Business Continuity at Kraft: Assessing Risks and Impacts In the Supply Chain

Presentation Agenda

• About Kraft Foods
• Enterprise Risk Management at Kraft
• Business Continuity Management and the ERM Agenda
• Challenges in addressing Business Continuity Risk
• Identifying and quantifying BCP Risks
• Prioritization and decision-making
• Integration with emerging ERM agenda
Our Positioning

At Kraft Foods delicious is our difference!

We begin with our consumers.

We make delicious foods you can feel good about.

We believe we can make a delicious difference, everywhere.

Fast Facts

Approximately $49 billion in revenue

World’s #2 food company, #1 in North America

#1 in global confectionery and biscuits

Sales in approx. 170 countries, Operations in more than 75 countries

Approximately 127,000 employees

Donated more than one billion servings of food since 1997

Figures are for the combined Kraft Foods and Cadbury businesses as at December 31, 2010
An Amazing Brand Portfolio

- **12** brands with more than $1 billion in revenue
- **70+** brands with more than $100 million in revenue
- **40** brands over 100 years old
- **80%** revenue from #1 share positions

Senior Leadership Teams

**Chairman and CEO**
Irene Rosenfeld

**Kraft Executive Foods Team (KET)**
Tony Vernon, Tim Cofer, Sanjay Khosla, David Brearton, Mary Beth West, Tim McLevish, Marc Firestone, Karen May, Sam Rovit, Jean Spence, Daniel Myers

**Extended Kraft Foods Executive Team (EKET)**
41 members (incl. KET) divided into four groups

**Global Category Teams (GCTs)**
Gum and Candy, Chocolate, Biscuits, Powdered Beverages
How We Lead Our Regions

### United States, Canada
- Snacks & Confectionery
- Cheese & Dairy
- Oscar Mayer
- Grocery
- North America Foodservice
- Beverages
- Kraft Canada

### Central Europe, Middle East, Africa (CEEMA) Region
- Chocolate
- Biscuits
- Gum & Candy
- Coffee
- Cheese & Grocery

### Latin America Region
- Mexico, Brazil, Argentina and Venezuela

### Asia Pacific Region
- Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand & Vietnam

### Middle East & Africa Region
- Key markets: Russia, Ukraine/Central Asia & Eastern Europe New Markets, Poland, South Africa, Czech Republic/Slovakia, Turkey, Gulf Cooperation Council markets, Nigeria, Egypt

### Worldwide HQ:
- Northfield, Illinois

### Europe HQ
- Zurich, Switzerland

### Latin America HQ
- Miami, FL

### Asia Pacific HQ:
- Singapore, Singapore

### Central & Eastern Europe, Middle East & Africa HQ
- Vienna, Austria

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How We Lead Our Regions

- Snacks & Confectionery
- Cheese & Dairy
- Oscar Mayer
- Grocery

### North America Foodservice
- North America Foodservice
- Beverages
- Kraft Canada
Today’s Kraft Foods

Snacks now make up half of our portfolio

More than half of our business is outside North America

The BCP program is grounded in Kraft’s Risk Management Mission

1. Identify and understand the risks inherent in Kraft’s business activities and process, and manage them within acceptable tolerances.

2. Demonstrate value to the business through appropriate focus and resource allocation to key risks through retention, transfers, and control.
Business Continuity is one of the major focus areas for Kraft’s Risk Management program.

Enterprise Risk Program Management
- Risk Assessment
- Business Impact Assessment
- Capability Assessment
- Risk and Activity Monitoring
- Risk and Activity Reporting
- Loss Prevention
- Mitigation Investment Management
- Insurance Program Management
- Education and Awareness

Business Continuity has a governance structure in support of the KFRCC Enterprise Risk Management (ERM) process:

- Annual Report to the Audit Committee
- Executive Sponsor
- Business Continuity Planning (BCP) Steering Team
- Business Unit Ownership

BCP Steering Team
Where We Started

- Detailed BCP approach by plant by asset value and risk
- Extensive investment in the development of plans
- Approach did not address risks associated with dependencies

A BCP project was initiated with the following objectives

- To reduce the cost of BCP implementations and create a sustainable program for on-going needs
- To identify the risks and outage likelihoods within the business units
- To develop plans and timelines to maintain risk-appropriate strategies
Example of Project Phases

Calendar of Project Activities

- Assess Risks and Impacts
- Develop Mitigation Strategies
- Develop 3 year plans
- Deliver against 3 year plans
- On-going review and development

Fusion Risk Management, Inc.

