Financial training
For non financial staff

ATTAINMENT TRAINING

The financial training specialists

Business risks (profit and budgeting)

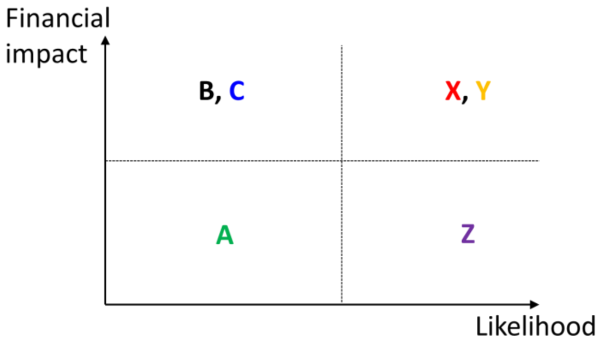
I'm helping a client's product managers with forecasting. They're responsible for delivering existing products and developing new ones, and have to produce reliable forecasts that they then achieve.

One component is forecasting risk. A lot has been written about managing risk in business and projects, all I'm concerned with is how we express it financially.

There are three factors we are concerned with about with risk:

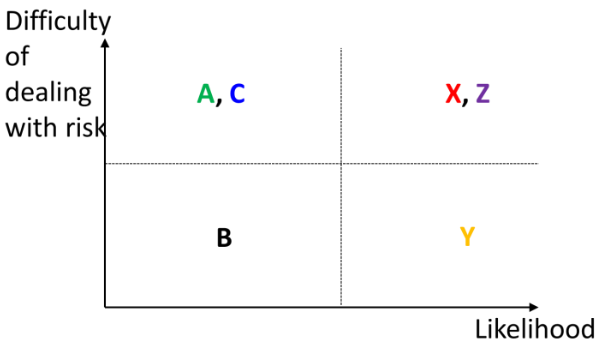
- the likelihood of it happening
- the financial impact
- the difficulty or cost of managing the risk

Let's look at the first two.



X and Y are our two biggest concerns: they are likely to happen, and they'll be expensive. B & C are expensive, but unlikely.

Now we'll include the difficulty (or cost) of reducing the risk:



We know X & Y are our biggest concerns, but Y is relatively easy (or inexpensive?) to deal with. It's no longer a worry.

X is the most dangerous risk: it's likely to happen, it will be expensive, and it's hard to deal with. It could have a huge impact on our financial performance. It needs monitoring and discussing in depth.

We go through this process ourselves too. You'll have buildings insurance on your house, even though the chance of it burning down is very low. It's box B (unlikely; catastrophic; and easily sorted).

Extended warranties on new white goods are probably box C. The cost of all those warranties probably outweighs the cost of replacing the goods.

Fully comprehensive insurance on your car is box Y.