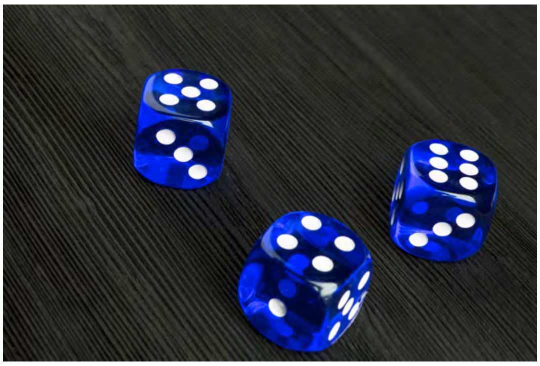
Ignore Business Risk at Your Peril



Regrettably, many business owners don't put sufficient emphasis on managing business risk (particularly downside risk) and, therefore, protecting the wealth they create.

Typically, business owners underestimate downside risk because they haven't previously suffered material loss and discount both the level of risk they face and its potential impact.

Disproportionate optimism leads them to draw comfort from the past, to simply assume the future will replicate history and blindly project this forward, often to their peril!

Things do go wrong

The reality is that things do go wrong, and they don't just happen to other people.

For most business owners, their business is how they secure the wealth and lifestyle they seek. Given how pivotal business is to their success, it's critical to:

- Maximise opportunity capture
- Safeguard the business' performance and assets from material losses that threaten it
- Protect the current and future wealth that supports the lifestyle they seek.

You shouldn't gamble your future.

Anyone who's had exposure to enough businesses over a long enough period can attest to the frequency at which businesses and their owners suffer material losses, the majority of which can be prevented or mitigated. It's far more frequent than a typical business owner imagines.

Murphy's Law applies to you, not just everyone else!

The following case studies provide examples of things that go wrong for ordinary business owners trying to do the right thing.

Case study – Public liability

A husband and wife had operated a highly successful country motel for seven years.

Unexpectedly, they received a solicitor's claim representing a local resident who'd allegedly tripped over a tree branch in front of their motel while walking home from the local pub. He was claiming $125,000 in damages five and a half years after the alleged event!

The motel owners were confident no such tree branch existed on their land. The plaintiff nevertheless pursued the matter with gusto.

Unfortunately, the business' public liability insurance had lapsed for three days before the renewal payment was made, coinciding with the date of the alleged incident. The insurance company declined to accept liability for the claim.

In the end, they spent $86,000 on legal costs and $40,000 to reach an out of court settlement that avoided the much higher costs of defending the matter. They usually held the appropriate public liability insurance, but a small administration error meant the policy lapsed, and they were at significant risk.

Cast study – Rogue operator

An experienced construction business entered into a subcontract with a head contractor who'd won a large construction contract for the local water authority. The head contractor engaged many local subcontractors to complete the majority of the works.

The head contractor's business model was to convince local contractors to agree to onerous and inequitable subcontracting terms. This highly practised tactic preys on subcontractors' lack of legal understanding, using the contract terms to extract additional work and force settlements that significantly underpaid subcontractors.

In doing so, the head contractor could submit highly competitive tenders knowing that they'd still make a significant profit because subcontracted works would be completed well below market values.

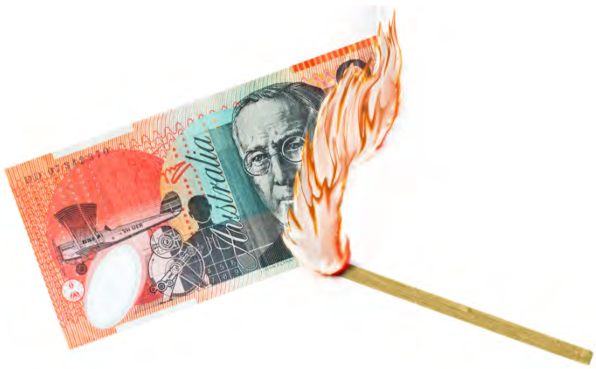
In this case, the subcontractor didn't legally review the completed contract before signing it. He'd relied on verbal representations made by the head contractor who, before signing, downplayed the written contract's importance.

Despite the subcontractor's work quality, he hadn't followed the contract's formal terms and administrative requirements, which was used against him. He was owed $180,000 but was offered $40,000 as a settlement in full.

Despite verbal representations and the contract's oppressive nature, overturning it would take an estimated $220,000 in legal costs. Given the uncertainty involved, taking the matter through the courts was prohibitive.

You need to protect yourself from unscrupulous operators – remember, buyer beware!

Case study – Disgruntled employee burns factory



On September 11, 2001, a large farming and manufacturing business' entire processing facility was burned to the ground by a disgruntled employee, causing $14m in direct property damage. It brought production and sales to a complete standstill.

Luckily, the owners had maintained appropriate fire and perils insurance and rebuilt the factory within 18 months. However, if they had neglected to maintain insurance to cover their loss of profits and increased operation costs during the rebuild, they would have lost their entire business.

While they couldn't predict the employee's actions, fire risk and subsequent loss of profits are entirely foreseeable. By transferring this risk through appropriate insurance, they recovered from the disaster and secured an opportunity to improve their operations and long-term competitive advantage significantly.

Without appropriate risk management, the outcome would have been far different.

If you'd like to protect the wealth you accumulate so that you can enjoy it in the long-term, call [Fortitude Business Consulting](http://www.fortitudebusinessconsulting.com.au) on 1300 551 040.

PARTNERSHIPS CREATING SUCCESS®

Fortitude Business Consulting Pty Ltd | ABN 30 167 470 662 | ACN 167 470 662

T 1300 551 040

E grant.ferry@fortitudebusinessconsulting.com.au

W www.fortitudebusinessconsulting.com.au