ITS 835 Chapter 3

ERM at Mars, Incorporated: ERM for Strategy and Operations

Enterprise Risk Management

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Introduction

- Mars' ERM history
  - Phase 1 – Crash and Burn
  - Phase 2 - Success
- Global rollout
- Reporting
- Operating workshops
  - Technology
  - Aggregation
  - Template evolution
- Conclusion

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Mars' ERM History

- Mars, Incorporated
  - Privately held -> migration to non-family management
    - Decentralized management
  - Leadership had legacy commitment to risk management
  - ERM was viewed as an evolution
- COSO versus bespoke approach
  - COSO – Committee of Sponsoring Organizations structure
  - Bespoke approach won
- Phase 1
  - Failed due to being impractical and overly complex
- Phase 2
  - Simpler and targeted

Planning Workshops

- Desire to align senior management goals with ERM

- Started with simple template

  - Operating plan initiative sheet

    - Objective

    - Score

    - Risk column

    - Risk treatment column

- Management team met to define and rank

  - Risks

  - Risk treatments

    - Changed label from "mitigations"

Global Rollout

- Used lessons learned from pilot

- Each unit has specific nuances

- Interviewing GM and CFO together saved subsequent interview time

- Workshops helped to identify

  - Gaps in risk management readiness

  - High-risk initiatives

  - Ongoing activities with unexpected high risk

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Reporting

- Color-coding adds
  - Urgency
  - Clarity
- Groups are defined
  - Clusters
- Score represents
  - Confidence of meeting goals

Increased probability of achievement and/or increased level of management effectiveness
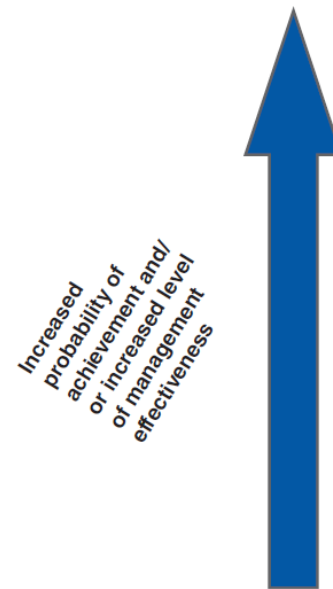
Score	Color
7.5 and greater	Green
7.0 to 7.4	Blue
6.0 to 6.9	Yellow
5.0 to 5.9	Orange
5.0 and less	Red

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Reporting, cont'd.

Business units are responsible for submitting a summary report to corporate.

Illustrative

Initiative	Risk Profile
Grow the X Market with Relevant Brands Grow the X market through product improvement and increased accessibility to achieve sales growth of 8% and margin improvement of 7%.	Yellow
Direct-to-Customer (DTC) Increase DTC shipments by 12%.	Green
Workforce Engagement Increase workforce engagement score by 10%.	Blue
Bring New Plant Online Make the new plant fully operational by the end of Q3.	Red
Launch of New Brand Successfully launch New Brand into the market and achieve 65% distribution.	Blue

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Reporting, cont'd.

Business units are required to review and update a dashboard on a quarterly basis, which allows tracking of performance over time.

Illustrative

Initiative	Risk Profile					Trend	Comments
	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10		
Grow the X Market with Relevant Brands Grow the X market through product improvement and increased accessibility to achieve sales growth of 8% and margin improvement of 7%.	Yellow	Green				Improving	YTD the X Market is our second biggest growth contributor growing by 10%. Margin improvements on track.
Direct-to-Customer (DTC) Increase DTC shipments by 12%.	Green	Green				Stable	DTC operation has improved; however, some areas need improvement. We will expand when we have a holistic strategy.
Workforce Engagement Increase workforce engagement score by 10%.	Blue	Green				Improving	Managers have been provided training. All managers have held meetings with their team members.
Bring New Plant Online Make the new plant fully operational by the end of Q3.	Red	Blue				Stable	On track, construction underway Plant will be ready by the end of Q3.
Launch of New Brand Successfully launch New Brand into the market and achieve 65% distribution.	Blue	Yellow				Stable	Increased risk due to current demand exceeding supply. We have rephrased the rollout for the market to ensure current supply is adequate.

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Reporting, cont'd.

Incomplete		Complete ✓
Drive core brands. Achieve growth targets by focusing on building the core brands.		**Drive core brands.** Achieve growth targets **(4%)** by focusing on building the core brands.
Grow Brand X. Achieve share gain for Brand X.		**Grow Brand X.** Achieve **3%** share gain for Brand X.
Sustain Brand Z. Maintain market leadership while achieving growth and profitability targets.	▶	**Sustain Brand Z.** Maintain market **share of at least 15%** while achieving **growth (4%) and profitability (8%) targets.**
Own the EFG Category. Substantially grow the EFG Business and establish Brand Y.		**Own the EFG Category.** Grow the EFG Business **by 5%** and **achieve $$M of** Brand Y sales.
Implementation of new software. Successful integration of ABC Software without interruption to business operations.		**Implementation of new software.** **Go live at the end of Q2** with ABC Software without interruption to business operations.
Drive Brand C. Further expand the Brand C proposition.		**Drive Brand C.** Further expand the Brand C proposition **to achieve 10% sales growth.**

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Operating Workshops

- Several ongoing changes

- Technology

  - Early-on, process was technology agnostic

  - Word -> Excel

  - Excel -> purpose-built software

- ERM supports aggregation

  - More complete view of organizational impact of risk

- Continual template evolution

  - Added risk treatment owners and due dates

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Summary

- Mars received an award for their ERM

  - Corporate Executive Boards' "Force of Ideas Award" for ERM

- Key factors for ERM success

  - Alignment with Mars' principles

  - Focus on meeting objectives

    - Operational

    - Strategic

  - Flexible

  - Realistic

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