Czech University of Life Sciences Prague

Faculty of Economics and Management

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Diploma Thesis

"A Framework for Strategic Risk Taking and Risk Management in Consumer Product Companies."

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DIPLOMA THESIS ASSIGNMENT

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A Framework for Strategic Risk Taking and Risk Management in Consumer Product Companies

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Objectives of thesis

The main objective of this diploma thesis is to identify and analyze strategic risks for consumer product companies. With the help of the strategic planning tool ”Scenario Matrix” four scenarios will be developed to illustrate future perspectives, trends and challenges facing the consumer product industry. Assuming the research problem that managing strategic risks is a critical success factor for consumer product companies a framework for successful strategic risk management will be developed based on the research results of this study.

Methodology

The methodology of this thesis is separated into two parts: the literature and empirical research. The literature research is based on information’s from economical books, scientific articles and journals about strategic risk management. In addition three studies were used as main data source to identify future trends and challenges within the consumer product industry. These studies were made by PriceWaterhouseCoopers, Deloitte and McKinsey in 2015-2016.

The empirical research will be based on primary data conducted through expert interviews answered by risk management representatives of consumer product companies. Based on results of the literature and empirical research a “Scenario Matrix” will be developed to visualize four scenarios which consumer product companies might have to face and should focus on according to the future trends and challenges within their industry. The concept was first developed by Kees van der Heijden (2005) and fits best to the research problem of this study.

The proposed extent of the thesis

60 – 80 pages

Keywords

Strategic Risk, Risk Management, Consumer Product Companies, Trends, Scenario Planning, Risk Framework

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Recommended information sources

Benson-Armer, R., Nobel, S., Thiel, A.: The Consumer Sector in 2030: Trends and Questions to Consider, 2016, Internet: http://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/the-consumer-sector-in-2030-trends-and-questions-to-consider

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Declaration

I declare that I have worked on my diploma thesis titled "A Framework for Strategic Risk Taking and Risk Management in Consumer Product Companies" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 27^{th} March 2017 __________________________

Annicka Pries

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“A Framework for Strategic Risk Taking and Risk Management in Consumer Product Companies.”

Summary

This diploma thesis aims to develop a framework for strategic risk taking and risk management within fast moving consumer goods companies (FMCG). Main objective is to identify key strategic risks FMCG companies have to face. Potential uncertainties, barriers and best practice approaches will be analyzed to develop a integrated risk management approach for FMCG companies.

The given diploma thesis consists out of two parts, theoretical and practical part. The theoretical part represents the fundamental understanding of risk, risk management and strategic risk management. The thesis further deals with the strategic planning tool Scenario Matrix which is used as main tool to develop the strategic risk management framework as outcome of the thesis. The practical part labels primary and secondary data for the ongoing research. The primary data is collected through three expert interviews to determine the best practices to managing strategic risks. The secondary data is taken from three different market studies of Deloitte, PricewaterhouseCoopers and McKinsey from the years 2015/16 to classify future trends and challenges of FMCG companies. The collected data is overall analyzed and used to determine four potential future scenarios within a Scenario Matrix including main strategic risks and challenges of FMCG companies. Further, the gained data is used to develop a five-steps strategic risk management approach for FMCG companies.

Keywords: Strategic Risk, Risk Management, Consumer Product Companies, Trends, Scenario Planning, Risk Framework

“Rámec strategického rizika a jeho řízení ve společnostech obchodujících se spotřebním zbožím.“

Souhrn

Tato diplomová práce se zabývá vývojem rámce pro strategické plánování a řízením strategického rizika ve společnostech obchodujících s rychloobrátkovým spotřebním zbožím. Hlavním cílem této práce je identifikovat klíčová strategické rizika, kterým tyto společnosti čelí a analyzovat potenciální nejistoty, bariéry a nejvhodnější přístupy ke stanovení integrovaného přístupu pro řízení těchto rizik.

Teoretická část této diplomová práce se věnuje základním principům v oblasti rizik a jejich strategického řízení. Práce se dále zabývá nástrojem pro strategické plánování zvaným Scenario Matrix, který je hlavním prostředkem pro sestavení rámce řízení strategického rizika a je také použit pro závěrečné výstupy. Praktická část obsahuje primárně a sekundárně získáná data pro následnou analýzu. Primární data jsou získána v rámci třech rozhovorů s odborníky v dané oblasti ke stanovení nejvhodnějšího přístupu pro řízení strategického rizika. Sekundárně získaná data jsou převzata ze tří tržních studií společností Deloitte, PricewaterhouseCoopers a McKinsey z let 2015 a 2016. Tyto data jsou použita ke stanovení budoucích trendů a výzev týkajících se společností obchodujících s rychloobrátkovým spotřebním zbožím. Společně jsou všechna data analyzována a použita ke stanovení čtyř potenciálních budoucích scénářů, pomocí nástroje Scenario Matrix, zahrnujích hlavní strategická rizika těchto společností. Dále jsou získaná data využita ke stanovení přístupu pro řízení strategického rizika daných společností.

Klíčová slova: strategické riziko, řizení rizika, spotřební zboží, trendy, scénáře v analýze rizika, tržní riziko

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Abbreviations

B2C	Business to Customer
CP	Consumer Products
CSR	Corporate Social Responsibility
ERM	Enterprise Risk Management
FMCG	Fast Moving Consumer Goods
GDP	Gross Domestic Product
KPI	Key Performance Indicator
SKU	Stock Keeping Unit
SLA	Service Level Agreement
SMCG	Slow Moving Consumer Goods
SP	Strategic Planning
SRM	Strategic Risk Management

1. Introduction

Risk in general is defined as an effect of uncertainty on objectives. It is an inevitable aspect of life and requires careful consideration to determine if such risks are acceptable or if they should be avoided. In organizations, risks play a decisive role in determining the continuity of the business. As such, risk management has evolved into a primary aspect of the decision making process for entities to reduce the negative impacts of risk. But during the past decades the thinking about risk management has changed. Traditional approaches tend to focus on monitoring leading financial indicators and trying to regulate changes.[1] Modern approaches on the contrary tend to focus on the strategic type of risk during the risk management process. Strategic risks are the next frontier of risk management, because they allow more conversation to participants to see the relationship between the risks which can, at the same time, open new opportunities for new businesses or services.

Strategic risks are capturing the long-term business strategy of the company and thereby have a key role in achieving the business strategy in the future. Accordingly, strategic risk management is about ensuring the company's access to capital and its ability to carry out its strategic plan – and, in this sense, it is a critical part of the business model" (Anderson, 2005). This topic is nowadays so important because in the past companies had more time to respond to strategic risks and were able to react with a fundamental solution or to just "wait and see" approach. But in the 21st century new technologic innovations, new trends of mobility usage, social media and rapidly expanding connectivity in relation to globalization a business environment of strategic impacts is established, where a small regional problem can almost instantly develop into a world crisis.

Considering the consumer product industry companies are following mainly a conventional approach to set and execute strategy based on sales growth and service delivery.[2] But the scope of today's risk manager is much broader. It contains all aspects of corporation, including

[1] Deloitte: Strategic Risk Analysis: A Tool to Create Business Value, 2013
[2] Mohammed, Sykes: Sharpening Strategic Risk Management, 2015

investment and operating decisions as well as financing – anything that affects the level and variability of cash flows going forward. It's about ensuring the company's access to capital and its ability to carry out its strategic plan – and, in this sense, managing strategic risks is a critical part of the overall business model (Anderson, 2005) and organizations who are able to name these risks, deal with them and track them, can turn this information into an important leadership and organizational resource for their businesses to go forward successfully.

2. Objectives and Methodology

2.1 Objectives & Research Problem

Risk management is often run as a separate process from frontline strategic assessments, decision making and monitoring of plans. In fast moving consumer goods companies (FMCG) three main goals are usually the driving force: sales growth, service delivery and consumer satisfaction. As a result of high competitiveness and product innovation pressure it is a problem to separate risk management from strategic planning decisions enterprise-wide.

The research problem however, states that this discipline of enterprise-wide risk management (ERM) is relatively new. Techniques for an integrated ERM have been developed over the past decade. Company value is a relation between risk and return – all decisions made have an impact on the company's value. It either preserves, increases, or eliminates value. A strategic-minded enterprise does not seek to minimize or eliminate risk, it rather, strives to manage risk exposures across all areas of the organization, so that in return, at any given time it adopts the right kind of risk to effectively pursue strategic objectives.

To find this optimal risk-taking zone, risk assessment and risk management is crucial. These processes take place within ERM. It is important that the structure of the system is correctly sized to the enterprise´s complexity, size, geographic reach and culture.[3]

[3] Curtis P., Carey M.: Risk Assessment in Practice, 2012

The aim of this research study is to provide leadership of consumer goods companies with an overview of an integrated risk assessment approach and the technique of scenario planning that have emerged as most useful and sustainable for decision making within this study.

Three main research questions concerning strategic enterprise risk management in FMCG companies have been identified to lead this research study:

1) What are the most significant risks and strategic risks FMCG companies have to face nowadays?
2) What methods do FMCG companies use to manage risks with focus on the business strategy?
3) What does a best practice approach look like: how to manage risks with focus on the business strategy in FMCG companies?

The overall result of the study will be the development of an integrated strategic risk management approach for FMCG companies while showing future prospective and challenges facing the industry with the help of the scenario matrix tool.

2.2 Methodology

For this thesis the methodology is separated into three parts: literature and empirical research. Whereas the empirical research has one sub-part. The Literature research is based on information from economical books about risk management as well as scientific articles and journals. This part of the study will help to understand the enterprise risk management itself and to focus on strategic risks in consumer product companies. Furthermore it will explain the theory of the later on developing strategic planning tools to identify the strategic risks for consumer goods companies.

In the second part of this paper three studies are used as main data collection for the future trends of consumer product companies. These studies were made by PricewaterhouseCoopers, Deloitte, and McKinsey in 2015-2016.

The empirical research will, on the other hand, use primary data collected through expert interviews conducted with managers of FMCG companies, in order to examine and understand what actions they are taking in terms of strategic risk management; and how these actions correlate with the theory research which has been conducted previously. This procedure belongs to the qualitative research approach. According to Kumar (2005) and Nohl (2009) interviews are the best suited and most commonly used instrument for qualitative research. To explore the central phenomenon of this research a semi-structured anonymous interview design with open-ended questions has been chosen as most appropriated. Semi-structured interviews give the participants a range of time and scope to express their knowledge and beliefs and allows the researcher to react to given answers and follow up on emerging ideas (Nohl 2009). But still the interview results are comparable since all participants are required to express their views about the same general topic. In addition this interview style allows not only the recording of answers to the given questions but also allows the interviewee to narrative his or hers personal experiences. For the interview a list of guiding questions was designed and used to guide the expert interviews in order to guarantee that all interviewees address the given issues which are needed for this research. This guideline was not used for standardizing the data generations, but it merely provided a frame for the discussions.[4] The contact with the experts was initiated with personalized email request from the researcher.

As an outcome of the research results from the literature review and the empirical data collection will be to develop a “Scenario Matrix” to visualize four scenarios which consumer product companies might have to face and should focus on according to the newest trends in their branch while focusing their strategic planning and strategic risk management. The concept was first developed by Kees van der Heijden (2005) and best fits to the research problem of this study.

[4] n. A.: Appendix 1: Methodology Interviews (n.d.)

3. Literature Review

3.1 Risk Definition

The origin of the word risk is coined either from the Latin word *riscum* or from the Arabic word *risq*. The Latin understanding of risk referred to the challenge what a barrier reef presents to a sailor, which is clearly an association of an equally coincidental but unfavorable event. The Arabic comprehension implied everything which has been given to humans from God from which humans draw profit and have connotation of favorable outcome.[5]

During history the meaning and usage of risk changed. Luhmann (1992) states that the word risk firstly appeared in English language during the seventeenth century, derived from the modern French word risqué. While in this time people denote risk as a possibility of danger "[…] an act of god, a force majeure, a tempest or other peril of the sea that could not be imputed to wrongful conduct"[6]. This concept of risk excluded the human behavior in it, the idea of human fault and human responsibility. As risk known were therefore natural events – humans could not have a big impact on them and were not able to change them.

Lupton (1999) claims the changes in the meaning of risk are linked with the modernity, the industrialization of the world, incorporating capitalism and as well the process of industrialization. Modernity depends upon the notion that the key of human progress and social order is the objective knowledge of the world through scientific exploration and rational thinking. This thinking suspects that social and natural behavior follows rules and laws which can be measured, calculated and therefore also predicted.

Going on in time the sciences of statistics and probability have been invented to calculate the norm and deviations from the norm to bring clarity and control into disorders. To find the reasons for the deviation - the word "risk" got into a new focus. The possibility to calculate risk and the growing of the insurance industry meant that the consequence firstly just affected the individual got now statistically describable, measurable and predictable which led to political rules of recognition and compensation and avoidance. By the nineteenth century risk

[5] Merna T., AL-Thain, F. (2011), p.20
[6] Lupton (1999), p. 5

was not anymore located in the nature only but also in the human being, in its relationships, in its operations, in its society and association.

