Keeping Your Business Healthy - *Manage the Risks*

Running any business carries risks and some are more obvious than others. It goes without saying that if your premises burns down, your computer system fails or a key piece of equipment is damaged, then without contingencies in place you will struggle to carry on.

Most of these operational examples, along with other physical catastrophes, can be insured against. For the other less obvious risks however, business owners need to ensure they have acknowledged them as potential risks in the first place and that sufficient management time is applied to minimising them.

Have a strategy

It is important to realise that you have no real control over some eventualities that constitute business risk and so having strategies in place to cover them is vital. For example, if you are heavily reliant on one supplier to get your finished goods to market then you are in a vulnerable position should that supplier run into difficulties. Of course there will be situations when there is no other option but having a choice of supplier does offer two benefits. Not only can you quickly switch if things go bad but a supplier that knows you have other options is more likely to keep prices competitive.

Similarly, you have no control over what your competitors are doing but that doesn't mean you shouldn't be interested. Market intelligence, knowing what they're up to and spotting when a new kid hits town should all act as triggers to get management reviewing the positioning of the business and reacting accordingly.

Credit where credit's due

The business world revolves around credit but as far as the risk thermometer goes this one seriously squeezes the mercury. Just who gets credit and how much they get needs to be the subject of a well thought out policy and not out of a desire to hit a monthly sales target. It's worth remembering that although a large sale adds a large lump of profit to the projected bottom line, it doesn't actually exist until the sale is paid for.

As with the supplier situation, reliance on one key customer is a big risk. If a high proportion of your sales are heading in their direction then their failure could result in your failure. A robust credit policy should help you decide if the risk is worth taking; if searches and credit

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agency reports show the business to be blue chip then it can be viewed as acceptable, if not then credit insurance is an avenue worth exploring.

A good credit policy shouldn't stop at the beginning of a trading relationship. Once a deal has been done it is important to have a good collection procedure in place to ensure that invoices are paid when due. Cash is king remember and it is vital that it keeps revolving.

Over the seas (and far away)

Exporting throws up its own potential risks, not least who to grant credit to and how long for. Standard payment terms vary from country to country and so being prepared to wait a little longer for payment needs factoring in to the equation. When considering the customs and norms of a country it is also worth a look in the direction of its political stability and the potential risks such as regime change. In these days of the Eurozone crisis it's probably just as relevant to consider the likelihood of a country going bust as much as the customer.

Exporting (and importing) also often means currency, another area where you have no control when it comes to fluctuating exchange rates. You can cushion yourself however by the forward purchase or sale of foreign currencies and your bank should be able to advise you on this. For exporters and importers alike, knowing the exchange rate at the time you make the deal means that your profit margin won't disappear when the currency is converted into Sterling but the dollar, Euro or Yen has moved against you.

Compare, contrast and then ask questions

Of course spotting potential risks means you need to be looking for them in the first place. It's all well and good slapping the team on the back when you're presented with a set of rosy projections and forecasts but will you still be slapping them on the back when you look at the actuals a few months down the line?

Reporting lines need to be open and responsibilities made clear. A management team should review all aspects of the business regularly and then flag and address problem areas. Make sure you know what your margins and cash positions actually are rather than what

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you'd like them to be. Find out about any supply chain issues and delinquent customers and keep up to date with new regulations to ensure you still comply.

Eyes wide open

These have been just a few examples of the risks to businesses that might not be as obvious as fire, flood or earthquake. The important thing to always bear in mind is that every aspect of running a business carries a risk and that all members of the team should be on the look-out. Any that show no commitment to the cause are themselves a risk that needs to be dealt with.

Remember, only when you have identified a potential issue that could disrupt the way your business runs can you decide whether to live with it, offload it, lessen its possible impact or get rid of it all together.

For reliable, positive and impartial advice about your business challenges, contact Mike Grieshaber.

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