

Is Your Business At Risk?

Simple Strategies to Manage Risk Throughout Your Firm's Purchasing Process



It's common knowledge that risk management is an operational cornerstone of the "big guys," but what about the small businesses? Why should you care about risk management strategies?

Most small businesses are unpredictable and their resources are tight. According to the U.S. Small Business Association, approximately 10% of small businesses disappear each year. That amounts to an enormous loss of wealth, not to mention entrepreneurial dreams. What is especially disheartening is that most of this loss can be prevented with proper internal controls and risk management programs. Solid controls and risk management processes have a direct correlation to strong business performance. This is because risk management can substantially grow the size of a company's bottom line. Think about it—less trouble means your company resources are focused on business activities that impact the bottom line in a positive manner.

Put Effective Controls In Place

In a small business, risk management and internal controls allow for minimal distractions or financial burdens in the operational process. It starts with a strategy, but it's really about the bottom line results. The process has to be directly applicable to the unique needs and limited resources of your business, and will usually have these three characteristics:

1. Affordable and quick implementation, either "do-it-yourself" or with the aid of a trained CPA.
2. Low maintenance with a long, effective shelf-life.
3. Reduces operating cost while improving productivity.

Start With the Basics

As a small business owner looking to mitigate the risk in your company, where should you start? Take a look at the purchasing process within your organization. This is a major area of risk because it involves credit policies, billings, payables, contracts...the list goes on. Knowing that cash flow is the lifeblood of any small business, it's important to develop risk strategies that ensure your business can maintain sufficient balances to meet its financial goals and keep the doors open.

Implement a purchase order process: Purchase orders ensure goods and services are received as ordered eliminating costly mistakes. Tip: specify every detail on the purchase order (e.g. quantity, color, delivery date, shipping method).

Review invoices in detail: Compare invoices to your purchase order and receiving slip and don't be surprised. Many businesses are good at adding extra charges. Tip: use your detailed purchase order to ensure that payment is only made for services requested.

Preserve your credit: Lines of credit are very important tools for business owners. As your business grows, the need for flexibility increases; lines of credit provide business owners with stability in monthly projections and can help you meet short term needs. Tip: When setting up payment terms with suppliers look for flexible options that will protect your business' cash flow. Once the payment options are in place follow them and maintain your reputation with suppliers.

Uncover Your Top Threats

An important part of managing the risk in the purchasing process is reviewing suppliers used for big purchases. Go beyond analyzing the standard contract and review the supplier's ability to perform. Uncover and be aware of any financial limitations before awarding high-value jobs that could put your small business at risk. Tools to use include performance reviews of each major supplier and measurable performance standards. Don't forget to document trouble as a means to understanding a supplier's accountability.

A small business makes little progress or money when fighting fires and fixing fatal problems that blow up in the company. When this scenario happens your resources are redirected to solve a problem and cash flow is halted. This type of unbudgeted hit can be detrimental to a survival. The objective is to uncover all meaningful risks that confront your company. Part of the search is easy and risks can be identified by reviewing your primary written documentation. But this is only the tip of the iceberg. You should expect that many processes have never been documented; therefore, many risks have never been communicated. Plan to attack your risks one at a time. Start by uncovering your top threats and build processes and control activities that will reduce the inherent risk in your business.

Risk is a by-product of business; being risky is a choice. Stay tuned for the next article in our series on successful small business strategies.



McCONNELL JONES LANIER & MURPHY, LLP
CONSULTANTS & BUSINESS ADVISORS

For assistance getting started, contact our small business expert,
Thomas Jones, CPA, at 713.968.1600.