

SMME RISK MANAGEMENT WORKSHOP

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We are all bombarded on a daily basis with marketing information from a multitude of companies. On top of this we get some “fantastic advice” from family and friends about money, business and life in general - mostly without us even having to ask for it. This short session about Risk Management is aimed in helping you as independent business people to distinguish between good and bad advice.

► **The topics covered will be:**

1. Background of running your own business in South Africa
2. List of risks faced by SMME's
3. 5 point Risk Management Plan
4. Solutions for the risks of an SMME
5. How to select a good Financial and Business Advisor
6. The minimum every SMME owner should have in place to mitigate the most important risks
7. SSA Professional Indemnity Voluntary Group Scheme for Coaches and Instructors
8. Our contact information

Background of running your own business in SA

- ▶ **There are a multitude of risks facing the Small and Medium size business in South Africa today.**
- ▶ **While legislation regulates the specific environments in which various industries have to operate, the objective of this workshop is to highlight those universal risks related to the ownership of any business in the SMME sector. Why this is so important is the fact that the vast majority of businesses fall into this category.**
- ▶ **While large corporations may have a larger individual impact on the economy simply because of economy of scale and the large capital investments they are able to make, it is the SMME sector that has the numerical advantage. The SMME sector is an important source of employment because of the nature of management structures where the owners are usually directly involved in the business. This allows for shorter decision making processes and therefore better job creation capacity during any upswing phase of the economy.**
- ▶ **All of this however also means that SMME owners face more difficulties than what most people realize when they contemplate starting a new business.**

List of risks faced by SMME's

Let's list the kind of risks that the average SMME face on a daily basis:

- ▶ Death of the owner/partner/shareholder
- ▶ Permanent disability of the owner/partner/shareholder
- ▶ Temporary disability of the owner/partner/shareholder
- ▶ Sickness of the owner/partner/shareholder
- ▶ Contingent liabilities
- ▶ Death/disability of a key person
- ▶ Extended sickness of a key person
- ▶ Resignation of a key person and him/her joining the opposition
- ▶ Theft / burglary
- ▶ Damage to property
- ▶ Natural disasters
- ▶ Accidents
- ▶ Power outages
- ▶ Unpaid debtors book
- ▶ Litigation by public and customers*
- ▶ Withdrawal of permits and licences
- ▶ Competitor activities
- ▶ Bad economic climate
- ▶ Political climate and threats
- ▶ New products replacing existing products of the business.
- ▶ Impact of new technology
- ▶ New trends reducing popularity of the product range of the business
- ▶ Legislative changes
- ▶ Owner / partner / share holder / key person grow too old and have to retire.

While this list is not at all complete, it gives us some idea of the kind of risks that we need to plan for.

5 Point Risk Management Plan

In order to do this the average SMME owner can use a variety of tools to help reduce these risks. That bring us to the point of drafting a good risk management plan.

- ▶ **Step 1: Identify those risks applicable to your own business:**
- ▶ **Step 2: Divide them onto normal business risk and extra ordinary risks**
- ▶ **Step 3: Calculate the financial impact of the risk (if necessary obtain the assistance of a qualified professional to help with that)**
- ▶ **Step 4: Decide which risks can be carried by the business and which will have such an impact that the business may have to be closed down.**
- ▶ **Step 5: Outsource those risks that the business cannot carry itself to an appropriate institution that can provide the financial backing in case of the event happening**

It is all really this simple – instead of just taking out a policy because you think you should have a fire policy, if you follow this approach then you are in control and you decide how you reduce your overall risk to the minimum.

Solutions for the risks of an SMME

How do we put the risk management plan into action?

The type of business form that the SMME has will influence some of the solutions.

While the list is not at all meant to be inclusive of all risks or solutions, it will go a long way in demystifying some of the technical jargon that the SMME owner may encounter from time to time.

