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On the Calculation of Safety Stocks when Demand is Forecasted

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Highlights

- Traditional procedures for estimating the lead time demand variance are flawed
- As a result, these procedures lead to safety stocks that are too low
- We present corrected procedures for constant lead times and a stationary i.i.d. demand model
- In doing so we consider the uncertainty associated with estimating both the mean and the variance of the demand
- We find that traditional procedures may lead to safety stocks that are up to 30% too low.

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