**Operational Risk Management Case Study
Bon Boulangerie**

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Bon Boulangerie is a bakery business located in Oakville, Ontario. When the owner, Ray Pane, purchased the business three years ago, it consisted of a single site with baking facilities and a retail store and café. Based on market research with the bakery's retail and café clientele, Ray began to change and expand the product offerings to increase the volume of sales and margins. He also began a new line of business, wholesaling to local restaurants and high-end grocery stores within a 20-kilometer radius of the bakery.

Based on the success over the past three years (see [Exhibit 31.1](https://learning.oreilly.com/library/view/implementing-enterprise-risk/9781118746189/c31.xhtml#figure31-1)), Ray has made a strategic decision to expand his wholesale business, with the goal of tripling profits over the next three years (see [Exhibit 31.2](https://learning.oreilly.com/library/view/implementing-enterprise-risk/9781118746189/c31.xhtml#figure31-2)). He expects to accomplish this by: (1) covering a larger territory (i.e., expanding to a 120 km radius) for wholesaling to local restaurants and independent grocery stores across the entire Greater Toronto Area, and (2) introducing a new business line, white label products that he can supply to major supermarket chains.

|  | **(Actuals)** |
| --- | --- |
| **(all figures in $000's)** | **Year 3** | **Year 2** | **Year 1** |  |
| Income |  |  |  |  |
| Café  |   300 |   273 | 246 |  |
| Retail Bakery  |   718 |   624 | 562 |  |
| Wholesale—Restaurants  |   410 |   234 |   0 |  |
| Wholesale—Other Retailers  |   359 |   312 |   0 |  |
| **Total Revenue** | **1,786** | **1,443** | **807** |  |
| Operating Expenses |  |  |  |  |
| Cost of Inventories Sold  | 1,349 | 1,090 | 610 |  |
| Marketing, General, and Administrative  |   361 |   291 | 163 |  |
| **Total Expenses** | **1,710** | **1,381** | **773** |  |
| Net Income | **76** | **62** | **35** |  |

[**Exhibit 31.1**](https://learning.oreilly.com/library/view/implementing-enterprise-risk/9781118746189/c31.xhtml#figureanchor31-1) Financials for Past Three Years

|  | **(Projections)** |
| --- | --- |
| **(all figures in $000's)** | **Year 6** | **Year 5** | **Year 4** |  |
| Income |  |  |  |  |
| Café  |   348 |   331 |   315 |  |
| Retail Bakery  |   831 |   791 |   753 |  |
| Wholesale—Restaurants  |   960 |   768 |   614 |  |
| Wholesale—Other Retailers  | 4,306 | 2,153 | 1,076 |  |
| **Total Revenue** | **6,444** | **4,043** | **2,759** |  |
| Operating Expenses |  |  |  |  |
| Cost of Inventories Sold  | 4,926 | 3,105 | 2,175 |  |
| Marketing, General, and Administrative  | 1,301 |   816 |   557 |  |
| **Total Expenses** | **6,227** | **3,921** | **2,732** |  |
| Net Income | **217** | **121** | **27** |  |

[**Exhibit 31.2**](https://learning.oreilly.com/library/view/implementing-enterprise-risk/9781118746189/c31.xhtml#figureanchor31-2) Projections for Next Three Years

To realize this strategy, Ray has leased and outfitted a separate baking facility to be primarily dedicated to supplying the wholesale business. Ray also hired a full-time vice president of sales and marketing (see Exhibit 31.3 for a summary of the Bon Boulangerie management team) to take over from him on the wholesale side. Finally, he purchased a second previously owned delivery truck and hired a full-time distribution manager.

Growth in the first three years is attributable to enhancement of product offerings and continual drive to find efficiencies in operations. In year 4, the new baking facility will open. It is expected that it will take several years to add new wholesale customers and wholesale products. Therefore, there will be unutilized capacity in the new facility. It is anticipated that expanding the wholesale business will, at least initially, require an increased level of product development, marketing, sales, and distribution.