In modernity risk had a purely technical meaning for everything where the probability of events was able to estimate the outcome. In terms of when the probability was inestimable the use of the word uncertainly was used as the alternative to risk. John Maynard Keynes (1883-1946), the English economist whose ideas fundamentally changed the theory and practice of macroeconomics, stated that human behavior and especially from investors should be classified "*as a subject to uncertainty rather than the law of risk because they were driven by animal spirit which by their very nature were not subject to probabilistic or risk analysis*."[7] Modernist notion of risk to be good or bad was included in their understanding of risk and risk analysis. [8]

Therefore the current definition of risk according to ISO31000 2009[9] is that risk is in general an "*effect of uncertainty on objectives".* Or "*risk can be defined as any source of randomness that may have an adverse impact on a person or corporation*". [10] This effect can be either a positive or negative outcome from what has been expected. In addition risk is attached to probability which can be estimated or calculated. Uncertainty is often confounded with risk which stands for something which understanding of the consequences, cost or benefit or likelihood is unknown.

[7] Lupton(1999), p. 7
[8] Lupton: Risk, 1999, p.1-10
[9] ISO31000:2009 Risk Management – Principles and Guidelines
[10] Culp, C.: The Risk Management Process, 2001, p.11

3.2 Enterprise Risk Management

Risk management in general referrers to the process of identifying potential risks in advance, analysis them and provide precautionary steps to minimize the negative outcome of the identified risk.[11] Enterprise risk is the likelihood that expected results will not match real results. The general definition of ERM according to the COSO[12] (2004) is: "... *[ERM is a] process effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."*

This concept of enterprise wide impacts and potential events that may affect the whole entity developed since the 20th century. Previously the view of business risk was mainly focused on financial risks or hazard risks which might occur during the time of operations – financial insurance for identified risks within this scale were taken to prevent worst case scenarios. The main focus of financial risks has been expanded to include those risks as well which are associated with changes in technology and internet commerce.

Since the 20th century, the role of risk management transformed to focus even on further areas to protect companies during periods of growth, change and development. The rapid growth of a business, results in major changes in nearly every field of the business operations including for instance production, distribution, marketing and human resources. Hence, the risk for a business with such changes reveals increased risk in all fields of operation. In respond, first concepts of enterprise risk management in a broader view have been developed. These concepts intended to implement risk awareness and prevention methods on a enterprise wide, coordinated and integrated process as in the definition of COSO (2004) described. And this integrated process and approach has become known in the literature and business world as ERM.[13]

[11] The Economic Times: Definition: Risk Management, 2016
[12] Committee of Sponsoring Organizations
[13] Harvey J.: Enterprise Risk Management, 2008

The main objective of ERM is to establish an enterprise wide culture of risk management to handle all risks related to changes and growth in the business environment. According to Tongson (2008) there are six major steps to implementing an ERM program companywide:

1) incorporate risk management into the core values of the company;

2) support those values with actions;

3) conduct a risk analysis;

4) implement specific strategies to reduce risk;

5) develop a monitoring systems to provide early warnings about potential risks; and

6) perform periodic reviews of the program.[14]

The ERM process itself is designed by the entity´s board, management and other personnel stuff and reaches from there into every major area of an organization. The main focus is to ensure the sustainability of the business by addressing risk is impacting all key areas where sustainability is crucial. These areas are for example: Economic performance, environmental performance, labor practice and performance, Human rights practice and performance, product or social responsibility.[15] Within this ERM process four areas of risks are defined and shown in this figure:

[14] Anastasio S.: Risk Management, 2008

[15] Thomson Reuters: Practical Guidance: Seven Steps for Effective Enterprise Risk Management, 2015

Figure 1 Risk to Business

Source: Mohammed A., Skyes R. in "Sharpening Strategic Risk Management", 2015

3.2.1 Strategic Risk

Strategic risks can be defined as the uncertainties and untapped opportunities embedded in enterprise strategic purpose and how well they are preforming. As such, they are key matters for the board and impinge on the whole business, rather than just an isolated unit. Typically these risks are external or have the most effect on the senior management decisions.[16] Accordingly, all events or scenarios that can inhibit an organization´s ability to achieve its strategic goals are strategic risks. It can be associated with future strategies and plans to the long-term performance of an organization.

Plans for entering new services, expanding existing services through enhancement and mergers, enhancing infrastructure, etc.[17] These new strategies include a wide branch of variables such as market, corporate governance and stakeholders. The market itself is highly variable and can change rapidly, as well as the economic characteristics of the countries in which the organization is operating. Corporate governance as a variable of strategic risk

[16] Mohammed A., Skyes R.: Sharpening Strategic Risk Management, 2012
[17] Taylor (2012), internal audit: Concepts of Strategic Risk and Managing Strategic Risk

includes the reputation of the organization and the culture and ethics within the business. Stakeholder risk includes the risk associated with the shareholders, business partners, customers and suppliers.

In the literature several definitions of strategic risks are found. For this study the types of strategic risks chosen are those identified by Professor Roberts, Dr. Wallace and Mr. McClure from the Edinburg Business School – Heriot Watt University.[18] According to them the most common types of strategic risks are:

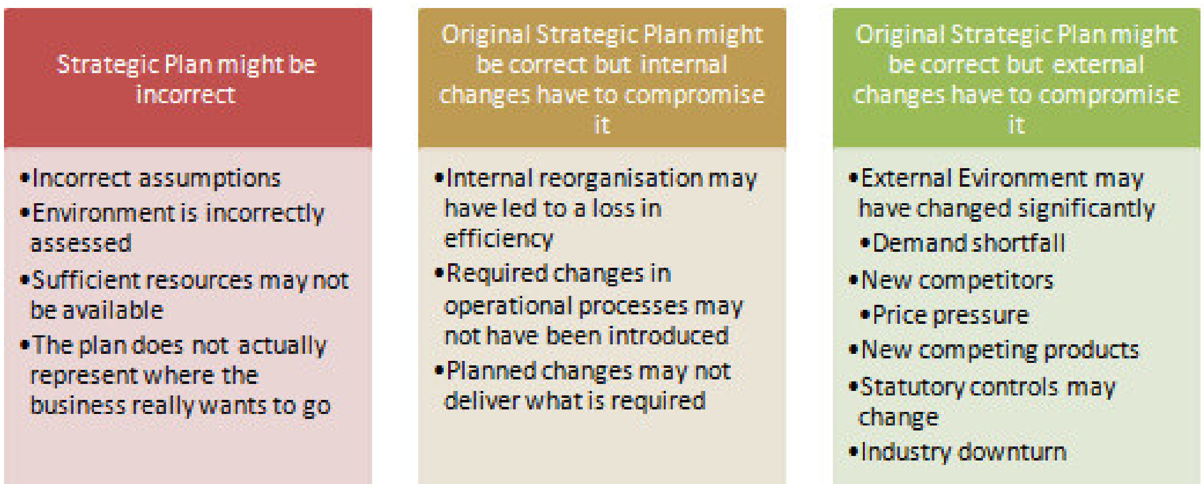

Figure 2 Strategic Risks
Sources: Own Figure according to Roberts, Wallace, McClure, 2012 and Mohammed A., Skyes R., 2015

3.2.2 Operative Risk

Operational risk refers basically to the risk of failure in all operational activities, processes and systems. It includes also logistical, safety and environmental problems, plant and machinery breakdowns as well as power outages and IT Systems. In this category of risk also belongs the failure of human capital. They are often associated with active decision making – what the business prioritizes and how its functions perform. The risks are not guaranteed to result in losses, failure, higher costs etc., they are considered as lower or higher depending on internal

18 Roberts, Wallace, McClure: Strategic Risk Management, 2012

management decisions. This also differs from industry to industry, but always needs to be considered before making investment decisions.

In consensus, industries with lower human interactions are likely to have lower operational risks.[19]

3.2.3 Financial Risk

Financial risk is a general term for all risks related to any form of business financing. They may include liquidity, credit, insurance, currency, exchange rate, or commodity risk. It is the risk that the flow of cash of an issuer (business) will not meet its financial obligations. Additional risk in this category occurs always for enterprise stockholders when the enterprise is using debt and equity for their operations.[20]

3.2.4 Hazard Risk

A hazard itself can be defined as a source of danger, a condition or situation which occurs within the work environment and causes physical injury, harm or damage. Hence, hazard risks include losses which are caused by exposures without the possibility of gain and are often triggered by exogenous factors, which affect and harm the surrounded environment of the organization.

[19] Investopedia: Operational Risk Definition, 2010
[20] Campbell R.: Financial Risk, 2011

3.3 Risk Management Process

Enterprise risk management is a continuous process in which potential risks are assessed, identified, and addressed as shown in figure 4. The framework in developing a risk management plan serves as the basic guideline as each project or area of consideration requires customization to address the specific risks at that area as the risks will vary even though some risks are present in multiple areas.

Figure 3 Enterprise Risk Management Process
Source: PwC.com, 2015

The first step of the process is to set objectives: Objectives in general must be set before the management identifies potential factors or events which might affect their achievements. The chosen objectives should support and be aligned with the business strategy and mission and be consistent with the risk appetite. Secondly, internal and external risks must be identify which might harm the achievement of the objectives or state new opportunities organized by the categories: financial; operational; strategic or; hazard risks. These categories can have sub-categories and can be defined for business units, corporate functions and/or capital projects. At this step the total range of risks need to be understood while forming the business risk profile. Whereas most risks might be important to management or certain business units – the amount of risks need to be prioritized for top line management to focus on.[21] Which leads to the third step: the risks assessment. It aims to assess the size of all risks in order to focus management´s attention and actions on the most valid threats and opportunities and create the basis for the risk respond in step 4.

The risks assessment is all about prioritizing and measuring risk to guarantee the risk level is within the defined tolerance area without being over controlled or missing desirable opportunities. Certain risks require continual ongoing assessment and monitoring because they are showing a dynamic character – others are more static and are in the need of reassessment on a periodic basis.[22] As stated by the Institute of Internal Auditors (IIA) risk is measured in impact and likelihood as shown in Figure 1. ERM allows the organization to manage the risk within its risk appetite. As risk appetite is the level of risk an organization is willing to accept. This process is giving the certain assurance – not absolute assurance – regarding the achievements of the objectives.[23]

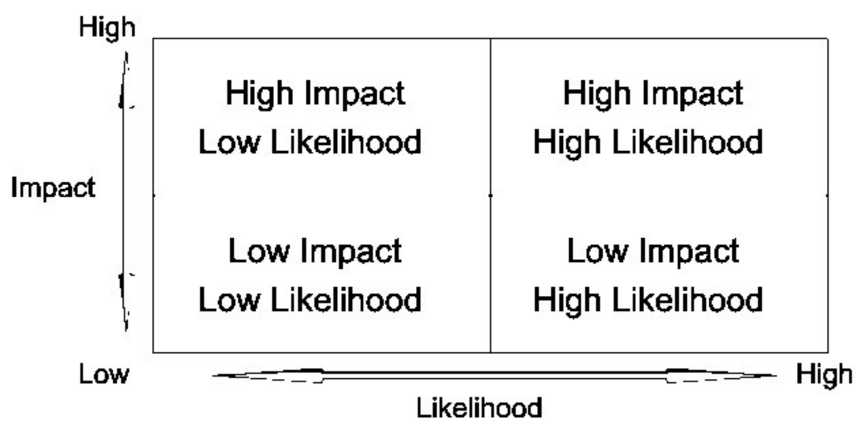

Figure 4 Risk Map for Likelihood and Impact
Source: THE IIA'S CIA LEARNING SYSTEM TM, LearnCia.com 1, 2015

[21] Curtis, P., Carey M.: Risk Assessment in Practice, 2012
[22] Curtis, P., Carey M.: Risk Assessment in Practice, 2012
[23] Taylor (2012), internal audit: Concepts of Strategic Risk and Managing Strategic Risk

The following step is the risk response – step four. As a result of the risk assessment process a set of action needs to be developed to arrange the risk within entity's risk tolerance and risk appetite. Respond options to risks are examined as accepted, must be reduced, can be shared or have to be avoided. To do so a cost-benefit analysis has to be performed, a respond strategy defined and a risk respond plan be developed. Step five includes the controlling of all taken activities. Therefore policies or procedures are implemented to guarantee the risk responds are effectively carried out. The final part of the whole process is the monitoring. The whole process of risk management is monitored by the top line management and as well on lower levels, which can lead to further improvements or modifications of certain steps, if needed. Monitoring is performed through ongoing management activities and action evaluations.[24]

[24] Reuters T.: Practical Guidance: Seven Steps for Effective Enterprise Risk Management, 2015

4. The Purpose of Strategic Risk Management

According to a research study conducted by PricewaterhouseCoopers in 2012[25]enterprise risk management techniques were focused on identifying and mitigating operational and financial risks. But it has also shown that the management of strategic risk factors will have the greatest impact on the ability to realize enterprise strategic objectives. Combining ERM with strategic decision making and execution could provide a business with a key success factor. In addition, risk and return are inseparable concepts, which leads to an ERM approach which integrates risk management and management process for selecting the organization's strategies and objectives with their risk management activities. It is to be applied in strategy setting with an ultimate goal of contributing to the achievement of the entity's objectives. The SRM is a further developed part of ERM, which is designed to be strategic and value-adding for the business performance.[26]

COSO[27] defines strategic objectives as "high-level goals, aligned with and supporting its mission." These strategic objectives are the cornerstone of an organization's strategy. Both internal and external events and scenarios that can disable an organization's ability to achieve its strategic goals are strategic risks, which are the focus of strategic risk management (SRM). Accordingly, SRM is a critical part of the overall ERM process. It is not separate from ERM but is a critical element of it.

