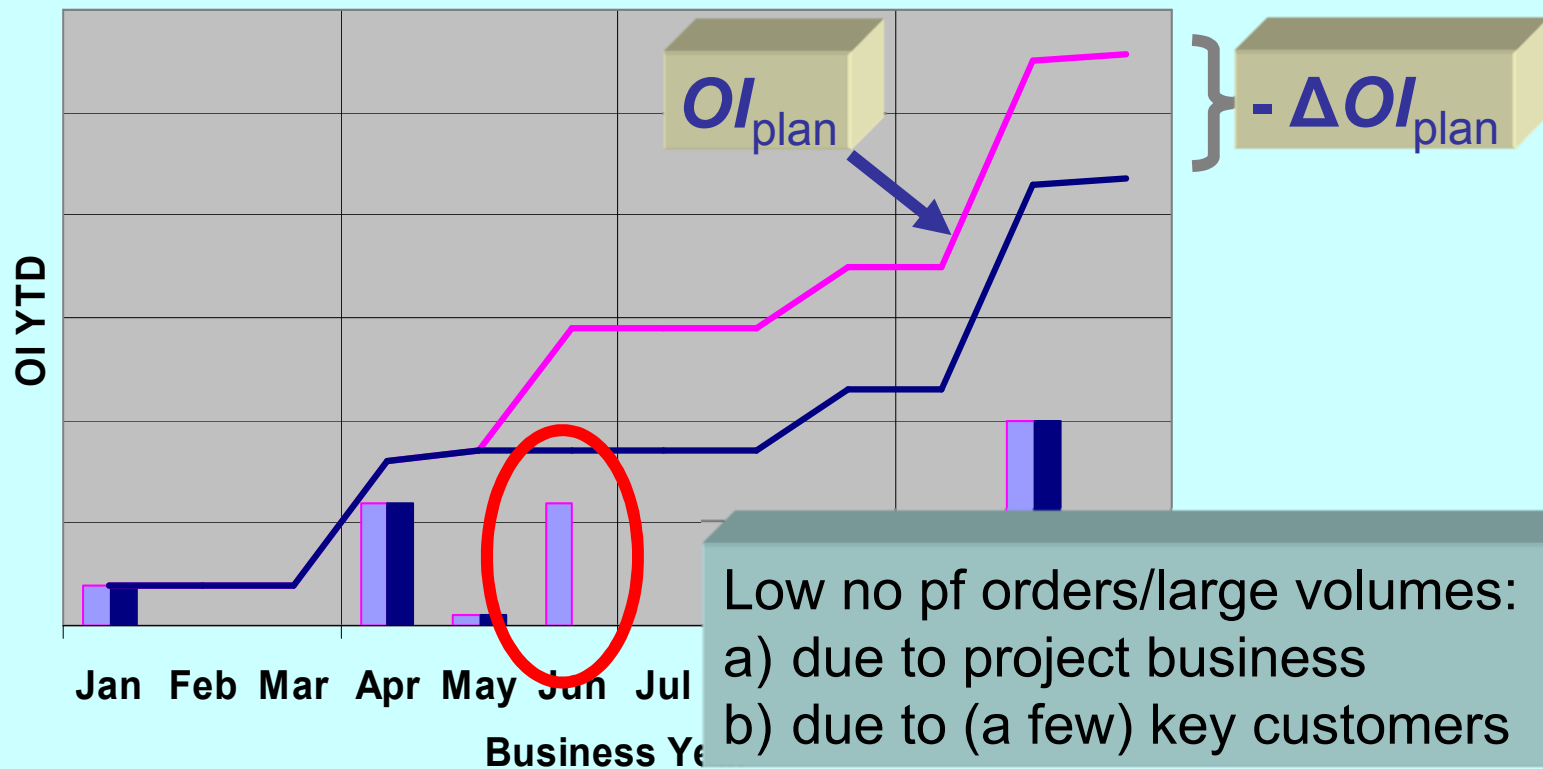


The planned PPC should reflect the uncertainty of the forecasted order income. If the estimated uncertainty is 10%, PPC_{plan} should be $>10\%$

