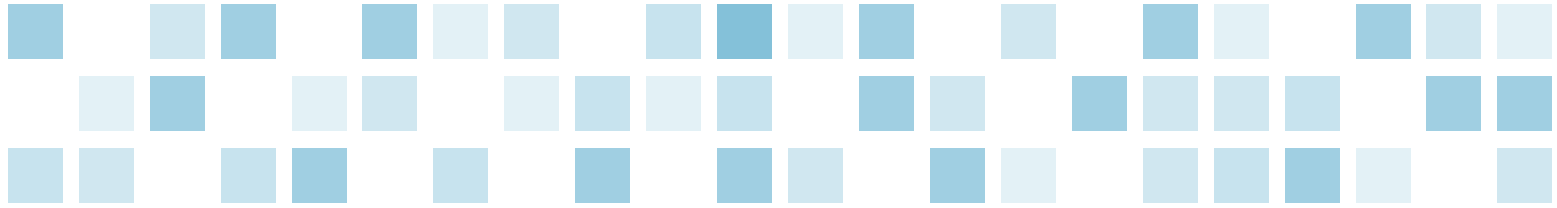


# Enterprise risk management for consumer products companies



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Risk management has become a critical consideration for organizations of all sizes and structures, including national and global consumer products companies. Increasingly, they are not immune to the high rate of change in threats and opportunities experienced over the last decade, primarily driven by emerging technologies, globalization and changing demographics and consumer preferences. In addition, as the environment rapidly evolves, the dynamics of processes and technologies deployed by businesses are becoming pervasive, and interconnected networks (social or otherwise) present old and new risks in different forms.

When these increasing risks are not proactively identified and addressed, the impact to the organization and stakeholders can be significant. Simply stated, a comprehensive risk management strategy is imperative for ongoing growth and success. Enterprise risk management (ERM) allows consumer products companies to design and implement a governance strategy that aligns with the risk appetite of the organization and drives awareness throughout the company. ERM, once properly implemented, provides senior management with foresight into existing and evolving strategic, financial and operational risks.

## Risks assumed by consumer products companies

Consumer products companies assume significant risk, due to the complexity of simply running the business, particularly given the global nature of services and products provided. The following types of risks are relevant to many consumer products organizations:

- **Reputation risk**—Companies need to be aware of both positive and negative publicity driven in social networks, blogosphere, etc. Bad news travels fast.
- **Strategic risk**—Missed opportunity costs due to the lack of a coherent online strategy (Internet, mobile, Web 2.0) for both Internet-based and brick-and-mortar companies in today's connected economy.
- **Financial risk**—Volatile commodity prices in the value chain can impact a consumer products company in a significant manner through margin erosion, etc.
- **Payment risk**—Use of mobile payments and evolving payment methods, such as virtual currency (reward points, etc.), present new risks, particularly related to customer information privacy and security.

- **Regulatory risk**—It's important to proactively address regulatory risks that impact the supply chain, such as sound labor practices (child labor) of their foreign suppliers and nonuse of conflict minerals in their products. Noncompliance can have a significant financial impact in terms of penalties and fines.

However, there may be yet other risks to consider—as the industry continues to evolve, the related risks also will. Even though the consumer products industry is mature, the entry of new risks within its ecosystem is becoming more prevalent—both business- or customer-driven, through use of social media and other new technologies. ERM provides a comprehensive layer of risk management capabilities and tools to management and boards of consumer products companies that is scalable to address emerging risks.

Regulators and government entities have increased scrutiny of corporate governance policies and ERM platforms in response to the recent financial crisis. ERM is no longer an option, but a necessity, for developing a sustainable business plan. Consumer products companies are responding by implementing ERM to provide governance at the board and senior management levels. Management of business divisions and units are accountable for the risk identification and assessment function, and corporate internal audit departments are responsible for independent evaluation and validation and monitoring.

## Scaling your ERM program to fit

Not all organizations are the same. Today, we see integrated business models that involve complex supply chains, technologies and processes and shorter product innovation and introduction cycles. That fact rules out a “one-size-fits-all” solution to risk management, as does a host of other factors, including:

- Growing global footprint
- Abundance of unique products and services
- Increasing consumer choice and the ability to shop for products in more than one way
- Diverse technologies
- Varying appetites for risk
- Relative simplicity or complexity of business processes

Effective risk management—which is dependent upon a customized and consistent framework—requires an appropriate response to these risks. As with other industries, there are nuances unique to consumer products organizations that should be taken into account, specifically risks in its ecosystem that are uniquely driven by the consumer behavior. More consumer products companies are utilizing technology to generate brand and product awareness with the use of viral marketing techniques via social networks. In order to properly address these evolving risks, consumer products entities should clearly establish an ERM framework that proactively addresses these risks.