Therefore strategic risk management is the respond to uncertainty and opportunities which are unused in the strategic intent of a business. This includes that the business has a clear definition and understanding of the corporate strategy, the risk in adopting it and the risk in executing it. Once the risks are identified from inside or outside the company the development of effective, integrated and migrations of strategic risk can begin. The aim of SRM is to achieve the full value of the business strategy.

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[25] Black swans turn gray – the transformation of risk, January 2012, pwchk.com/rca

[26] COSO: Strengthening Enterprise Risk Management for Strategic Advantage, 2015

[27] Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative based in the USA to combat corporate fraud.

According the result of PricewaterhouseCoopers research in 2012, an effective strategic risk management can be illustrated as in Figure 2. It is built around a clear understanding of how much risk a business is prepared to take to deliver its objectives throughout the business value chain, and a timely and reliable evaluation of how much risk it is actually taking through the whole process.

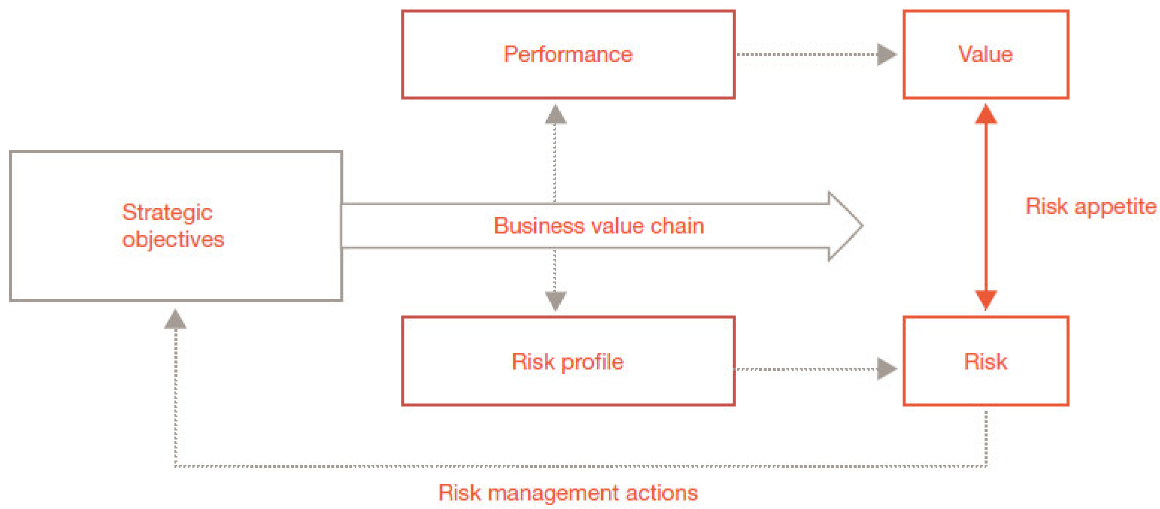


Figure 5: Managing risk to deliver objectives
Source: Mohammed A., Skyes R. in "Sharpening Strategic Risk Management", 2015

The control of strategic risk can threaten the logic of management´s strategic choices. These choices are owned by the leaders of the business who are responsible for the future and strategic objectives of the organization. Therefore the CEO[28], the board or the chief strategy office are responsible for overseeing the strategic risks. Corresponding to Andrew Blau, managing director of Deloitte & Touche LLP's Strategic Risk Solutions practice, the CFO[29] of an organization has a key role within the strategic risk management process. A CFO is operating as a strategic advisor to the CEO on a host of issues. For instance the allocation of resources against strategy, investment options and capital decisions, and the management of a

[28] Chief Executive Officer
[29] Chief Financial Officer

portfolio of financial risk assets. So CFOs need to participate with the CEO, the board and other senior stakeholders in the conversation about strategic risks.[30]

Resources needed to comply the business strategy can be both intangible and tangible. They include communication channels, delivery networks, operating systems, and managerial capabilities and capacities. The organizations internal characteristics must be evaluated against the impacts of economics, competitive, ordinance, technological and other environmental challenges and changes. Also worth mentioning is that strategic objectives are high-level goals and the risk management of these is much more difficult to assess then of operational or financial risks. The likelihood of occurrence of a significant change in the field of competition or external environmental changes for a given sector is highly complex. Therefore they depend on long-term variables which are difficult to measure and predict for a significant modeling. [31]

Another approach to strategic risk management is focusing on the area of conflict between compliance management and strategic regulation. Risk management and compliance itself need to be coordinated and work closely together. According to Ruthner (2012) compliance in relation to risk management is important to guarantee no legal requirements will hinder the operational success.

On the other hand the focus on strategy is also every important according to Ruthner (2012). He stresses that, because many strategic risks are not controllable but still need to be transparent for the business to make arrangements if needed. In addition he states, that risk management is, in most companies, used as an operative instrument and not as integrated process within the strategic planning process. Strategic risks are difficult to identify exactly this highlights the importance of considering them as success factors for the business development. He claims that scenario analysis for strategic planning is too rarely used in the daily operations and therefore also not enough developed so that companies could profit from it without consulting with experts. Ruthner's (2012) approach claims to sustainable integrate

[30] Blau, A.: Strategic Risks: The New Frontier of Risk Management, the Wall Street Journal, 2014
[31] Roberts, Wallace, McClure: Strategic Risk Management, 2012

risk management within the strategic planning process to control regulation processes with the alliance to compliance management.[32]

4.1 Corporate Strategy

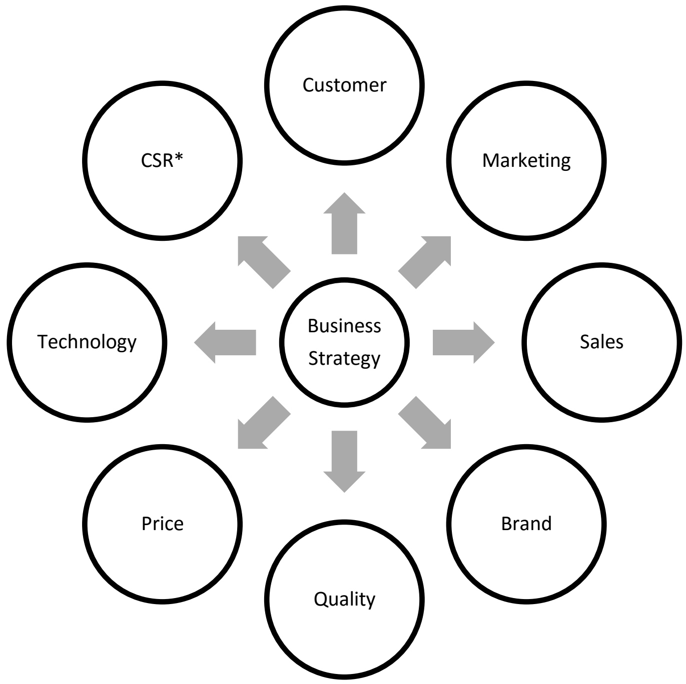
A business strategy is in general a long-term plan which will lead to achieving the business objectives. As corporate strategy is understood as the long-term plan and its objectives which involves the whole organization. The strategic objectives in this relation are the desired results, sometimes also called a company's dream or mission, which the company sets for itself and seeks to achieve in the long-term. A effective strategy to achieve the business objectives needs to be focused on key elements like: sustainability – once established it need to be valid over time, enable competitive advantage, distinctive from competition, related to business vision and focusing on environmental relationships. Thus, a successful business strategy needs to have a different set of activities to deliver a unique mix of values. It should strive to be excellent in every action and decision within the business operations while trying to be different from the competition.[33]

Within the literature various definitions of long term objectives or strategic planning's are defined. For this research study the definition is taken from Thomson K. (2015) where long-term objectives and strategic settings are defined for the period of five years. Short-term objectives are on the other hand defined as for the period of one year.

The overall business strategy, for instance, "*doubling revenue within the next five years*" can be divided in different modules while having their own strategic plan focusing on each segment to achieve the overall business strategy. The scope and amount of modules is different from enterprise to enterprise, depending on the size, market, geographic location, market position etc. In figure 6 the possible modules are demonstrated:

[32] Ruthner, R.: Strategic risk management, 2012
[33] Dransfield: Corporate Strategy, 2001
*Corporate Social Responsibility

Figure 6: Modules of Business Strategy



Source: Own illustration

5. Strategic Risk Management Tools

To identify and track strategic risks and future opportunities companies have a number of tools to use to develop a strategic risk framework which can help executives and boards to take the right strategic decisions for their businesses. Three main tools according to Bukalku, Hwang, Masand (2016) are Scenario Planning, Risk sensing technologies and Horizon Scanning Methods. For the purpose of this study the scenario planning as tool of strategic planning is explained more in detail.

5.1 Scenario Planning

Strategic Planning is a wide process for determining what a business is aiming for and how it can best achieve these future aims. It evaluates the full potential of a business and sets the business's objectives to the actions and resources required to achieve them in relation. It can help organizations to develop a set of both risks and opportunities more broadly, to see potential futures which might challenge their current strategic assumption.

Strategic Planning offers a systematic process to ask and answer the most critical questions confronting organization´s management—focused on large, irrevocable resource commitment decisions.[34] It is usually reviewed on a 3 to 5 year basis.[35] According to Wulf, Brands, Meissner (2010) the whole process of strategic planning can be structured as shown in figure 6 with suitable tools for every step. For the further development of the thesis this research is focused on the fourth step according to the Scenario building tool.

This tool aims to generate and develop four distinct future scenarios which might have impact on the business strategy. To identify these scenarios are moreover two influence factors necessary to be defined. The Scenario influence diagram and the scenario fact sheet.

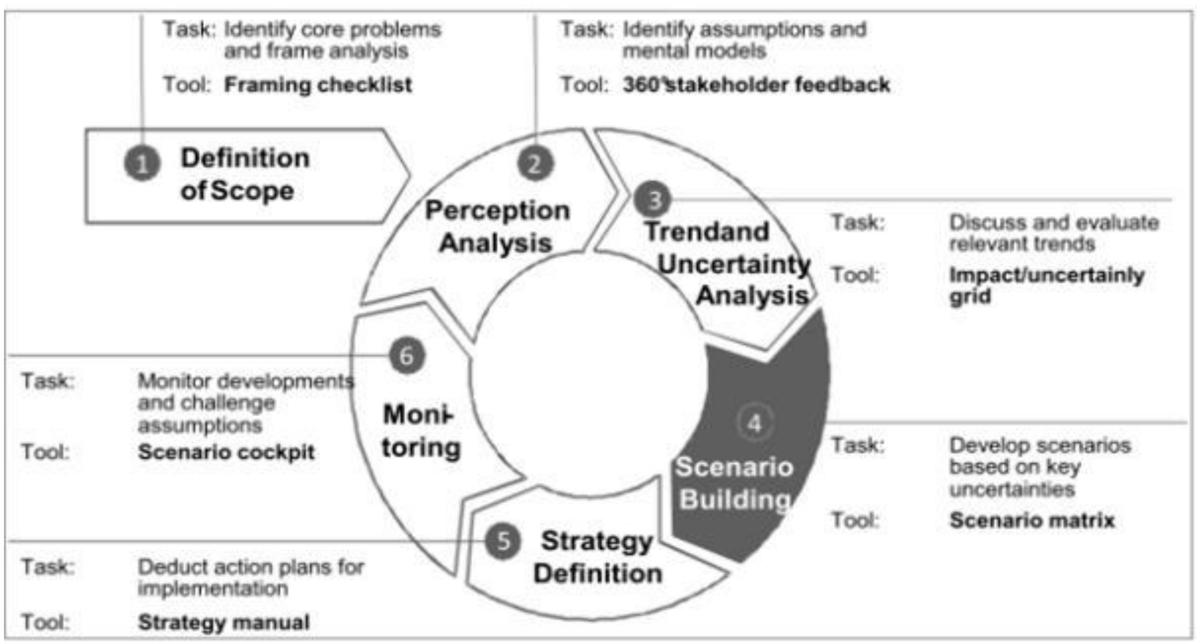


Figure 7: Six-Step Scenario-based Approach to Strategic Planning
Source: Wulf, Brands, Meissner: "A Scenario-based Approach to Strategic Planning", 2010

[34] Rigby: Management Tools, 2015
[35] diycommitteeguide.org: What is Strategic Planning, 2016

To define the scenario matrix certain structured steps have to be followed. But the beginning of this process is to set the goal of the planned scenario. Corresponding to Bradfield, Wright, Burt, Cairns and van der Heijden (2005) three major purposes can be launched:

1) Scenarios are used as a singular activity to predict and evaluate a defined strategic plan.
2) Scenarios are used as a singular activity to support and enhance a defined strategic planning process including decisions which are being made.
3) Scenarios are used as a singular activity to analysis an ongoing course of action within a business strategic planning process and the way that an organization learns.

