

## How to Manage the Risks in Your Project

It's difficult to generalize too far without drifting into penetrating glimpses of the obvious, but with that *risk* firmly in mind, we propose the following process for risk-assessing your next project:

### Step 1 — Determine the Expected Economic Value

Whether you are launching a new promotion, channel initiative, menu item, or magazine, you presumably have a reason for doing it. And that reason most likely involves making more money for the company. So the first question you need to answer is how much you expect to make by launching this project (in terms of incremental sales or, preferably, profit).

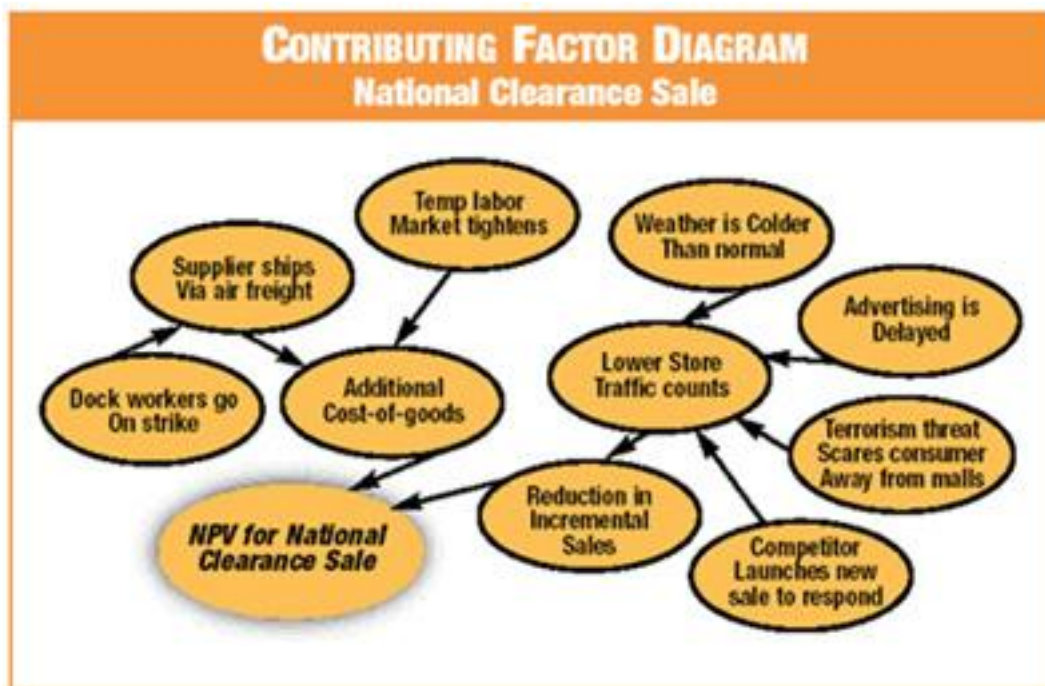
Maybe your project is intended to build traffic. If so, how does traffic translate into dollars? Or perhaps your initiative is focused on signing two new channel partners with significant strategic benefit. How much is that strategic benefit worth? Build a little math chain showing how the intermediary benefits (i.e., awareness, trial, new channel partners, etc.) translate into the ultimate incremental economic benefit.

If your project is expected to create economic benefits over the course of many years, you might want to use a net present value (NPV) calculation to determine the present value of those future benefits.

### Step 2 — Identify the Risk Factors

Start by making a list of all the groups and factors necessary for the success of this project. Consider manufacturing, raw materials, transportation, weather, political instability, customs, handoffs to advertising agencies, communications, economic trends, competitive activities, and likely responses and the list potentially goes on. Get others involved in helping you identify the possible risk factors until you feel confident that you have identified all the possible ways your project could get screwed up.

Now organize your long list into shorter lists that share common impacts. For example, separate all those factors that may drive up costs from those which may drive down store traffic from those which may decrease target price points, etc. What you are left with is the basis for a contributing factor diagram (CFD) like the example below. Develop your diagram, taking care to avoid redundancies and to link all risk factors that are interrelated.



### Step 3 — Guestimate Economic Impacts for Each Factor

For each circle on your CFD, list the possible negative conditions that could effect your project. For example, if you have a factor identified for Direct Mail Delays, possible conditions might be Late Art to Printer; Paper Shortage; Delays in Bindery; Postal Indicia Errors; or Heavy Volume of 3rd Class Mail.

Now for each condition, assign either an expected economic impact in dollar terms (if you can do this for all conditions) or a 1 to 10 rating with 1 indicating very low impact and 10 indicating disastrous impact.

#### Step 4 — Assign Each Factor to a Risk Management Matrix

Using a simple two-by-two matrix, place each condition into one of four quadrants representing its probability of occurrence and potential impact. Note that you may want to set the axis for the quadrants at something other than 5 and 5 on the impact and probability scales. For example, you might define anything with a probability of 3 or more as being "high probability" and anything with an impact of 4 or more as being "high impact". Since you are applying your own relative scale, only you know what reasonable tolerances are for your situation.

#### Step 5 — Address Each Risk Factor Accordingly

As the quadrant analysis shows, you should now apply the recommended strategy for each condition in a given quadrant. Specifically:

	Low Probability	High Probability
High Impact	Transfer	Mitigate
Low Impact	Accept	Manage

- High impact/low probability risks can often be insured. Another simple option is to negotiate for the vendor/supplier to assume the risk since it is potentially even a larger risk for them.
- High impact/high probability risks must be mitigated before the project is allowed to go forward. Mitigation often involves rethinking how the project is to be executed; looking for ways to circumvent the potential risk points or substitute other solutions that pose far less risk. This is an iterative process that needs to continue until the quadrant is empty. Moving ahead with high impact/high probability risks should never happen without CMO acceptance based upon full understanding of a worst-case scenario.
- Low impact/low probability risks can be accepted or ignored. These are the "paper cuts" of project management — minor annoyances that can be survived if encountered.
- Low impact/high probability risks should be managed. Generally, they are not worth changing the entire plan for, but you might want to assign a manager or an intern to put emphasis on taking proactive minimization actions and keep a close eye on the factors involved so the project doesn't die the proverbial "death by 1000 paper cuts".

With these five steps, you can rest assured that your well-conceived ideas and initiatives stand a much better chance of success.

