

Chapter 18

Blue Wood Chocolates
Enterprise Risk Management

Introduction

- Background
- Market overview
- Blue Wood financial performance
- Conclusion

Background

- U.S. Manufacturer of chocolate products
 - Privately owned (family)
- New CFO
 - Outsider
 - Brought in to stabilize financial performance
- Blue Wood risk management practice in doubt
 - Banks wondering if RM gaps are causing unstable finances
 - Considering taking action
- Internal politics and conflict

Market Overview

- Growing market
- Major competitive factors
 - Large producers
 - Brand recognition / reputation
- Cocoa markets overview
- Sugar markets overview
- Milk markets overview

Blue Wood Financial Performance

- Profitability measures worse than competitors
 - Lots of internal finger pointing
- Deteriorated cash position
 - Currently borrowing against revolving line
- Retained earnings falling
- Substantial investments
 - In case cash flow couldn't cover dividend payments
- Potential \$10 million lawsuit
- Risky entrance into currency hedges and futures

Conclusion

- Business underperforming
- Immediate action is necessary to respond to banks
- CFO requires
 - Overall view of corporate objectives
 - Major risks facing the company
- Must have support from the top
- After initial pass
 - Implement ERM