The overall aim of creating scenarios is to prepare management to make better strategic planning decisions. As already mentioned scenarios investigate critical uncertainties, leading to strategic risks, and variations of uncertainties in addition to important predetermined future trends. A few different tools have been developed in the past trying to fulfill tasks of developing scenarios based on uncertainties as well as on trends.

These scenarios are constructed within an organization using inductive or deductive processes monitored by an experienced scenario practitioner. They are qualitatively and organizationally based. The outcome is a logically, qualitatively and discursively described set of two to four scenarios all being equally probable (Bradfield, Wright, Burt, Cairns and van der Heijden, 2005). Within this process all stakeholders are engaged in the scenario-development process. This leads to the conclusion that the probability of the scenarios representing actual significance to a managers. Important for the scenario development are internal factors within the company but also external affects.[36]

5.2 Scenarios

The basis of the scenario planning tool is to understand the term scenarios itself. Scenarios as a term according to strategic planning is used for future study methods. Their aim is to provide different sets of information about the future within a given period of time in the form of a

[36] Wulf, Brands, Meissner: "A Scenario-based Approach to Strategic Planning", 2010

story. They are designed and developed by combining all possible risks and uncertainties in an enterprise or environment with predetermined impacts. Corresponding to Schwartz 1996, scenarios are stories about the way the world might turn out tomorrow, stories that can help us recognize and adapt to changes in our present environment. He considers that scenarios can be both a great tool and a great method for future studies.

Scenarios can be a great tool for helping us to take a look on the long-term future development of uncertainty and on the other hand be a great method for articulating the different ways which an enterprise can use appropriate movements and decisions to adapt to these exposed uncertainties.

The content of the scenarios is structured according to particular objectives and targets. Therefore, organizations use scenarios for the purpose of making management decisions for the future perspective – to be prepared for an uncertain future. Basically, that is the reason that scenarios are used for strategic planning. They can be used to plan a business, judge investments, influence development plans, create marketing strategies, and predict sales and many more outcomes. Hence, scenarios deal with possible future events without actually predicting the future but rather perceiving futures within the present. [37]

Objective of Scenarios: As mentioned before scenarios are aimed to be a success factor for a management to avoid the unfavorable event and gaining favorable conditions after making a decision. The scenario constructing process starts with an enterprise issue which requires some precise decision-making. Hence, at the beginning decision maker need to identify the need for such scenario. The aim of the scenarios will then trigger the whole scenario planning process. As stated by Notten (2003) two types of scenarios goals are the basis for creation: 1) Exploration and decision support – Notten means the awareness of goal explorations might raise, the stimulation of creative thinking increase and insights into the way of societal process and their influences might become clear. This way of creating scenarios is called an explorative one. In an exploratory scenario exercise, the process is often as important as the

[37] Fuseini, A.,B.: Scenario Planning in Organizations, 2009

product (Notten et al., 2003). He further explains that in certain cases the product – the scenario – is even discarded at the end of the whole process.

2) The other type of scenarios are the supportive scenarios. They are used to examine ways for the future that might vary according to their attractiveness. And these scenarios might even propose concrete strategic options and are mostly used within the business context. This kind of scenarios mostly contain value-added combinations of different scenarios. The leading question by creating a decision-support scenario is to ask the questions:

- What do I want to do / achieve within the next five years (long-term goal)?
- Where do we want as an organization to be in the market within the next five years (long-term strategic decision)?

The answers to the questions might go through the whole way of strategy development process while defining strength and weaknesses for all operations and the whole business. In this context gaining through this approach the competitive advantage could trigger the scenario planning process. As maintained by Schwartz (1996) company specific scenarios should begin the approach of “from inside to the outside” rather than “from the outside to the inside”. Which states the way of starting to construct a scenario while first defining the internal issue of the enterprise, and then build out toward the external environment.[38]

Driving forces of scenarios are the factors, conditions or events that could influence the decision making environment. Usually these driving forces are external factors limitedly controllable by the decision-makers. They are very crucial for the scenario planning process and need to be carefully gathered and collected together. Sometimes defined as place holders for environmental forces they are driving possible outcomes of a critical uncertainty[39]. Driving forces differ from scenario to scenario according to the specific orientation of the identified business issue. However, some forces are considered to be important in the majority if scenarios: impact of society, technology, politics and environment in general. They can be divided into two types. Firstly, predetermine elements – those that are familiar to the decision-

[38] Fuseini, A.,B.: Scenario Planning in Organizations, 2009
[39] Heijden, K.: The Origins and Evolution of Scenario Techniques in Long Range Business Planning, 2005

makers and secondly, uncertainties – that are not familiar to decision-makers. Scenarios are constructed to use both factors: predetermined elements and critical uncertainties. [40]

5.3 Scenario Matrix

Scenario Matrix tool was first introduced by van der Heijden (2005)[41] and is a deductive method used for describing and constructing scenarios in uncertain and unexpected situations. Is builds and visualize four scenarios based on two key factors. According to Wack (1985) and van der Heijden (2005) four is the maximum number of scenarios that the management or decision makers are able to manage. As already mentions before two additional tools are used to support the Scenario Matrix: The fact sheet and the influence diagram.

Overall, four sub-steps are needed in order to develop and describe scenarios on the basis of the scenario matrix tool. The four-steps of the process are:

- 1)Scenario identification
- 2)Creation of an influence diagram
- 3)Scenario description
- 4)Creation of a fact sheet

[40] Fuseini, A.,B.: Scenario Planning in Organizations, 2009

[41] Wiley.com: "*Kees van der Heijden* is an Associate Fellow of Templeton College, University of Oxford, and a Visiting Professor at the Netherlands Business School, Nijenrode University. He is also Emeritus Professor of the University of Strathclyde, Graduate School of Business, Glasgow, where he has taught General and Strategic Management since 1990. He is also a co-founder of the Global Business Network. Before joining Strathclyde, he was in charge of scenario planning at Royal Dutch/Shell, as head of the Group's Business Environment Division. This involved advising top management on strategy, as well as development of the process of scenario planning in which Shell has taken a worldwide leading role."

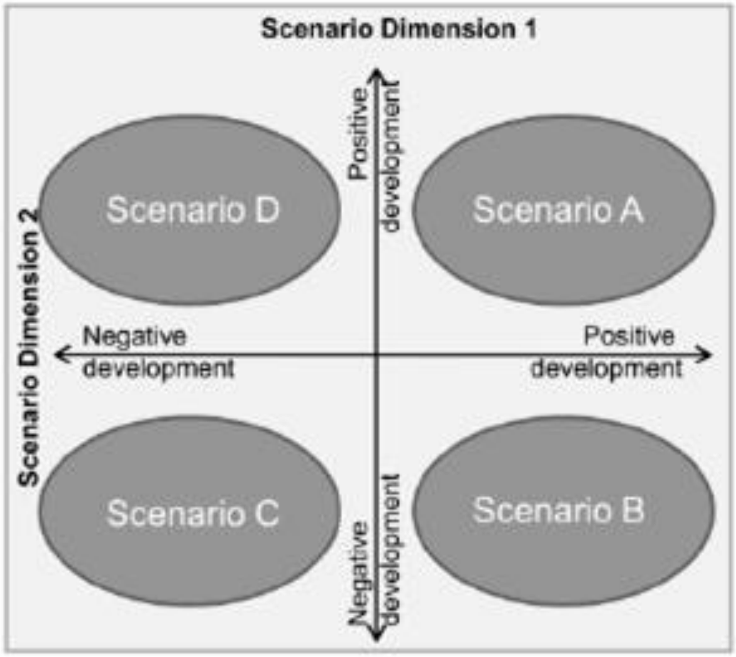
5.3.1 Scenario identification

The scenario matrix is based on the results of the first two steps of the strategic planning process. Especially on the factors of uncertainty and impact which are identified within the Impact/Uncertainty Grid, the so called predetermined elements. This Grid highlights predictable impacts (low uncertainty; high business impact) and critical uncertainties (high uncertainty; high business impact). In order to develop the scenarios, it is necessary to project the key factor of uncertainty with an extremely positive or negative outlook along the y and x axes of the matrix. After identifying and separating all elements the next important process step is to construct the scenarios about the imagined future – this will be the story illustrated to the decision-makers. As stated by van der Heijden (2005) scenarios are constructed by combining key uncertainties with predetermined elements within a business environment. In this way a consideration is given to multiple futures that reflect various different underlying structures of reasons and effects, depending on how the key uncertainties will develop over time. Through this approach scenarios are generated. Each of them has to be understandable named so the reader understands the matter behind it. This name will guide also to the causes and effects behind the scenario description, generated in the influence diagram. Hence, Scenarios are basically constructed by finding appropriate mapping between predetermined elements and uncertainties, how they are mapped depends largely upon experiences and skills of the individual scenario planner.[42]

Usually scenarios are created to evaluate three or five years into the future which matches the time frame for strategic planning process.[43]

[42] Fuseini, A.,B.: Scenario Planning in Organizations, 2009
[43] Wulf, Brands, Meissner: "A Scenario-based Approach to Strategic Planning", 2010

Figure 8: Scenario Matrix



Source: Wulf, Brands, Meissner: “A Scenario-based Approach to Strategic Planning”, 2010

5.3.2 Creation of an Influence Diagram

To state the causes and the effect of scenarios, an influence diagram has to be generated. It shows the causes and effects through a dynamic chain and describes the strategic level behind the scenarios. To do so, a list of forces, factors, trends and their interrelations needs to be developed. The starting point for this analysis are the already identified trends and uncertainties in the steps before. The most important factors have to be set in interrelations to examine interdependencies and impacts on one another from present up to five years into the future.

To visualize future development trends in relations to critical uncertainty or risks a set of arrows displaying the influence is set out in figure 8. To guarantee a valuable structure these relation between the different factors need to be authentic and unambiguously.

5.3.3 Scenario Description

The scenario description is based on small text modules to each trend or uncertainty. These small descriptions show also the relation between the other trends. They usually begin with the global objectives and are broken down to the company or certain industry level. Sometimes the opposite effect can occur while considering another uncertainty. The text modules, having been created, should be set in a structured order where the interrelations are clearly illustrated. A second way of describing these text modules is through a more creative one. Hereby the modules are not based on the trends or uncertainties but are focused on the whole picture and are using the influence diagram as an orientation. In this approach the final outcome – company level – is the starting point of analysis.

To complete the description of the scenarios, each text module is given a concise headline and sub-headline to capture the reader´s attention. The aim of this process step is to create a clearly structure about the scenarios which is easy to understand, set in relation with others and to communicate the essence of each one and do develop creative thinking for future developments and improvements.[44]

5.3.4 Creation of a Fact Sheet

The final step of the Scenario Matrix tool is to create a fact sheet. This fact sheet contains relevant numbers, short descriptions and key indicators about the scenarios. It indicates the full scope of the current situations and scenarios including relevant measures. To finalize this step an examination check can be made by answering the questions, if the scenarios have fulfilled the role to understand and anticipate uncertainties as well as risks or did the scenarios reveal strategic opportunities which were unknown before. [45]

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[44] Wulf, Brands, Meissner: "A Scenario-based Approach to Strategic Planning", 2010
[45] Wulf, Brands, Meissner: "A Scenario-based Approach to Strategic Planning", 2010

6. Consumer Product Companies

Consumer products (CP) are products which are purchased for everyday private consumption. Alternatively called final goods, consumer goods are the end result of production and manufacturing and are what a consumer will see on the store shelf. CP cover a wide product portfolio including food and non-food categories in order to meet consumer demand and satisfaction. The consumer product sector itself can be separated in fast moving consumer goods (FMCG) and slow moving consumer goods (SMCG). The definition is based on how fast the products are sold to the customer – factor in rotation of goods.

FMCG are goods with a useful life less than a year and including product categories such as beverages and food, personal care, household and cleaning products, clothing and footwear, tobacco and pet food or pet care which are products bought relatively frequently.