Reasons for possible variations/deviations from OI_{plan}

2

“Granularity” of order intake



Reasons for possible variations/deviations from OI_{plan}

2

“Granularity” of order intake

OI size
Percentage

$$OISP = \frac{OIS_{\text{avg}}}{OI_{\text{plan}}}$$

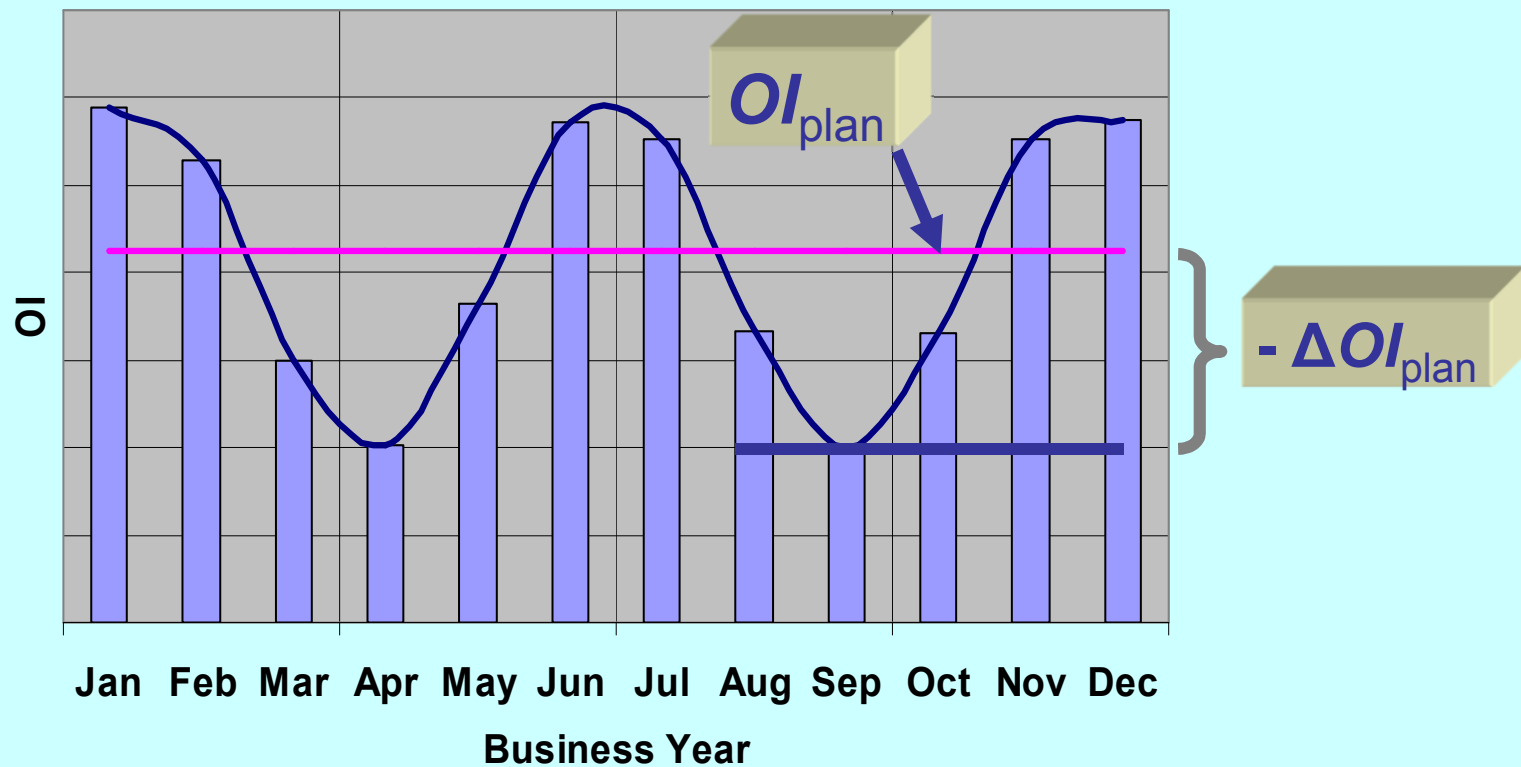
with $OIS_{\text{avg}} = \frac{\sum OI_n}{n}$ average order size