Risk faced by the SMME

- ▶ Death of the owner/partner/shareholder
- ▶ Permanent disability of the owner/partner
- ▶ Temporary disability of the owner/partner
- ▶ Sickness of the owner/partner
- ▶ Contingent liabilities
- ▶ Death/disability of a key person
- ▶ Extended sickness of a key person
- ▶ Resignation of a key person to join the opposition
- ▶ Theft / burglary
- ▶ Damage to property
- ▶ Natural disasters
- ▶ Accidents
- ▶ Power outages

Management tool / tools available to SMME

- ▶ Life Assurance/Partnership/Share Holder Insurance
- ▶ Disability Insurance/Partnership/Share Holder Insurance
- ▶ Income Protector
- ▶ Income Protector
- ▶ Life Assurance
- ▶ Key Person Insurance
- ▶ Income Protector
- ▶ Employee Contract and Employee benefits
- ▶ Commercial Short-Term Insurance
- ▶ Commercial Short-Term Insurance
- ▶ Commercial Short-Term Insurance
- ▶ Commercial Short-Term Insurance
- ▶ Alternative power sources

Solutions - continued

Risk faced by the SMME

- ▶ Unpaid debtors book
- ▶ Litigation by public and customers
- ▶ Withdrawal of permits and licences
- ▶ Competitors activities
- ▶ Bad economic climate
- ▶ Political climate and threats
- ▶ New products replacing existing products of the business
- ▶ Legislative changes
- ▶ Owner / partner / share holder / key person grow too old and have to retire.

Management tool / tools available to SMME

- ▶ Credit Guarantee, Debit Order system
- ▶ Liability & Professional Indemnity Cover
- ▶ Continuous learning & compliance
- ▶ Innovation
- ▶ Reserve fund
- ▶ Adaptability
- ▶ Innovation keeping up to date with new techniques and technology
- ▶ Join a professional organisation
- ▶ Retirement funding and succession planning

How to select a good Financial & Business Advisor

From the above it may become clear that each SMME owner need to engage with a professional advisor who has the necessary technical skills to guide him/her through these risks and solutions and that will be able to analyse each individual situation to be able to provide appropriate and applicable advice.

The following are some of the places where one can look for help:

▶ **Banks and Insurance Companies**

- ▶ **Banks and Insurance companies have very sophisticated advisory structures in place that are primarily focused on promoting their own in-house products and services.**
- ▶ **Because they also provide credit many of the risk solutions are also linked to these credit facilities .**
- ▶ **Always remember that you have a free choice of products**
- ▶ **Compare products with other suppliers**

▶ **Accountants and Audit firms**

- ▶ **These firms are reliable sources of information about the running and structuring of businesses**

▶ **Independent Financial Advisors**

- ▶ **Independent advisors or brokers can typically provide products from different suppliers.**
- ▶ **They save you a lot of time by comparing products and helping you select the best suited for you**
- ▶ **Make sure that the person is truly independent**

How to select a good Financial & Business Advisor- continued

▶ **Business Advisors**

- ▶ **There are specialised business advisors who can guide especially new businesses through the maze of challenges facing business people. Do your own research about them and get references from other customers.**

▶ **Independent Financial Planners**

- ▶ **Financial planners have now been recognised by the FSB as a separate designation and the highest level is the CFP (Certified Financial Planner) designation for people that wrote the FPI (Financial Planning Institute of SA) Board Examination. The minimum entry qualification to be allowed to write the exam is a post degree qualification in Financial Planning and at least 2 years of experience after obtaining the qualification.**
- ▶ **If your CFP Financial Planner is also independent, you have the peace of mind that this person is not only highly qualified but can also compare the various products for you and match you with the best applicable one.**
- ▶ **These people are usually best suited to build life-long relationships to help you attain your life goals.**
- ▶ **While other options above may provide an immediate solution like credit life insurance when you take out a loan, the Independent Financial Planner will always keep your long term financial health in mind.**

The minimum provisions every SMME owner should have in place to mitigate the most important risks

Each SMME owner should at least protect themselves against:

- ▶ **Loss of income**
- ▶ **Property damage**
- ▶ **Liability risks**

In addition provision should be made for:

- ▶ **Emergency fund**
- ▶ **Capital expansion**
- ▶ **Investments and retirement provision**
- ▶ **Succession planning**
- ▶ **Estate planning**

Our contact information

You are welcome to visit Orenco IFA's Website www.orencoco.co.za for more information on the services available.

Our contact details are:

- ▶ **Johann Krüger B Com (Hons) CFP : Mobile number: 0834533224 and email: johann@orencoco.co.za.**
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Thank you

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