SMCG are goods with a useful life greater than a year containing items such as household appliances, furniture and home improvement products. These items have a lower sales frequency than FMCG.[46]

The fast moving consumer goods segment is a highly competitive one. FMCG companies are always under pressure to innovate new great products, create more creative shopping experience and service to meet consumer´s needs and to stay competitive. The global leading FMCG companies in 2016 are Nestlé, P&G, Unilever, PepsiCo and Coca-Cola.[47] All of these companies operate multinational and are facing the challenge to meet country-specific requirements regarding their products, products packaging and labeling. A key success factor of the companies is to keep consumers as regular and loyal buyers. CP companies try to develop this loyalty and trust through their brands and new innovations. While today focusing on the Consumer Product Industry there are two main parts of sales income: through the classical stationary retail markets and the relatively young e-commerce sector. Each one of them facing different challenges and are competitive against each other. To be successful in

[46] Statistica.com: Consumer Goods & FMCG (2015)
[47] Statistica.com: Top 50 FMCG companies worldwide in 2015, based on net sales (in million U.S. dollars)

this industry it is crucial to focus on both areas. In general, CP companies are relaying on a maximum of profits and market share in an interconnected, high competitive environment. Given stable challenges are meeting the changing demands of customers, maneuvering through a consolidating market, and executing strategies to profitable growth. This industry is facing an unprecedented amount of different challenges from declining brand loyalty, changing demographics, economic uncertainty. As consequences executives of consumer product companies need to be able to simultaneously pursue aggressive growth and cost improvement which represents also in the strategy of the most CP companies: “sales growth” and increasing “product profitability”. [48]

[48] Deloitte.com: Consumer Product (2016)

7. Practical Part

7.1 Trend and Challenge Analysis of CP Companies

This part of the study contains secondary data from market research of Deloitte, PricewaterhouseCoopers and McKinsey from 2015/2016[49] about trends and challenges for consumer product companies. The data was structured by the author of this diploma thesis in each study according to the main focus of this research to answer the given research questions. To analyze the studies the method of open and axial coding has been used. Thereby, the given texts have been broken down into master headings and sub-headings. After re-reading the studies the researchers own concepts and categories have been created. The following categories have been identified to form the basic unit of the analysis:

- Changes in consumers / demographics
- Consumption patterns / preferences
- Technology
- Industrial shifts
- Economic uncertainties / challenges
- New market entrances
- Management

The concept of the analysis was "Strategic Risk Management of CP companies" with the two categories "future trends" and "future challenges" which led to different axial codes, shown in the table 1. The final concept was enabled into a data table (table 1). This way structuring the analysis was chosen because it is an effective way to manage and organize results in research papers (Biddix, P. 2005).

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[49] Benson-Armer, R., Nobel, S., Thiel, A.: The consumer sector in 2030: Trends and questions to consider, 2016, mckinsey.com
Maxwell J., Sviokla J.: 2016 retail and consumer products trends, 2016, pwc.com
Renner, B.: 2016 Consumer Products Industry Outlook, 2016, deloitte.com

The following table shows the combined results of the research studies from Deloitte, PricewaterhouseCoopers and McKinsey taken in 2015/2016.

Major Categories: Challenges and Trends of CP Companies

Major Categories	Associated Concept
Consumer changes, demographics	Aging population (global middle-class spending will triple till 2030), Urbanization, the rich are becoming richer, Shrinking household size, Women in the workplace
Consumption patterns, preferences	Focus on health and wellness, demand for personalization focus on shopping experience, buying local, simplification of choice, decline in brand loyalty, uncertainty about consumer spending, reduction in store visits (optimal balance between physical and digital presence), responsibility to social issues, quality preferences
Technology	Mobile world, social media, cost pressure, price pressure, big data for operations, digital profiles, robotics, renewable energies, virtual reality, internet of things, social-media driven consumption, market transparency
Industrial shifts	Direct-to-consumer models, talent shift/shortage, sharing economy increase, tax burdens, increased regulatory security, around the clock product promotion, focus on direct-to-customer relationship, local production, social issues, corporate responsibility, online outlets
Economic uncertainties, challenges	Rising labor and commodity costs, climate change, power of China, India and other new industries (Chinas GDP could exceed the real GDP of US till 2030), overregulation, financial distress, creating consumer *touchpoints*, brand innovation through consumer dialog
New market entrances	Brand entrance are more focused, competition through Start-ups, Innovation in new business models
Management	Industry expertise, risk aware culture, leadership as example, reward systems in line with risk-based thinking

Table 1 Major Categories: Challenges and Trends of CP Companies
Source: Own creation according to coding results of data from Deloitte, McKinsey, PwC reports 2015-2016

According to the findings the first category focuses on the consumer itself. To increase sales volumes and revenues the most critical success factor are the companies' customers. It is not a new fact that the population is aging and that especially in industrialized countries the effect is already perceptible. In 2015 every eighth person is aged 60 years and older, in 2030 it is predicted to be every sixth person.[50] Another respond to that is that the global middle class spending till 2030 and the richest 20 percent of the world will become even richer. The average household size in Europe is rated at 2.4 Persons per household which should also shrink within the future to 2.0 Person in 2020[51] which goes also with the increasing number of women in the workplace. The family structure and the population structure of consumers and future consumers is changing with an impact in the close future. New consumption patterns and preferences is a result of the changing demographics within Europe and the whole world. Consumer in industrialized countries started to focus more on health, nutrition, wellness, sustainability and where their food comes from. Quality got a totally new meaning in terms of food and nutrition. Consumers decide where they buy products according to the location of production (buying local), through responsible feelings for social goals and where they find the best offer while searching the internet regarding the competition. On the other hand the demand of personalized shopping experience is increasing as fast as the technologic industries is improving day by day. For instance, the Amazon Go store adapted to these trends and will introduce in 2017 a new concept store where customers pay over their phone automatically by taking a product from the shelf within the stores, which eliminates the waiting time at the pay desk by 100 percent.

As mentioned, the mobile world is already an essential part of all societies. Over 80 percent of the population in Europe own one or more mobile devices and this trend is increasing.[52] Transparency through the internet and social media increases the cost and price pressure for manufacturers and retailers. But technology brings also advantages with it like robotic systems, market transparency (can be both negative and positive evaluated), new production machines which decrease the needed workforces and therefore lower costs, big-data for operations and equalization over the supply chain over the whole world. The global economy has been transformed by the social world in the past decades. The industry has shifted from a post-industrial model of employment, where factory work and routine office work has dominated the daily business to models where these functions are outsourced and being

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[50] UN: Word Population Ageing Report 2015
[51] Euromonitor Research: The Family Structure of the Future, Report, 2013
[52] Statista.com: Number of Smartphone users in Europe from 2014 to 2019 (in millions)

standardized with the help of machines. Therefore nowadays, different job skills are required then used to be, combined with the talent war / shortage within almost every branch.[53] New forms of direct-to-consumer models need to be developed and the demand of talents change its focus. With the change in demographics almost in all industries state talent shortage as a business risks.

The following category are the economic uncertainties and challenges which cannot be predicted to a 100 percent rate but the development can have a high impact on the consumer product industry. The climate change for instance is an overall discussed topic for the past centuries with an increasing level of importance. New methods need to be develop to achieve the climate change goals and regulations set by the European Union or the United Nations which can result in significant impacts for some industries and companies.

According to economic experts the GDP of China will exceed the real GDP of the US by 2030. The power of China, India and other newly industrialized countries will be a threat for the dominating consumer product companies in the developed world. Other future challenges will be the problem of overregulation, financial distress in general and following up consumer wants and needs while finding the right approaches for dialog between customer and manufacturer. The next category is the threat of new market entrances. Caused by the complex and changing consumer behavior, new brand entrances are more focused on certain features which makes the competition of innovative Start-Ups more dangerous for established companies. Lastly, the management is facing challenges as well.

Enterprise risk management systems can be as sophisticated as possible but if the management is not able to see the board's decision in a critical way because not enough industry expertise is excising no success can be expected. According to PwC´s qualitative research in 2015 it has been one of the key findings that the balance at boards between management profession and industry expertise is critical within most of the reviewed companies. The executive decision makers show a lack of industrial understanding which can lead to incorrect assumptions and strategic decisions. Furthermore, the research states that in most companies there exists a gap

[53] Pearce, K.: The 21st century skills you need for today´s job market, 2014

between the corporations' strategy and the behavioral example as a risk-aware culture. False approaches are used to control the risks by using obsolesce rewarding systems or obsolete risk indicators.

7.2 Empirical Research: Expert Interviews

7.2.1 Identification of Experts

According to the research questions, the aim was to understand the process of strategic risk management within fast moving consumer product companies (FMCG). Thus, an expert regarding this research could be defined as someone with in-depth knowledge and experiences within the field of this study. An understanding of theoretical research strategy setting and strategic risk management, which is the responsibility of company's senior managers, was essential in the appropriate expert to be interviewed for this research. The expert should have been working at this business level within a consumer product company producing FMC goods. The expert´s knowledge or experience should cover the strategic role of the business in the consumer product industry, especially within the risk management area.

7.2.2 Ethical Considerations

In order to maintain the ethical integrity of this research, several considerations have been made during the process of data collection from the expert interviews:

- Each interviewee is given the options of remaining anonymous (both as an individual and the company)
- Each interviewee is given the interview summary for their verification

To maintain the separation and independence of this research from the prerogative of the interviewee, the analysis performed on the data collected is entirely based on the perception of the researcher and has no bearing on the point of view of the companies or the individuals interviewed.

7.2.3 Conduction of the Interviews

The process of conducting the expert interviews ran quiet smoothly after finding the right expert to ask the questions according to the research study´s requirements. Just some questions in the interview I and III needed to be modified during the interview according to confidential information of the company the experts are working within. All interviews were conducted in English and documented in a written from during the interview – all interviewees refused the audio recording during the interview. The written answers – documented partly in bullet points - were shown for confirmation to the interviewees at the end of the interview.

The following table illustrates the process of conducting the interviews and the respective time frames:

Table 2: Interview process

Interview Partner	Way of initial contact	Initial questions send	Day of interview	Duration of the interview
Interview Partner I (male)	Email to work-email address	16th January 2017	24th January 2017	40 minutes
Interview Partner II (female)	Email to work-email address	16th January 2017	25th January 2017	50 minutes
Interview Partner III (male)	Use of personal contact	18th January 2017	27th January 2017	45 minutes

Source: own illustration

7.3 Data Analysis

7.3.1 Preparation of the Analysis

In all three interviews, the given answers were documented during in the interview in a written form based on bullet points to headline the answers to the given question.

The analysis of the expert interviews was based on qualitative coding. The aim was to be able to separate the materials into meaningful sections or paragraphs of the given answers (Taylor-Powell and Renner 2003, 3). Therefore, to conduct the semi-structured expert interviews concrete analytical questions had to be defined as framework for the interviews. However, during the interviews some additional aspects to be exposed were asked in an indirect way as a result of the expert answers and opinions. The following ten questions plus six sub-questions guided the clustering of data according to its thematic context. Six of the overall seventeen questions were closed questions while the rest were opened questions:

1. Does the company you are working for have a business mission?
    a. For which time period is this mission defined? And by who is it defined?
2. Does the company you are working for have a business strategy?
    a. For which time period is it defined? And by who is it defined?
    b. Do different zones (markets, service centers etc.) have their own strategies?
3. How is the strategy of a business supporting the overall mission (or vice versa)?
4. Does the company you are working for define risks which could affect the business strategy (strategic risks)?
    a. Is there a specific process how to review and control strategic risks (global and/or national perspective)?
5. Is the business strategy spread to all employees within the company?
    a. And also the strategic risks and how? (How often are they reviewed etc.?)
6. Does the company you are working for have an integrated (enterprise-wide) risk management?
    a. How does the process of managing strategic risks work?

7. Does your company use key performance indicators and value measures to track risks /and especially strategic risks?
8. Which techniques/tools are used to measure the impact of strategic risks?
9. In your opinion, what are the main risks for FMCG companies?
10. In your opinion, how will the industry of FMCG companies develop in the future (Global perspective for the next 10 years)?

7.3.2 Limitations of the Expert Interviews

The limitation of the taken expert interviews for the validity of the research study is the small sample size. In general, developing a best practice approach for a strategic ERM system for FMCG companies according to the best performing companies would need to be based on interviews with at least fifty experts from the first fifty FMCG companies. Hence, the ensuing conclusion may not be absolutely valid due to the given circumstance of just three conducted interviews. The saturation point which determines the majority of a qualitative sample size has not been achieved according to Dicicco-Bloom and Crabtree 2006, 318. Thus, the master study can be considered as a pilot study for this research problem.

7.4 Results Expert Interviews

This sub-chapter presents the findings of the primary data collection of the expert interviews. The results are explained in terms of quantitative trend assessments and are based on using the mind mapping technique focusing on the expressed trends and challenges of FMCG companies by the experts shown in table 3. Numerous trends from the interviews were grouped based on similarities. Through a process of inductive abstraction driving forces were obtained from the interview answers in order to reduce redundancies. The data was coded into manageable information. This induction approach included to use the coding scheme using the PEST framework. Hence, the four basic coding categories / driving forces are: Political (P), Economical (E), Social (S) and Technological (T). The PEST framework is considered to be a good approach for this study to identify the external macroeconomic environment while each business individually needs to make in addition to an internal environmental analysis for a successful implementation of the later on given best practice approach for strategic risk management.