Example: 10 potential orders, each 1 Mio; $OI_{\text{plan}} = 10$ Mio
 $OIG = 1 \text{ Mio} / 10 \text{ Mio} = 10\%$

Reasons for possible variations/deviations from OI_{plan}

3

Seasonal variation of business



Reasons for possible variations/deviations from O_{plan}

1 Uncertainty of forecasting the business

2 “Granularity” of order intake

low order numbers/ large volumes:
a) due to project business
b) due to (a few) key customers

3 Seasonal variation of business

“Granularity” of order intake

A few potential orders with the highest order income volumes ΣOI_{pot} will have the highest impact on the result

$$\Sigma OI_{\text{pot-3}} = OI_{\text{pot-1}} + OI_{\text{pot-2}} + OI_{\text{pot-3}}$$

If they don't realize as actual orders, OI_{plan} will be reduced by their amount ΣOI_{pot}

$$\Delta OI_{\text{risk}} = \Sigma OI_{\text{pot-n}}$$

“Granularity” of order intake

This will result in losses for the company if ΣOI_{pot} is larger than $\Delta OI_{\text{B-E}}$

$$\Sigma OI_{\text{pot-n}} > \Delta OI_{\text{B-E}}$$

We will introduce a measurement indicator showing the the risk using the ratio ΔOI_{risk} over $\Delta OI_{\text{B-E}}$

Risk
Indicator:

$$RSK = \frac{\Delta OI_{\text{pot-n}}}{\Delta OI_{\text{B-E}}}$$

“Granularity” of order intake

Risk
Indicator:

$$RSK = \frac{\Delta OI_{\text{risk}}}{\Delta OI_{\text{B-E}}}$$

Example:

Expected income	OI_{plan}	\$20,000
Thereof the 3 largest potential orders:	$OI_{\text{pot-1}}$	\$2,000
	$OI_{\text{pot-2}}$	\$1,500
	$OI_{\text{pot-3}}$	\$1,000
	ΣOI_{pot}	\$4,500

Delta OI break-even $\Delta OI_{\text{B-E}}$ \$ 6,000

Project risk $RSK_{P_3} = \$4,500 / \$6,000 = 75\%$

Risk
Indicator:

$$RSK = \frac{\Delta OI_{\text{risk}}}{\Delta OI_{\text{B-E}}}$$

We use two risk indicators describing different business aspects:

- 1 For potential project orders we call the risk indicator “Project risk” RSK_{P-n}
- 2 For business with key customers we call the risk indicator “Customer risk” RSK_{C-n}

For both the index n indicates the number of potential orders we take into account

“Granularity” of order intake

Risk
Indicator:

$$RSK = \frac{\Delta OI_{\text{risk}}}{\Delta OI_{\text{B-E}}}$$

Example:

Expected income OI_{plan} \$20,000

Largest customer: ΔOI_{risk} \$ 6,000

Delta OI break-even $\Delta OI_{\text{B-E}}$ \$ 6,000

Customer risk $RSK_{C-1} = \$6,000/\$6,000 = 100\%$

Summary

- 1 Uncertainty of forecasted order income, fluctuation of FX rates, seasonal variation of business and granularity of order income yield to risks for the company
- 2 The planned PPC should reflect these risks
- 3 We introduced two indicators to make specific risks measurable:
Project Risk Indicator RSK_{Pn} and
Customer Risk Indicator RSK_{Cn} .