M1L10. Risk Profile Assessment

Slide #1

Slide #2

Assessment: a simple decision (Case 1)

Profit ($million)

25

20 — 20

15

10 — 10

5

0

H1 Actual   Annual target
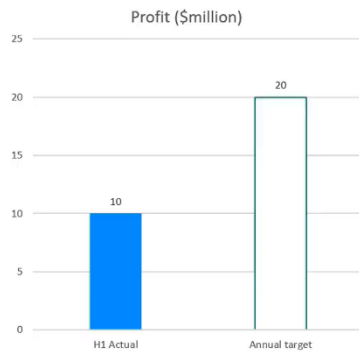
Do a simple exercise to help understand your risk-taking profile.

You shall follow your natural reasoning process to make decisions under two different scenarios.

There is no right or wrong answer for each situation.

It is not recommended to conduct any sophisticated analysis. Just make your genuine judgment to choose an answer you feel most comfortable with.

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Just make your genuine judgment based on your natural thought process to choose an answer you feel most comfortable with.

Slide #3

Assessment: a simple decision (Case 1)
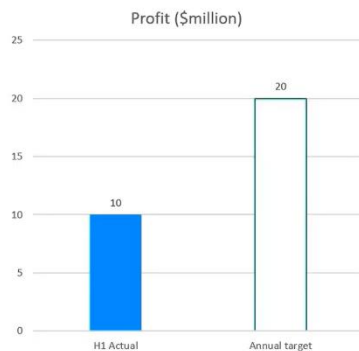
Profit ($million)

As a product development executive of an automation software company. Also, you are one of strong candidates the company is considering for a VP position for a newly created data analytics solution business unit. You just launched a new AI product in Q1. The market response was surprisingly positive, and the product made $10million profit in the first half of the year. Your performance target is making $20million this year. The financial performance is an important factor your company values for the VP position.

You need to decide on activities for the remaining of the year. There are two options:

1. Launch another new machine learning product: 20% of chance of losing $5 million, and 80% of chance of making $15 million.

2. Focus on support the AI product sales support: 100% chance of making $11million in the 2nd half of the year.

Deliverable: Decide your best option and write a short paragraph (about 50 words) to justify your decision.

In both cases, you are currently a product development director of an automation software company. Also, you are one of the strong candidates the company is considering for a vice president position for a newly created data analytics solution business unit. Under the first scenario, you just launched a new AI product in quarter 1. The market response was surprisingly positive, and the product made 10 million dollars profit in the first half of the year. Remember, your performance target is making 20 million dollars by the end of this year. So now you are half away from the target. The financial performance is an important factor your company values for the vice president position.

You need to decide on activities for the remaining of the year. For the second half of the year, there are two options. One is to launch another new machine learning product, and there is 20% of chance you're going to lose 5 million dollars from this new product.

But there is also 80% chance of making 15 million dollars. This is a new product and a new market. So, it's a little bit hard to predict exactly how the market opportunities

will unfold. The second option is to focus on supporting the artificial intelligence product that you launched at the beginning of the year.

So, you will spend your effort to support the sales of the existing product. It is certain that you are going to make 11 million dollars in the second half of the year because you understand the market. You understand your product very well.

So, what you need to do is to decide the best option between the two, which one you want to do for the second half of the year, and then write a short paragraph, about 50 words to justify your decision, to explain your thought process. Again, there is no right or wrong answer. Just explain how you came up with this decision.

Slide #4

Assessment: a simple decision (Case 2)

Profit ($million)

As a product development executive of an automation software company. Also, you are one of strong candidates the company is considering for a VP position for a newly created data analytics solution business unit. you just launched a new machine learning product in Q1. The market response was surprisingly lower than expectation and the product made only $2million in the first half of the year. Your performance target is making $20million this year. The financial performance is an important factor your company values for the VP position.

You need to decide on activities for the remaining of the year. There are two options:

1. Launch another new generative AI product: 40% of chance of losing $4.5 million, and 60% of chance of making $27million, which potentially makes your company a leader in this new field. But a loss will make your Division difficult to develop other new products next year.

2. Release an updated version of the ML product: 20% chance of break-even, and 80% chance of making $18 million

Deliverable: Decide your best option and write a short paragraph (about 50 words) to justify your decision.

In scenario two, again, you launched a new machine learning product in the first quarter. The market response, however, was surprisingly lower than your expectation, and the product made only two million dollars in the first half of the year. That is the profit. Your performance target is making 20 million dollars profit by the end of this year. So, you are pretty far away from your target in the middle of the year. Again, the financial performance is an important factor your company values for a new vice president position.

You'll face two options for the remaining of the year, and you need to decide which option you want to take. The first option is to launch another new generative artificial intelligence product. This is a new product and also a new market. There is 40% of a chance that the product launch will not be successful and your division would lose 4.5 million dollars from this new product. However, there is also 60% of a chance of getting a very successful product on this emerging market and your department can make 27 million dollars from this new product. This success would also make your company a leader. However, if the market does not unfold as expected, a loss could make it difficult for your division to develop other new products next year, as you will need to eat a loss from your budget for the next year.

The second option is quite simple. You learn from the Machine Learning Product Launching, the first half of the year, and you have an idea to improve it. So you are going to release an updated version of the machine learning product and there is 20% of a chance of a break even, and about 80% probability that the 80% probability that the updated version of the product will make 18 million dollars in the second half of this year.

So this is a turnaround. Deliverables. Again, you need to choose the best option from the two and write a short paragraph to justify your decision. Explain your thought process, why you choose the option that you feel most comfortable with. There is no right or wrong answer. Just choose an answer based on your genuine judgment and write down your thought process, how you made that decision.

After you submit your answers and also the justification, we'll do statistical analysis about the risk-taking profile for each person and also for the whole class. From this exercise, you will understand not only your own risk-taking profile, but your preference. Also, you will learn the class wide pattern.