Table 3 Main Statements Expert Interviews, 2017

Main Statements	Coding /Driving Force
Data Security: nothing can do faster or more damage than the public discussion or exposure that a retailer failed in protecting customer payment data	Development of New Technologies (T)
Data analytics: it will get more hard to predict consumer spending for all retailers which makes it more important to be able to analyze and predict customer spending accurately which makes it a critical success factor for FMCG companies	Development of New Technologies (T)
Talent acquisition: human capital is a critical success factor – it will be a key challenge to develop your own people and to keep them. For instance, in Prague is a wide range of job opportunities for young professionals are available but not enough talents for all positions, so the so called talent war has begun.	Management (Recruitment Strategy) (E)
Customer needs and wants are changing to everything natural, herbals or organic origin. This trend has been growing exponentially over the last few year. Consumers are willing to pay much more for the "healthy and green" variant of a product (e.g. Farmers market, bio stores, vegan restaurants)	Shifts in customer needs and habits (S)
Supply chain: it is getting easier to find vendors around the whole world who will produce to the lowest price for the desired quality. Third party logistic providers will become more popular and no need for warehouses anymore. Further improvements will be developed with the help of robots in warehouse or drone deliveries.	Development of New Technologies (T) plus Industrial Shifts (E)
Majority of population will no longer shop at supermarkets, due to daily routines, increasing or constant time pressure and the convenience of online shopping	Dimension of changes in lifestyles (S)
Demographic change: majority of household in Europe will be "double-income-no-kids"	Dimension of changes in lifestyles (S)
Cross-domain analytics could enable personalization for every user of online shops regardless of whether the user is logged in or not	Development of New Technologies (T)

The biggest competitive advantage for FMCG companies will be the ability to analyze and utilize all available consumer data	Development of New Technologies (T)
3D printer could play a big role in marketing and product design	Development of New Technologies (T)
In 2025, one third of all transactions B2C are carried out online	Development of New Technologies (T) plus Dimension of changes in lifestyles (S)
[...] Digital personal shopping assistance could be able to have authority to autonomously purchase preferred standard consumer products (e.g. milk or toilette paper)	Development of New Technologies (T)
In 2025, digital service assistance will replace human assistance in physical stores. An exception will in luxury goods stores.	Development of New Technologies (T) plus Dimension of changes in lifestyles (S)
In 2025, Asia will be the most important market for European and American retailers	Industrial Shifts (E)
Majority of the working population will shop in virtual billboard stores in public places like the subway or at bus/tram stations (see Asia)	Dimension of changes in lifestyles (S)
Market entry barriers for entrepreneurs will be really low, so new e-commerce players will be successfully just in niches	New Market Entrance (E)
The labor market itself has also to adapt and meet the new demand for digital commerce professionals and big data specialists through new training programs	Management (Recruitment Strategy) (E)
Cash and credit cards to pay in retail stores will disappear completely due to crypto-currencies and virtual wallets (see Amazon Go)	Development of New Technologies (T) plus Dimension of changes in lifestyles (S)
The real world in 2025 will be used as showroom, and consumers shop everywhere and at any time they like online.	Dimension of changes in lifestyles (S)
No monopolistic or oligopolistic online retail industry structure will exist in future but multiple online retail players	Industrial Shifts (E)
Political situation can decelerate development in certain areas.	Economic uncertainty (E) plus Political Development (P)
Politics will invest more in technological development (innovation	Political Development (P)

openness, data security, e.g. Horizon 2020)	
Global trade regulations will enlarge (TTIP and other free trade agreements, more protectionism and trade barriers, new payment standards)	Political Development (P)

(Source: Own illustration according to results of the expert interviews)

In the following paragraphs the driving forces of the research are explained. The driving forces are emphasized in bold and quotations from the expert interviews are highlighted in cursive.

Political

Taking a look on the political future development it is possible to state that global trade agreements are enlarging. For instance the current discussions about the TTIP agreement – Transatlantic Trade and Investment Partnership – between the European Union and the United States or the already on 30 October 2016 signed CETA agreement - Comprehensive Economic and Trade Agreement – between Canada and the European Union. It is uncertain if these two and many more global trade agreements and regulations will prove themselves over the time or possible new trade barriers will prevail instead. Also the political situation is uncertain in many regions. "*If you take a look on the political situation in Latin America for instance, especially in Mexico in 2016, it is clear that unstable politics within a country can have highly negative impact on the retail business and economy in general which is right away reflected in imports, exports or sales volumes*"[54] therefore many countries or regions at risk have to be identified to have a chance to adapt to the political disparities.

To take a look on the payment system within the European Union the SEPA payment system simplified the EU bank transfers enormously and opened up new ways and opportunities for the trading between the EU Members. It is possible that systems like this can also predict for the future for other markets or trade areas.

[54] Expert I, 2017

Another important aspect is the data security which is already a major concern for global society. Politicians are facing the challenge of addressing multiple claims from the economy and society regarding data security and data privacy. This is also a serious consideration for global digital commerce. Still, it is a great uncertainty and risk weather new data regulations will have a negative or positive impact for buyers while enforcing data protection and consumer rights or enabling more data exploitation for producers to create the next level of online services. On the other hand, there is the political will to invest in further innovation. For instance, the European Union promotes innovations through the Horizon 2020[55] program. It is supposed to support innovation activities in small and medium-sized enterprises to increase competitiveness. Right now it is the biggest EU research and innovation program and it promises higher levels of breakthrough and discoveries.

Economical

The development of the global trade and economy is influenced by worldwide competition and increasing purchasing power of consumers. Emerging markets like China or India (also all Asian regions) are considered to be, by 2025, the most important markets for European and American retailers. The middle class in these regions is increasing and their businesses will expand internationally serving the global demand. "*Along the supply chain it is getting easier to find vendors around the world who produce to the lowest price for the desired quality*"[56]. The global gross domestic product has experienced a constant growth every year over the past decade – with an exception of 2008/09 during the global financial crisis.[57] However, a constant growth rate does not only just lead to a positive outcome. The negative impacts of today's global economy are, for instance, possible recessions, financial crises (possible recurrence of the financial crisis), effect on inflation rates, economic sanctions or the growth of income disparity[58].

[55] European Commission: Horizon 2020, europe.eu
[56] Expert II, 2017
[57] Statista.com: Global gross domestic product (GDP) at current prices from 2010 till 2020, 2017
[58] Eurostat.com: Income distribution statistics, 2016

Taking the amount of Research and Development investments into consideration it is to state that these investments are essential for further economic growth. In our technology-driven society these investments have two sides. On the one side, technological innovation can highly benefit the economy but on the other side it can have a negative impact while human workforce is replaced by technology which leads to a decrease in employment, and hence, in purchasing power. Continuing with the labor market, a new demand for digital commerce professionals and big data specialists through new training programs has to be developed and adapted to. Human capital is a critical success factor for almost all industries. In the near future it will be a key challenge to develop staff to the individual companies needs and to retain them within the company. "*For instance, in Prague there is a wide range of job opportunities available for young professional but not enough talents for all positions, so the so called talent war has begun.*[59]"

Social

New technologies influence the global world in every segment. Especially it is shaping the world society and also the society is shaping the further technological developments. According to all three interviewed experts, by 2025 the majority of all transactions in B2C will be carried out online. The real world will be used as showroom for consumers, to shop anytime, everywhere they like online. And this shows a significant shifts in consumer needs and habits. In the 21st century the demand of consumers is changing at a high speed whereas requirements have to adapt to convenience, corporate social responsibility and personalization. "*The majority of people will no longer shop at supermarkets. Why should they? Due to daily routines, increasing time pressure and the convenience of online shopping for every product*[60]".

Customer wants and needs in industrialized countries are changing to everything with herbal, naturally or organic origin. This trend has been growing exponentially over the past three to five years with an upward trend. "*Customers are willing to pay a much higher price for the*

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[59] Expert II,2017
[60] Expert III, 2017

same product with a bio or vegan certificate stamp". Which leads to a higher impotency of product quality and resource origin and more popularity for farmers markets, bio stores or vegan restaurants. Demographic change in industrialized economies also need to be considered. The number of double-income-no-kids is particularly increasing in Western Europe and the main growth of population will occur in the South – Asia, Africa, and Latin America.[61] The steady development of new technologies and the development of new media has a big impact on consumer behavior as well. Through the worldwide web and the use of smart phones, the interaction of individuals in digital social networks will increase. Users are constantly connected and informed which leads to a higher demanded transparency, products and services individualized and steadily lower price inquires. The power will continue to shift more from seller and producer to the costumer. Focusing on the labor market changes in lifestyle are also affecting this area. More flexible working times, work-life-balance, increasing demand of education and longer life expectancy are encouraging employees for self-fulfillment and employers have to adapt to it.

Technological

The dominating driving force of future developments within all industries will be the improvements of new technologies. In today's high tech world the merger of online and offline is increasing with a pace which is not determined and is suggested as uncertainty. The unlimited connectivity between devices and people shows that the Internet of Things is unstoppable." *The biggest competitive advantage for FMCG companies will be the ability to analyze and interpret all available consumer data.*[62]" Cross-domain analytics can enable personalization for every single user of online shops whether they are officially logged in or not. In accordance with the shift of consumer behavior the majority of all transaction by 2025 will be done online. Digital personal shopping assistance could be able to have authority to autonomously purchase preferred standard consumer products over a desired online shop (e.g. milk or toilette paper).

[61] Ncbi.com: Human population growth and the demographic transition, 2009
[62] Expert II, 2017

On the other hand, customers are also worried about the more and more dependence of mobile devices and technologies. The fear of losing control is increasing and putting pressure on politicians to create new data security regulations which impact the development of new technologies. Payments with credit cards and cash in retail stores will disappear completely due to crypto-currencies and virtual wallets – example is Amazon Go launched in January 2017. Costs for warehouses can be decreased through advanced warehouse robots or drone deliveries. 3D printers might play a big role in product design and product marketing by 2025 – many aspects need to be considered and updated to be able to cope and adapt to the high speed of technological development.

8. Results and Discussion

This chapter states the results from the secondary and primary data collection methods which are explained in terms of quantitative and qualitative trend assessments. Patterns in both the qualitative and quantitative results are integrated in the developed scenarios. This chapter states four scenarios for the future development of fast moving consumer goods companies in the future and also depicts leading indicators for each storyline.

8.1 Scenario Planning for FMCG Companies

As described in chapter five, the scenario analysis as a strategic planning tool has been recognized for its usefulness. The overall aim of creating scenarios is to prepare management to make better strategic planning decisions which are critical to achieving its enterprise strategic objectives. It determines one or more risk scenarios with detailed key assumptions to determine the severity of impact and likelihood on a key objective. The following chapter illustrates scenario matrix development based on the key finding through the expert interviews and the comparison of given market studies evaluated and interpreted in chapter two.

8.1.1 Scenario Identification and Description

The following four scenarios were identified with the focus on answering the research questions according to strategic risk management within FMCG companies and which challenges these companies will have to face within the near future. Four different scenarios were made according to the basic strategic objectives of FMCG companies: sales volume growth, service delivery and consumer satisfaction/loyalty plus the last scenario focuses on Management /War of Talents. Not all FMCG companies have the same strategic objectives or the same strategies. Indeed, they are different according to the individual environments, products, brands, size or structure of each business but the main driving market forces of these companies are the identified three with the additional one of Management. Under these three driving objectives is a variety of market forces converging to influence the scenarios of how FMCG companies target the future growth opportunities while facing certain risks and uncertainties.

Scenario I: Service delivery

Scenario Description	Detailed Assumption	Impact on Earning
Political Shift	- Overregulation	- Decrease (-)
Economical Shift	- 24/7 product promotion - Rising labor and commodity costs - Climate change	- Increase (-) - Decrease (-) - Can be both (+/-) through innovative process costs can be saved and climate change regulations be adapted
Social Shift	- Direct-to-customer-relationship - Consumer dialog - Consumer touch points - New service delivery models (e.g. buy-online-pick-it-up-in-the-store or home deliver)	- Increase (+) - Increase (+) - Increase (+)

Technological Shift	- Digital assistance - Personalization - Slow technological process - Robotics	- Increase (+) - Decrease (-) - Decrease (-) - Increase after standardization (+)

Source: own illustration

With the help of this scenario management can understand which factor could have a negative or positive impact on service delivery. Service delivery can include certain aspects for FMCG companies. Firstly, it can just focus on contractually agreed terms of service delivery – for instance the delivery within the next two days if customer ordered before a fixed deadline. This standardized process makes it easy for a business to set suitable Service Level Agreements (SLA) or Key Performance Indicators (KPI´s) to measure and track the business performance and subsequent work on the improvements of the service delivery results. As claimed by Expert I "[…] *by raising or even maintaining logistic costs can be decreased by […] up to 10 percent*". On the other hand, new service delivery opportunities can be the result of the changing environment according to new technologies and the change of consumer wants and habits within the operating market. Service delivery can mean the opportunity for customers to have multiple ways to order products wherever they are and at any time plus getting a desired amount of additional service – customer service. According to Expert II there are some European retailer on the French market which introduced in 2016 the "buy-online but pick-it-up-in-the-store"-model which is an easier way to enter the online-grocery world than the home delivery concept. By all interviewed experts it was seen as important to stay in constant dialog with the customers and to create consumer contact points which can be online and offline, with the objective of understanding what service deliver the consumers desire and how the business can possibly adapt to it – and this ability to adapt the business concept to the customer preferences will be critical for being successful within the marketplace.

