

Business risk on the rise

The pandemic has created a further layer of business risk with which to contend. There are many types of business risk and the pandemic has exacerbated economic, operational, credit and resource risks to name a few. It is estimated that between 20% and 30% of small businesses, and a sprinkling of larger concerns, will cease to trade as we start to emerge from lockdown on 19 July.

Additionally, at the end of September, the major source of support for employment, the furlough scheme, is coming to an end. Unfortunately, we should expect a significant rise in unemployment following that change.

Although the government has provided much financial support to businesses through this time in the form of schemes such as the Coronavirus Business Interruption Loan Scheme, Recovery Loan Scheme, Bounce Back Loans and deferred VAT payments – these must also be paid back at some point.

These are among some of the reasons why we recommend that businesses should undertake a re-assessment of business risk on multiple levels so that services and goods supplied are paid for and bad debts kept to a minimum.

A starting point would be to take a serious look at your customers. Divide the into 'can pay', 'cannot pay' (they have cashflow issues) and 'will not pay' (bad payers) categories.

Secondly, rank customers as 'T' (transactional) or 'R' (relationship). Transactional customers are concerned about price, quantity, and delivery, i.e., always want more for less. Transactional behaviour is the default position for many businesses in a crisis. Relationship clients are more open to conversations about the value of the goods or services you supply. They will enjoy their business relationship with you and be loyal customers.

Last of all, rank customers 1 (low) to 5 (high) for risk of failure.

This approach can help you to start to undertake a formal review of business risk and an in-depth assessment of your customers. If you need any support, or do not know where to start, we would suggest that you speak to your accountant for help.



This will enable you to better manage risk with eyes wide open rather than stumbling into situations where work is undertaken, or goods supplied, in areas where there are increasing risks and where customers may not have the inclination or resources to pay.

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