Understanding three key risks facing SMEs

Protecting against risk is essential for any business, and identifying and understanding less obvious exposures can help a business prepare and be best protected, should the worst happen.

Most small- to medium-sized enterprise (SMEs) owners are aware of some of the physical risks faced by their businesses such as damage to premises as a result of fire, storm or theft. These are evident for any business, and taking steps to mitigate that risk is a given.

Depending on the sort of business you operate, there will always be a range of other risks that are not so obvious including those specific to your industry. These may not be as evident as a flood washing up on your door or burglary, but no less damaging if the event occurs.

A comprehensive approach to risk management including risk analysis can help you nail down the areas where, depending on circumstances, your business may be vulnerable, such as being unable to deliver on its promises to customers, employees or suppliers and subsequently suffering a financial loss, loss of clientele and reputational damage.

Nigel Thomas, divisional chief executive with Austbrokers said, “The first step in managing any type of risk is visibility. Once business owners know and understand the risk, they can decide how to address it. By working with a knowledgeable and trusted adviser, business owners can get that all-important visibility, and then decide how to proceed.”

Thomas identifies three key areas that can have an impact on most businesses.

1. Customer-based risks

If your business relies on a small number of key customers for most of its income, there is significant risk that you could be unable to generate enough income to operate if one of those customers couldn’t pay or took their business elsewhere. In order to reduce this risk and ensure continuity of cashflow, businesses can regularly credit-check large customers, or require all or a portion of payments upfront. Of course, diversifying your business to put less power in the hands of few customers is also a very important objective.

2. Supplier-based risks

Similarly, if your business depends on a small number of suppliers and one or more of those suppliers can’t fulfil their obligations, then there is a real risk that your operations could be adversely affected. For example, if your unique selling proposition outlines that you only use locally-sourced ingredients, and a flood wipes out the local producers, you would be at risk as a knock-on effect.

SMEs should set out to spread the risk by obtaining goods from a broad range of suppliers, and having backups in place should the regular supplier be unable to fill orders.

3. Employee-based risks

Part of running any business often means trusting staff with essential tasks such as taking payments, working with valuable intellectual property (IP), providing goods or services, and depositing the day’s takings at the bank. If employees behave fraudulently — or even if a team member makes an honest mistake — the cost to the business could be high.

For a business that places a high level of trust in its employees, specifically around the handling of money or sensitive IP, having protection against fraud or theft makes a lot of sense.

Thomas said, "Managing financial risks is crucial. If a business doesn't have enough funds on hand to cover its payment obligations, it faces a liquidity risk that could be disastrous. As well as managing cash flow prudently, businesses can consider insuring against events such as customer non-payment, employee fraud, or supplier failure, to ensure it has the funds to cover its obligations."

Specific insurance cover may protect against these types of scenarios. Speak to one of our risk advisors today if you would like to explore options.

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