The Service experience of customers is also influenced by the customer service itself. How well is the customers' service accessible for the customers, whether any error or dissatisfaction with the order product occurs, as well as how satisfied are the customers with the given service afterwards? Therefore, it needs to be measured how important it is to have a reliability and approachability of the after-sales service. A business must be easily accessible to any queries, especially for adverse ones. According to the study by McKinsey 2013[63] best practice companies develop a clear understanding of consumers' quality expectations and service needs. This can be done through customer surveys, analysis of social-media channels, third-party-rating systems or with the help of focus groups.

Scenario II: Impact on Sales Volume & Market Share Growth

Scenario Description	Detailed Assumption	Impact on Growth (Sales Volume & Market Share)
Political Shift	- Political instability - Tax burden	Decrease in Sales (-)
Economical Shift	- Financial crisis (e.g. southern Europe) - Competitive pressure - New Market Entrance - New marketing models - Balance volume and profit - Dealer margins	Decrease in Sales (-)
Social Shift	- Social-media driven consumption - Decline in brand loyalty - Focus in health and wellness	Depending on the focus of the business – can have negative or positive impact (+/-)
Technological Shift	- Regulations are slowing innovations	Decrease in Sales (-)

Source: own illustration

The scenario regarding volume and sales growth helps management to understand how sales volume and market share growth can be negatively or positively be impacted. Political changes or developments cannot be influenced by a single company. But still, political shifts need to be analyzed regarding possible impacts on the company's operations. For instance the possibility of a financial crisis – if the company strategy is to increase sales by 50 percent within the next five years but the company did not see that a possible finical crisis might occur, the strategy was set wrong – the strategic risk factor regarding the political instability was not analyzed.

[63] McKinsey&Company: Perspective on retail and consumer goods, 2013

On the other hand, certain analysis can be done to focus on the realization of the strategy by using long-term investments in data analytics to find out which SKU´s (Stock Keeping Unit) is selling the best and why consumers prefer them the most and in which segment. This supports the business to guarantee a maximized sales volume of the right product at the right place and in the right time. Another aspect of this scenario is to keep the competition in observation. For instance, can the business compete on price and quality all over Europe (scope depends on the market operations of the business) and provide additional service? If not, what are the business competitive advantages? The social shift and demographic change which is unstoppable within the society leads further more to new challenges according to sales success. The research results state that the brand loyalty in average is in decline caused by market transparency over the internet and social-media consumption. As well as the focus on health and green diets.

The whole concepts of product development and product marketing need to find a balance between the orientation on trends and what the specific customers really expect from the business. To take a closer look just on the sales of FMCG companies there are two driving force to be considered: the volumes and the price, because what counts at the end is the profit. The following aspects are aimed to increase volume and profit. As mention above competition and customers preferences can strongly influence sales volume growth. A further aspect is also the focus on the operating industry itself. How good are the business long-term relationships with the suppliers? Healthy partnerships with suppliers can be the key factors to rescue the business within difficult times or to deliver better products then the competition. Dealers are playing the next significant roles in defining business profit margins and developing the opportunity for discount offers to the customers in order to increase sales volume and competitiveness.

Scenario III: Consumer Satisfaction

Scenario Description	Detailed Assumption	Impact on Customer Loyalty
Political Shift	- Data security, data privacy	- Decrease (-)
Economical Shift	- Market transparency - Online outlets - Personalized products	- (+/-) - Increase (+) - Increase (+)
Social Shift	- Aging population - Urbanization - Women in the work-place - Shrinking households - Organic preferences	- (+/-) depending on the product
Technological Shift	- Virtual reality - Digital assistance - Social media driven consumption - 24/7 online shopping	- (+/-) depending on the product

Source: own illustration

This scenario has the aim to show management how to inspire, reach and engage consumers to create long-term relationships and sustainable availability of resources and materials required to ensure sufficient supply to meet consumer demand in an increasingly anytime, anywhere world. This scenario can take also aspects from the two previous scenarios whereas the customer satisfactions and the involving change in wants and habits plays an essential role. With the help of new technologies develop and use of social media and mobile devices it is increasingly becoming easier for companies to collect data about every SKU sold, to which customers at every store they own.

In addition, companies use market research technologies to track consumer preferences and changes in wants and needs. Still, some companies might be skeptical about the analysis of social media data and other giant data sets known as the big data. But in the today's society it will be a key feature capturing the value from big data with advanced analytics. FMCG companies must be able to collect, interpret and manage the right data, turn it into facts, and translate those facts into effective actions. The challenge here is to guarantee consumers data security and privacy which could be also become a risk through possible political regulations trying to protect buyers.

Scenario IV: Management / War of Talents

Scenario Description	Detailed Assumption	Impact on Earnings
Political Shift	- Working visas - Labor exchange regulations	- Decrease (-)
Economical Shift	- talent shift - talent shortage - Employer Branding	- Decrease (-) - Decrease (-) - Increase (+)
Social Shift	- Corporate social responsibility - Industrial expertise - Company culture	- Decrease (-) - Decrease (-) - (+/-)
Technological Shift	- Big data specialists needed - New training programs	- Decrease (-)

Source: own illustration

This scenario was also considered to be essential for FMCG companies within the future observation to show management what negative or positive impact the war of talents and management decision can have on business earnings.

Open positions, wrong qualified employees or the notice of termination is connected with high expenses for every business. The worst results can turn out in not being able to delivery SLAs or KPIs, which leads to customer dissatisfaction, overtimes and burnouts of employees and further harm of the business operations. Especially in Western Europe the war of talents is very evident. Not enough skilled personal is available which results in open positions and companies having the pressure to think up new ways of keeping employees satisfied at their business so as not to lose them to more attractive work conditions with the competition.

According to the study by Ernst & Young 2016 FMCG companies need to work harder to continuity deliver value to shareholders of the business. This means breaking down barriers across the whole organizations, increasing innovations and nontraditional thinking across all business processes. The use of big data as explained in the scenario above is a critical success factor as well. This leads to the fact that leaders of FMCG companies need to ensure a strong employer brand especially to address graduates who are able to think innovatively about how new technologies will influences the future of FMCG companies and their customers. This may lead to opening up the talent pools and attracting graduates who have not thought about a carrier in the FMCG industry yet – giving them a chance to grow within the business and to be satisfied to stay within the business.

8.1.2 Scenario Matrix

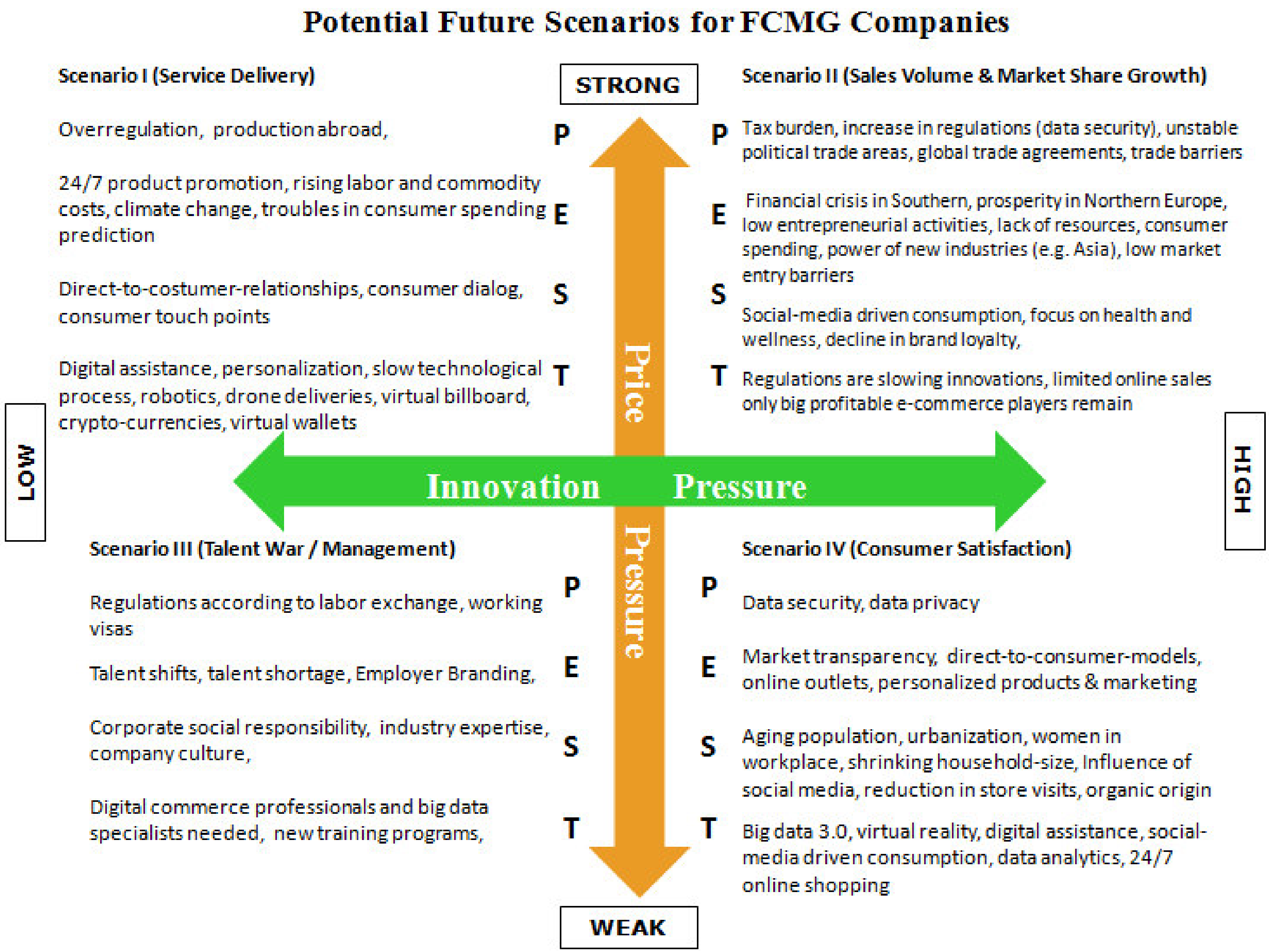

Figure 9: Potential Future Scenarios for FMCG Companies
Source: Own illustration based on research results

8.2 Strategic Risk Management Approach for Consumer Product Companies

As result of the research in general business growth for FMCG companies has become a greater challenge which will get even more difficult while trying to plan the future development. Reasons for this tendency are the increase in wealth, growth in population and industrial shifts which have been already known. Market revivals and competition among companies, products, brands and marketing strategies are getting even more intense which results in limiting pricing power or increase in promotional budgets. Consumer habits, wants and needs are increasingly diverse which forces reconsideration of product development, marketing strategies and communication investments. Indeed, every single company has its own challenges according to the offered service or product – but there are some common challenges and risks for consumer product business leaders which are explained in the chapters above. Several capabilities like channel management between supply and sales are increasing in importance, as a consequence. Followed by innovation as top priority of management while trying to strive for new product and brands ideas. Most FMCG companies are consolidating customer base by leveraging marketing investments better and rationalizing brand portfolios. New technology investments are being made to deliver continuous improvement. These components became a more critical part of the strategic agenda then previously.