**Exhibit 31.3 The Bon Boulangerie Team**

* **Ray Pane**, President and CEO. After a successful legal career, Ray decided to pursue his dream of being an entrepreneur. He has a passion for fine food and is committed to providing his customers with high-quality, wholesome, and artisanal products.
* **Janice Sweet**, Manager, Accounting. Janice is a Chartered Professional Accountant who came to Bon Boulangerie with five years' experience in several finance roles at a furniture retailer. She joined Bon Boulangerie halfway through its third year of business. She is the company's first in-house accountant. Prior to her joining, the accounting was done by an external bookkeeper on a contract basis. Janice has begun to introduce more systematic accounting processes. She is also working with Ray to develop more forward-looking reporting, including projections and forecasts of revenues and costs.
* **Joe Silkwood**, Vice President, Sales and Marketing. Joe was hired near the end of year 3 when Ray decided to expand the wholesale business. Joe is a classic salesman; he's outgoing and optimistic. He has nearly 10 years' experience in the grocery business.
* **Rick Kneader**, Manager, Baking Operations. Ray hired Rick as the head baker for the retail bakery at the beginning of year 1. Rick is a true artisan who successfully developed the new products that have been responsible for the increases in sales in the café and retail bakery in its first three years of business. He also runs a tight ship and has managed costs well, despite shifting to products with higher-cost ingredients. With the opening of the new commercial baking facility in year 4, Ray has received a promotion to Manager of Baking Operations for both the retail and the commercial facilities. He will now spend less time working with his hands and more time overseeing junior bakers while managing the expenses at the commercial baking facility.
* **Mohammed Sharif**, Manager, Distribution. Mohammed has been hired by Ray to manage distribution to the expanding roster of wholesale customers—both restaurants and other retailers. He has worked in the trucking field for 15 years. He will expand and supervise the existing team of drivers who were hired in year 2 to distribute product to wholesale customers. Ray has also made it clear that he expects Mohammed to find efficiencies and reduce shipping costs.
* **Jelena Zarinovic**, Manager, Retail Operations. Jelena has been with the company since it started. In fact, she worked for the previous owners. She is the only full-time retail sales employee. She is friendly and adored by customers and the many part-time sales associates. However, she is less interested in paperwork and is finding it challenging to learn the new accounting procedures that Janice is implementing.

**QUESTIONS**

1. How does Ray's strategic objective translate to the operational level, that is, what is his key operational objective(s) for the wholesale business line?
2. What performance drivers, that is, the internal capabilities (e.g., people, processes, and systems), and external factors need to be present to achieve operational success?
3. What are the risk factors that drive the uncertainty around achieving operational objectives?
4. Which risk drivers are most likely to impact operational objectives?
5. How large of an impact might those key risk factors have? Hint: Use scenario analysis to explore the full range of potential outcomes.
6. Based on your analysis, what are the “significant few” factors on which Ray should focus his attention to manage the operational risks associated with the new facility?
7. What underlying assumptions underpin your analysis and conclusions?

**ABOUT THE CONTRIBUTOR**

**Diana Del Bel Belluz** is the President and Founder of Risk Wise Inc., a risk management consulting firm that provides advice and support to executive leadership teams and boards who want to achieve more effective, proactive, and strategic management and oversight of risk. Her forte is helping leaders to solve the people issues associated with bringing enterprise risk management (ERM) to life in their organizations. Diana advances the practice of ERM through her thought leadership as an educator, conference organizer, speaker, and author of ERM resources, including numerous articles, book chapters, and the *Risk Management Made Simple* Advisory, a quarterly publication of ERM implementation tips and resources available at [www.riskwise.ca](http://www.riskwise.ca/). She also wrote Chapter 16, “Operational Risk Management,” of the book *Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives*, edited by John Fraser and Betty J. Simkins (John Wiley & Sons, 2010). She holds bachelor's and master's degrees in systems design engineering from the University of Waterloo and is a professional engineer.