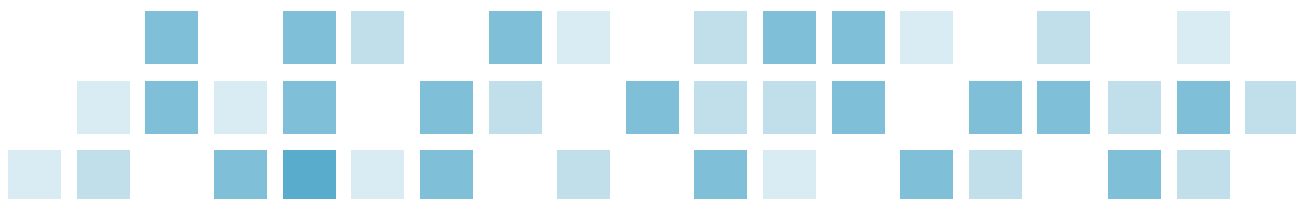
## Case studies

Highlighted below are two examples of risks that were evident with consumer products entities and not proactively identified. Therefore, the respective organizations were positioned poorly to address them in a timely manner:

### Human resources not effectively managing risk

Retail company

- Many different products sold
- A top-10 risk was succession planning



- A key executive in a specific retail channel (electronics) left the company
- Traditional risk management process was to have human resources find a replacement
- Significant delays were experienced in finding that replacement
- Over a period of months, sales from that particular channel fell significantly
- The company missed earnings and analyst expectations, causing significant impact to price and market capitalization

#### **Lack of vendor management and monitoring**

Consumer products manufacturer and distributor

- The company enjoyed a sizeable market share
- Global sourcing of products occurred from many geographies
- Lack of controls existed at sourcing providers and around vendor management
- Products did not meet government safety standards
- This led to product recalls and government penalties and fines, resulting in a decline in sales and a negative impact to its reputation
- The company missed earnings, with more than a 70 percent negative impact to stock price and market cap
- The company took several years to get back on track

### **Organizational leverage of integrated resources**

An effective ERM program should incorporate a four-phase implementation plan to provide management with better insight into the organization's risk profile and risk management posture. Those four phases are:

- Program development
- Risk assessment and prioritization
- Risk treatment
- Risk validation and monitoring

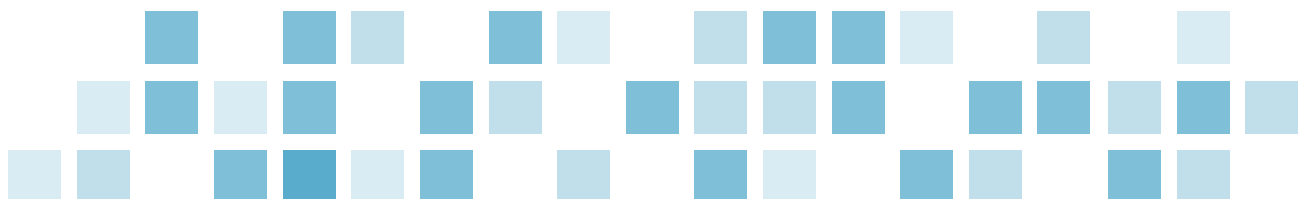
For an in-depth evaluation of each of the four phases of an effective ERM implementation, read our white paper, "[Enterprise risk management: A pragmatic, four-phase implementation plan.](#)"

In order for an ERM program to be successful, it must be broad in scope, yet agile, in order for management and boards to adequately address risks that may be evolving or are on the horizon. Both of these issues can be addressed by the flexibility available in today's ERM programs. The prevalence of integrated technologies throughout the operations at most consumer products companies (from point of sale to financial reporting) allows for leveraging of these technologies to capture, assess, report and monitor risks that adequately address ERM at the enterprise level.

Integration of these technologies with automated ERM tools allows for verification of activities within different work flows on a real-time basis, removing lag times and providing management with the ability to address risks in a proactive and timely manner.

### **Conclusion**

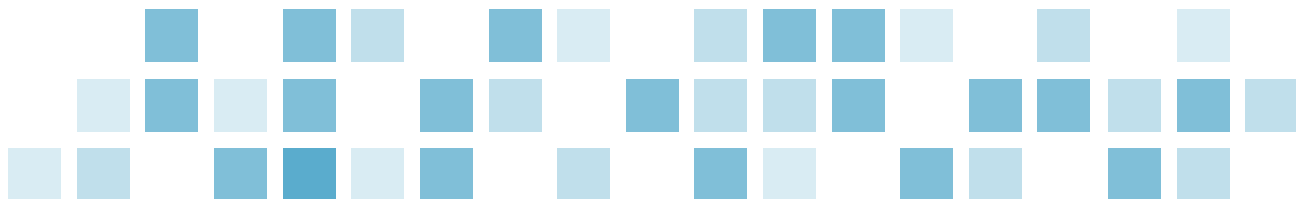
Risk management should be approached with organizational requirements that match best practices, as well as compliance and regulatory requirements. This entails knowledge, experience and a deep understanding of the interrelationships between risk, governance, strategy, product, process, regulation, capital, internal controls, management monitoring and disclosure.



The shape ERM takes in your organization depends on the risks your business is exposed to, the interrelationships of those risks, the organization's susceptibility to those risks and its capacity to absorb losses as a result of any control failure. An effective ERM program helps classify the range of risks that might affect your company. Traditional financial risks, such as credit, liquidity and balance sheet management, are accounted for, as well as operational, regulatory and strategic risks that might endanger your organization's ability to meet its obligations.

An effective ERM strategy should provide management with the information necessary to optimize earnings, and ultimately, the organization's value, while remaining within a well-defined and acceptable risk tolerance. It should include new and clearer language to communicate information about management's intention and capabilities.

Furthermore, it should improve business performance, establish a competitive advantage and optimize the cost of managing risk. Accomplishing these requires a positive culture that strongly influences and affirms corporate judgment in executives, managers and employees.



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