FMCG companies need to simultaneously focus on growth, costs and liquidity, and talent recruitment to succeed in the coming uncertainty. As the four main developed scenarios show the common strategic goals of FMCG companies are sales growth, service delivery and customer satisfaction which is followed by the measures of growth, costs, liquidity and talent recruitment. The driving force in this is for FMCG companies to successfully meet the cost targets. There are a few different approaches of strategic cost management but according to Deloitte Publications 2016[64] the Zero-based-budget approach (ZBB) is increasingly becoming popular within the FMCG industry. This approach is a budgeting process which allocated funding based on efficiency and necessity rather than on the budget history. It leads to

[64] deloitte.com "Zero-based-budget", 2017

reinvestments of cost saving which are aligned with the business strategy. It is a cross-functional approach which is driven by capabilities and helps to reconfigure the operating model to focus on key capabilities to enable digital, analytical and technological innovations supported by the right management and culture. The measurement of spread out to the individual level and has an impact on every single position within the organization. Main strategic risks are in this case the setting of unrealistic goals, a poor design and tracking of the key capabilities which can lead to unsustainable cost savings.[65]

A overall strategic risks management approach could look like this:

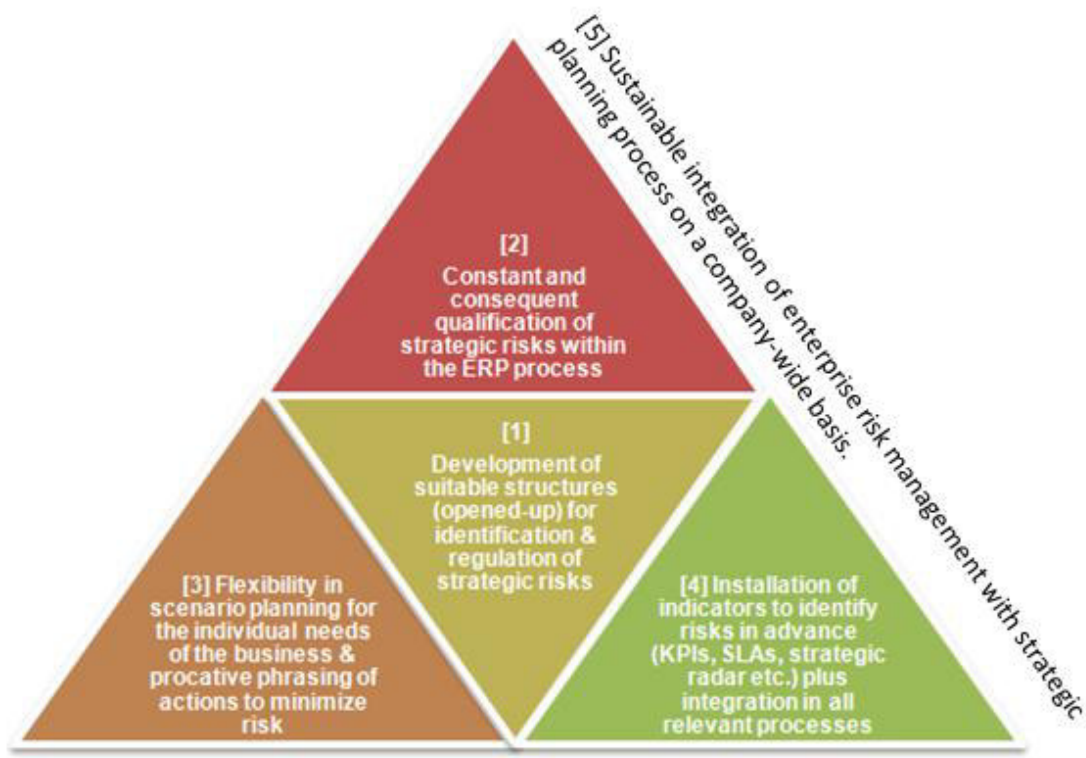

Figure 10: Strategic risk management approach for FMCG companies
Source: Own illustration based on research results.

To be able to develop suitable structures which are opened-up to identify and regulate strategic risks it is necessary to have a parallel drive to integrate strategy and risk at the same time. One

[65] deloitte.com "Zero-based-budget", 2017

success factor to do so is to embed a risk-aware culture at all levels within the organization. The Chief Strategy and Chief Risk Manager who are reporting directly to the CEO should own and lead the sustainable integrated process of enterprise risks management within strategic planning. To set this on the boards risk agenda will help to remove barriers which are traditionally based in financial, operations and strategic risks to support a holistic view of the whole process[66]. This also supports the general uncertainty of today's society. Historical data is no longer the key basis for future predictions of demand, events and sales. The boards need to be automatically more aware of the risk appetite in pursuing the business strategy to build risk awareness at all levels – a business integrated-view.

[66] According to Black swans turn gray – the transformation of risk, January 2012, pwchk.com/rca and Expert II, 2017

9. Conclusion and Recommendation

The findings of the quantitative and qualitative research give answers to the three leading research questions of this study.

Research Question 1: What are the most significant strategic risks FMCG companies have to face nowadays?

The research studies by Deloitte, PricewaterhouseCoopers and McKinsey taken in 2015/2016 and also the expert interviews state that the main strategic objectives of FMCG companies are sales and market share growth, service delivery and consumer satisfaction. As a results of the expert interviews also the derivative focus is on cost reduction, liquidity and talent recruitment extend this view of strategic objectives. These basic principles influence and build the strategies of FMCG companies which automatically results in taking risks and facing uncertainties. The main strategic risks for FMCG companies can be therefore sustainability in customer loyalty – it might get harder for companies within this industry to retain customers due to social changes and changes in customer preferences, habits, social-media driven consumption and demographic shifts as well as the unpredictability of consumer spending according to the stated issues.

The next strategic risk is the technological innovation pressure for FMCG companies. As driving force of the future development the opportunities of new technologies influences consumer wants and needs and also the fast speed of changes in product desires and service delivery preferences. Within the future it will be the key strategic risk factor and key success value to keep up with the fast speed of new technological innovations without creating the necessarily of changing the whole business model. Align with the innovation of new technologies is also the aspect of increasing cost pressure. This FMCG industry is a highly competitive one with a high transparency of prices and product development through social media which has a great impact on the strategies how costs are managed. One approach mentioned as best practice approach during the second expert interview is the ZBB approach for FMCG companies. This zero-based-budget approach supports to successfully meet costs targets through aggressive cost reduction actions while budgeting all process which allocate funding through efficiency and necessity rather than on the budget history. This method brings the opportunity to reconfigure the operating models the enable digital, analytical and technological innovations supported by the right management and culture. It is a cross-functional approach which is driven by capabilities. Hence, key strategic risks factors in this best practice approach are defining unrealistic goals, poor process design and tracking of meeting the efficiency and budget targets within all company levels which will lead to unsustainable cost savings.

Other strategic risks are focusing on the sales and market share growth which include several aspects. Firstly, political regulations and financial burdens can hinders the fulfillment of the strategy to increase sales volume by a fixed percentage. These strategic risks are poorly assessable by the business but if seen in advanced the strategy can be adjusted to these external environments. Secondly, the sales volumes are coming with the consumer satisfaction and meeting consumer preferences while having a competitive advantage. The research results show that technological and social trends are more important than economic and political developments for the future sales volume growth operations of FMCG companies. It seems justified according to the fast speed of the technological nature and dependency on changes in society. Experts III states that the highest strategic risk is to not update the retail model accordingly to these changes in lifestyles and the de-structuring of daily routines.

To sum it up, according to the definition offered by Professor Roberts, Dr. Wallace and Mr. McClure from the Edinburg Business School as set as theoretical background of strategic risks in chapter 3.2.1 three main categories can be summarized. First strategic risk belongs to the category that the whole business strategy. The strategy might be incorrect. It was set according to wrong assessment of environmental issues like mentioned above, e.g. political instability on a operating market which had a high impact on sales volume, or new regulations came into force and blocked sales. Hence, it is highly important to focus on these factors summarized in the Scenario Matrix within all scenarios under the category “P”.

The next category is that the business strategy might be correct but internal changes have to compromise it – which means that the scenario management and Talent recruitment could not have been evaluated well und the following consequence occur as strategic risks. Also innovation projects which are crucial as business success factor shown in research results could not deliver what was expected and required. Thirdly, the strategy might be set correct but the market situation has changed expressive and new competing products or demand shortfall prevent the desired results.

Research Question 2: What methods do FMCG companies use to manage these strategic risks?

One method is mentioned already in research question one – the zero-based-budget approach especially focusing on managing cost development accordingly to meet strategic objectives of liquidity. Despite this, results show that best practice approach companies use key performance indicators and service level agreements to guarantee contractually agreed service deliveries terms and customer satisfactions which leads to a decrease in logistic costs. Furthermore, two out of three interviewed experts use some form of the scenario planning method as part of their strategic planning process as also processed within this research study. The crucial part here is to define for each individual business the main priorities and main weaknesses which need to be improved and define the individual strategic risks.

Research Question 3: What does a best practice approach look like to manage strategic risks in FMCG companies?

A best practice approach for FMCG companies can look like that designed in chapter 8.2. The business strategy itself needs to be emerged and executed with a company-wide view. The business strategy cannot just be defined by the upper management or company founders – the completion of it needs to be influenced and impacted by every single position within the whole organization. All employees need to be aware of the strategy and have targets which are oriented on fulfilling the strategy. One success factor to do so is to embed a risk-aware culture at all levels while creating a risk management committee with representatives from every department who flag potential risks on a regular basis. Hence, risks assessment and monitoring need to be an ongoing process according to the dynamic character of strategic risks. The measurement within this process can be done through the impact and likelihood matrix as explained in chapter 3.3 according to the right definition of the risk appetite – the level a business is willing to accept.

The overall conclusion of this study is the common aspect in every built scenario: Shopping is continuously changing and will not stop to do so – and because of this statement risk management with the focus on strategic risks will gain value for FMCG companies. FMCG companies need to understand the future commerce opportunities to be able to free up resources for the desired sales volume and market share growth as main strategic objective. All additional risks and uncertainties identified within this study need to be reevaluated on a regular basis to develop a company specific risk management according to the rapid environmental changes which needs to be integrated in a company-wide model supported by a risk-aware culture.

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11. Appendix

Appendix 1: Expert Interview Statements

Number	Statement
1	Data Security: nothing can do faster or more damage than the public discussion or exposure that a retailer failed in protecting customer payment data
2	Usually FMCG companies focus on market share, quality or sales volume within their strategy. The mission itself is more unique according to the products etc.
3	Data analytics: it will get more hard to predict consumer spending for all retailers which makes it more important to be able to analyze and predict customer spending accurately which is a critical success factor for FMCG companies
4	Talent acquisition: human capital is a critical success factor – it will be a key challenge to develop your own people and to keep them. For instance, in Prague is a wide range of job opportunities for young professional available but not enough talents for all positions, so the so called talent war has begun.
5	If you take a look on the political situation in Latin America for instance, especially in Mexico in 2016, it is clear that unstable politics within a country can have highly negative impact on the retail business and economy in general which is right away reflected in imports, exports or sales volumes which right away has an impact on the business strategy of increasing sales volumes etc.
6	Customer needs and wants are changing to everything with naturally, herbals or organic origin. This trend has been growing exponentially over the last few year. Consumers are willing to pay much more for the "healthy and green" variant of a product (e.g. Farmers market, bio stores, vegan restaurants)
7	Supply chain: it is getting easier to find vendors around the whole world who will produce to the lowest price for the desired quality. Third party logistic providers will become more popular and no need for warehouses will be anymore existing. Further improvements will developed with the help of robots in warehouse or drone deliveries.
8	Majority of population will no longer shop at supermarkets, due to daily routines, increasing or constant time pressure and the convenience of online shopping
9	Our Chief Strategy and Chief Risk Manager who are reporting directly to the CEO are identifying these risks together on their regularly risk planning rounds two times per year
10	Demographic change: majority of household in Europe will be "double-income-no-kids"
11	Cross-domain analytics could enable personalization for every user of online shops regardless the user is logged in or not
12	The biggest competitive advantage for FMCG companies will be the ability to analyze and utilize all available consumer data
13	3D printer could play a big role in marketing and product design

14 In 2025, one third of all transactions B2C are carried out online

15 And in my opinion by raising or even maintaining Service Level Agreements with customers logistic costs can be decreased by let’s say up to 10 percent.

16 [...] Digital personal shopping assistance could be able to have authority to autonomously purchase preferred standard consumer products (e.g. milk or toilette paper)

17 In 2025, digital service assistance will replace human assistance in physical stores. An exception will in luxury goods stores.

18 In 2025, Asia will be the most important market for European and American retailers

19 Majority of the working population will shop in virtual billboard stores in public places like the subway or at bus/tram stations (see Asia)

20 Market entry barriers for entrepreneurs will be really low, so new e-commerce players will be successfully just in niches

21 The labor market itself has also to adapt and meet new demand for digital commerce professionals and big data specialists through new training programs

22 Cash and credit cards to pay in retail stores will disappear completely due to crypto-currencies and virtual wallets (see Amazon Go)

23 The real world in 2025 will be used as showroom, and consumers shop everywhere and at any time they like online

24 No monopolistic or oligopolistic online retail industry structure will exist in 2015 but multiple online retail players

25 Political situation can decelerate development in certain areas.

26 Politics will invest more in technological development (innovation openness)

27 Global trade regulations will enlarge (TTIP and other free trade agreements, more protectionism and trade barriers, new payment standards)

28 We also have defined several indications [key performance indicators] which we measure on a weekly, monthly, quarterly and yearly basis.

29 Our people´s work, targets and efforts are measured according to their personal targets and delivery of their KPIs. And as a result they would all get on top the target to proof all process according to efficiency and give us as a result numbers so proof it. The key role is here to manage from the top the clear understanding of what is expected to be achieved within a given time period.