**IT & Operational Risk Management**
*Business Continuity + Disaster Recovery + Security + Compliance*

**Fusion Framework®**
*Risk Management & Contingency Planning™ System*

**Advisory Consulting Services**
*Assessment, Strategy, Plan Development, Testing*

Fusion enables the enterprise to establish a comprehensive risk management program that is *effective, efficient and economical.*
**Fusion’s Approach**

- **Start at the end!**
  - What would a report have to look like to resonate with Executives and the Board?
  - What data must it contain?
  - What questions will be asked?
  - What sources are considered credible?
  - What level of detail is prudent?

- **Align with the business**
  - How are assets aligned with the process from order to cash?
  - What levels of the hierarchy matter most?

- **How does it work? How will it break?**
  - How does it work when it does?
  - How will it break and what will break with it?

- **Get the facts, not perceptions**
  - What data is needed and who has it?
  - How can we get it without significantly impacting their time?

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**BCP Project Phases**

- Each Risk May Be At a Different Stage!
Where’s Your BCP Risk?

There is a lot more to a company than a data center... and a lot more risk... and a lot more opportunity!

Major Risk Epicenters

Impacts to the Data Center or HQ are far reaching but they are highly protected operations in most cases.
Impacts to Factories, Warehouses and Suppliers may not be as far reaching, but are more frequent and visible, especially related to health, safety, and compliance.

Establishing a working model for managing risk...

- Identify Risks
- Measure
- Organize
- Report
- Manage
- Accept
- Mitigate
- Avoid
- Transfer/Assign
Establishing a working model for managing risk...

Surprises

Fusion Framework’s Overall Role - Create Order from Chaos!
Our process for establishing a working model for managing risk...

1. Establish business alignment by defining “entities” that matter, in line with established decision-making processes
2. Identify Risk Sources, by type, within entities
3. Discover High priority risks based on leading indicators like concentration of risk and capacity constraints.
4. Quantify risks in terms of outage duration and financial loss
5. Report prioritized risks in a decision framework
6. Implement mitigation measures
7. Monitor implemented controls and accepted risks

Decision Framework
Decision Framework
What Don’t You Know?

Control Effectiveness
Perceived Impact

Inherent Risk

Inherent Impact to Company (Outage duration, $$, Market Share)

Inherent Risk Likelihood

Major
Significant
Moderate
Minor
Insignificant

BC Risk Sources
- Factories
- Co-manufacturers
- Suppliers
- Logistics
- Shared Services
- IT Operations
- Business Offices
What We Learned

1. BC Risks came from every type of risk source.
2. Some risks exceeded levels of authority of individual business units.
3. The top down approach enabled us to zero in on high priority risks much faster.
4. Structured approach made efficient use of manager and executive time.
5. Outage duration and Operating Income impacts were not always aligned.
6. Working sessions provided important insight into how our business works and provided cross functional alignment on recovery priorities.
Where Things Stand Today

- Risk Assessments and Risk Mitigation Workshops have been completed for all 5 regions
- North American Business Units have developed 3 year Strategy Plans and BCPs for the critical risks
- International regions are embarking on the 3 year planning and BCP development processes
- All of the data is resident in the Fusion Framework for updating and reporting

How We Want to Mature

- Expand our understanding of supply chain risks into our corporate and shared service centers - there are several supporting functions that tie in directly and indirectly to the supply chain that we will evaluate in 2012
- Expand analysis to formally incorporate market share implications This has been part of our discussions but has been limited in our formal reporting at a regional and corporate review level
- Define how we measure the quality of deliverables While we have done a good job measuring our impacts and control plans and status, we would like to develop a measurement for the quality of the plans developed. In other words, did we reduce the $ impact in any way as a result of the mitigation effort.
- And finally we would like to Expand thinking of future facility decisions to incorporate continuity concerns especially as it fits into our categories experiencing double digit growth.
Summary – Establishing an Effective Continuity Risk Management Program

Session Objectives:
- How to Effectively and efficiently establish an effective continuity program
- How to Integrate enterprise risk management and continuities programs
- How to Think like business leaders
- How to Effectively communicate with executives
- How to Work with other enterprise units
- How to Evaluate the success of your program

Open Discussion and Questions
Hungry For More? See Our Corporate Sites

Our corporate Internet: www.kraftfoodscompany.com
Our corporate Facebook page: www.facebook.com/kraftfoodscorporate
Our employee intranet: http://intranet.na.kraft.com

See the "About Us" tab on our homepage
See the "Our Company" tab on our homepage