

HOW IMPORTANT OR NECESSARY IS THIS ANALYSIS FOR MY COMPANY OR PROJECT?

Sometimes it is difficult to fathom the real value of quantitative risk analysis and what its specific benefits are. Let's start with an example. Say that you need to select a supplier for some parts you require for the manufacture of the electric pumps you sell, and that there are three suppliers, A, B and C all offering parts of very similar quality and price. In view of this, you investigate how reliable each supplier is in delivering the parts on time. Your findings tell you that supplier B is more reliable than supplier A but less reliable than supplier C. You will most likely decide to do business with supplier C who presents the least level of uncertainty in the deliveries.

Suppose now that you are the general manager of a company and that you need to determine with some certainty, how much money is your company going to earn at the end of the year, because you need a partner and must convince a potential investor that the company is capable of producing an attractive earnings level. Performing a risk analysis will help you determine whether the earnings projection you will be presenting is a reliable figure. This is very important, because while you can come up with valid statistical results to back up your projections, your investor will have a hard time justifying a rejection, simply by stating that "he does not believe in the projections".

On the other hand, if the result of the risk analysis is worse than expected, we can always make feasible changes in the assumptions and run additional trials endeavoring to improve results.

While there is what we will call endogenous assumptions such as those related to costs for example, there are assumptions which we define as exogenous over which we have absolutely no control, and which can wreck havoc on any plan or project. Did you see this deep recession coming? Neither did we. How about the flu epidemic? Did you see it coming? Neither did we. In Mexico City, for example, restaurants were ordered to close and only sell meals to take out. It devastated small and big restaurant chains and put thousands out of work. The closing had a reverberating effect hitting suppliers and many other businesses connected directly and indirectly to the restaurant industry. While no one could have predicted events like this with certitude, a stress test which is included in the risk analysis we offer would have presented the consequences of a possible catastrophic scenario, and would have enabled you to provide for continuity planning in advance, and thus avoid a disaster.