

# FOOD FOR THOUGHT

A PERIODIC EXAMINATION OF KEY ISSUES AND TRENDS FROM MARSH'S FOOD & BEVERAGE PRACTICE



## MAKING BETTER-INFORMED DECISIONS WITH DATA AND ANALYTICS

A Fortune 500 food supplier needed to contain its growing expenses and educate its business units on the hidden costs of workplace injuries. By analyzing available data and partnering with outside expertise, the company was able to assess the situation, develop incentive plans, and save more than \$500,000. A decision that may once have been based on guesstimates was instead driven by meaningful metrics, harnessing the power of data.

### BIG DATA QUANTIFIES RISK

The above is just one example of the enormous advantage that analytics is giving today's food and beverage companies. By using big data-based tools to quantify their risk, they can assign a value to the unknown, forecast the extent of potential financial damage, and assess possible mitigation opportunities to manage their exposures. In short, data and analytics can help drive intelligent business decisions and change.

Assessing the frequency and severity of exposure to both insurable and non-insurable risks enables food and beverage companies to balance risk-financing decisions against their overall corporate risk tolerance and their ability to invest in new products and operations. With data and analytics, companies can explore — either on their own or with the support of experts — how key factors such as volatility and the cost of capital impact various aspects of business strategy, such as expected pricing and transfer of risk.

Analyzing big data enables food and beverage companies to calculate and evaluate the balance sheet impact of the most significant business risks they face, including workers' compensation, food contamination, or property claims.

### WAYS TO QUANTIFY VALUE

Here are some other ways that data and analytics can help food and beverage companies place a value on the unknown:

- **Capture and analyze the potential volatility of new facilities and product lines as they relate to the bottom line.** Food and beverage companies need to be keenly aware of how upfront capital and startup costs can affect the availability of capital. Loss-simulation tools provide data around expected losses and the associated volatility for a particular risk. By overlaying a specific cost of capital, metrics can guide decision making around the potential financial impact of those risks — and how to mitigate them.

- **Forecast the probability of potential losses through a database of comparable industry data.** Applying data and analytics does not guarantee a precise forecast of catastrophic losses, but it can fill in visibility gaps and create a credible understanding of the company's overall risk. By comparing potential exposures or existing claims to benchmark peers, companies can predict the potential financial impact of an incident, allowing them to take appropriate action.
- **Explore a range of potential loss outcomes.** Once risks are identified, it's important to determine the potential impact in terms of losses to the company. Food and beverage companies concerned about risks with their locations, for example, can view potential risks associated with those facilities as a sum total, or view individual locations to determine their unique risks.
- **Identify all potential risks, including those that haven't historically led to losses.** Food and beverage companies buy insurance to offset a portion of their risk and the uncertainty around the potential size and scope of losses. The key to balance-sheet protection is to identify risks that have a low probability of occurrence and a potentially high level of loss, and to find risk financing options that protect the company.
- **Flagging excessive risks before an incident occurs.** With their sizable workforces, food and beverage manufacturers face an array of employee-related risks. Using data can help predict claims that could turn into large losses. It can also identify injury trends, allowing employers to design and implement appropriate safeguards and/or modify processes.
- **Early identification of product exposures.** Analyzing various sources of data can help to identify potential product safety issues before they grow into large recalls. Early identification can not only save a brand's reputation, but potentially save lives.

By helping to identify and quantify risks quickly and efficiently, big data and analytics allow food and beverage companies to minimize their total and economic cost of risk.

*This briefing was prepared by Marsh's Food and Beverage Practice, in conjunction with Marsh's Global Analytics and Marsh ClearSight.*

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