

# **HOW TO HANDLE DISRUPTIVE EVENTS**

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**MANAGING RISKS AND OPPORTUNITIES**

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**BUSINESS SWEDEN**

# HOW TO HANDLE DISRUPTIVE EVENTS

A company that is present on many markets will certainly be affected by crises or major shifts in the market on a regular basis. This is not a reason to stay in Sweden, but rather a reason to be well prepared. By being able to handle events better than others, the company will have a competitive advantage when they occur, and will also be able to expand to less developed markets faster and earlier than competitors.

Business Sweden has developed a framework for management of risks and opportunities, which is a way to analyse a situation for a certain company. The aim is to:

- Identify the largest risks and opportunities for a specific company
- Find the best actions to mitigate the risks and capture the opportunities
- Give decision makers good estimations on the financial effect
- Give the company a tool to improve over time

With the above information, the company can make decisions based on its risk appetite when comparing financial upsides and downsides of several scenarios.



## Scenarios

Relevant scenarios for a company are usually created from macroeconomic scenarios. It differs for different industries how relevant different indicators are. But in most cases at least the foreign exchange rate is very important.

The scenarios contain forecasts of the indicators that are relevant for the specific company in the specific context. It can contain macro indicators, like FX-rate, oilprice, growth in a specific industry, salary level etc., as well as internal projections of cashflow in relevant dimensions, e.g. products, sales channels, markets etc. These scenarios are

then iterated and adjusted with the findings during analysis of risks and opportunities.

Scenarios should be constructed with care and it is very important that they are reasonably likely to occur. Assuming that the worst case happens for every identified risk at the same time is not a valid scenario, since it is simply too unlikely. The scenarios are usually also limited to a certain context, e.g. compliance risk on a certain market, in order to make the analysis efficient.

### Opportunities

When analyzing scenarios, a major factor is not only the negative impact but also the income in a scenario. The project handles risks and opportunities in a similar way, where financial impact is positive for opportunities and negative for risks.

### Identifying and estimating impact

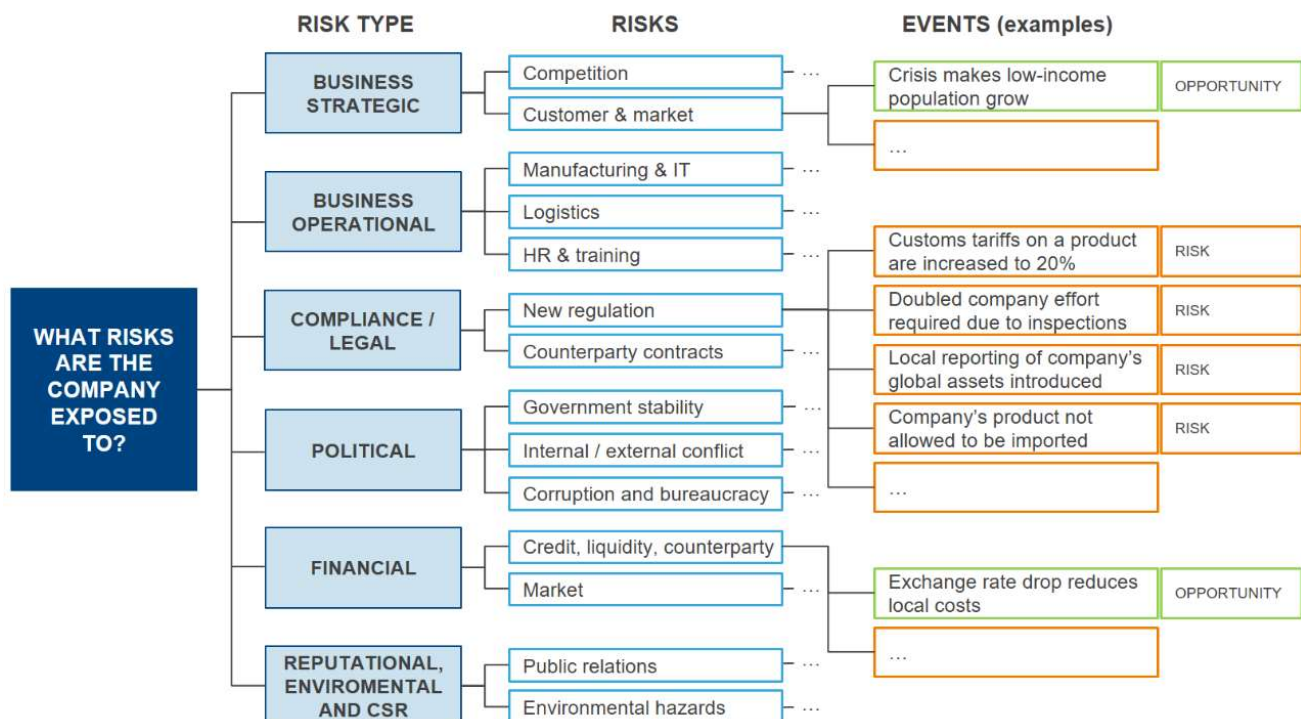
The key to a project is identifying events that can have an impact on a company. Business Sweden has experts on many markets in the world and since we are regularly helping companies in trouble as well as support companies in

expansion phases, we have a large experience in which events might be relevant for a specific company. By identifying and estimating the probability of something happening, we create a base for the total financial impact in a certain scenario.

The approach to estimating the financial impact is bottom-up (e.g. combining the effect of event A, B and C happening) and not top-down (e.g. estimating a general decrease of sales volume). Since a bottom-up approach identifies specific events that might happen, it gives a better estimate, but obviously it will take a long time to estimate the impact of all events. By focusing on the events that are most relevant (high probability and/or high impact), the large effects can be estimated with a reasonable effort.

### Top-down vs. bottom-up

In a top-down analysis trends and changes are applied on aggregated numbers, while in a bottom-up analysis the trends and changes are applied before the numbers are aggregated to a higher level. A basic example of top-down analysis is when an industry trend is applied to the



financial statement for a company. Top-down analysis can be a good tool, it can for example give a comparison between companies very fast, but for taking decisions on how to manage a specific company in a specific situation, we recommend a bottom-up approach. However, it should be noted that some aggregation is done also in the bottom-up analysis, for example if the company has many products, sales can be aggregated by product groups, and sales are usually aggregated monthly or quarterly when analysing trends. So the level and dimensions of aggregations is an important decision for the analysis.

### **Mitigating risks**

With proper mitigations, the financial impact of a risk might be significantly reduced. In some cases it does not even cost anything, it is enough to work a bit differently. However, when there is a cost to the mitigation, then it is up to the decision makers

to decide how to act, by comparing the impact with mitigations and without mitigations in the different scenarios.

The overall objective is to give decision makers at the company a basis for an informed decision on how to act, based on its risk appetite.

### **Way forward**

The risk and opportunity framework can be used in many situations: Brexit, Catalonia, Iran-US relations are just a few examples.

For a consultation on how to work in a structured way with risks and opportunities evaluation on international markets, don't hesitate to reach out to us.

For more reading, contact us for getting access to our case studies "Brexit and retail in UK – how to handle a changing landscape" and "How to handle a crisis in Catalonia".

*For details regarding the implications for your company, contact Business Sweden.*

*Sources: Business Sweden Analysis*

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