

# Managing risk to maximize reward

Without risk, there is no reward. Every entrepreneur and enterprise accepts, and often embraces, that equation. But equally critical to reaping reward is knowing when, where and how to manage risks — especially those less obvious ones that can have a big impact on business success.

“In assessing risks,” says Stephen Prime, national manager for Client Strategies Commercial Banking with RBC Royal Bank, “you need to think about the likelihood of something actually happening and the impact that it would have on your business. Then you can prioritize the risks and start to deal with them one by one.”

Prime suggests breaking risks into broad categories to quickly get a handle on the specific ones a particular business might face. For example:

- › People risks, which include things like losing a key employee or a fall-out between partners;
- › Operational risks, which cover everything from supply chain interruptions to catastrophic events like fires and floods; and

- › Market risks, which are things beyond a business's control, like fluctuations in interest rates, exchange rates and commodity prices.

For every type of risk, there's a choice of mitigating strategies. For example, one of the biggest people risks is the loss of key employees. Offering a competitive salary, benefits programs and a chance to develop are key steps in recruiting and retaining top talent. “It's also important,” Prime says, “to have a good insurance policy for owners and partners in case of injury or critical illness.”

Operations involve the most significant number of things to work through. Foremost among them are risks to your supply chain, which can impact your business in a number of critical ways.

“The number one way to protect your supply chain,” says Bill Murphy, national partner with KPMG's Advisory Services, “is to be very careful about who you choose to purchase your goods and services from. The quality and timing of what your supply base delivers has a direct impact on your reputation, on your ability to add value to a product



and make a profit, and ultimately, on whether you're able to satisfy your customer's requirements."

Murphy also recommends that businesses look at insurance to protect against the unforeseen and the all-too-common. "You can accept risk, avoid risk or transfer risk," he notes. "Insurance is a way of transferring it — you're staying in the activity, but you're taking the risk component and transferring it to another party, albeit for a premium."

"For example," says Prime, "business interruption insurance is something a lot of companies overlook. But in the event of a catastrophe, like a fire or flood, it provides a revenue stream until you can get your operation back up and running."

Then there's receivables insurance as protection against the risk of a customer defaulting on a payment. "This is

important," says Prime, "if you're a "small company with a number of large receivables, or if you're selling offshore." In the same vein, Murphy notes that crown entities like the Export and Development Corporation offer insurance against export receivables to help companies reduce their credit exposure.

Supply chain cost fluctuations — including price volatility and disruption in service from a key supplier — can also impact prices and profitability. For these types of risks, both Prime and Murphy suggest looking at hedging strategies. For example, setting a "forward contract" to purchase a commodity at a specific price.

Murphy recommends seeking advice from outside advisors, especially when looking at financial risks and hedging strategies. "Your banking relationship will be critical at this point," he says.

"Your lending institution can provide significant information to the business on an ongoing basis in terms of what the markets are indicating."

Murphy also suggests equating monitoring risk to a vehicle dashboard, only with key performance indicators (KPIs) in place of gauges and dials. "KPIs can often be used as risk indicators," he says, "especially if they're trending unfavourably. A quick glance at things like cash flow reports, collections and payments can help you see where you're at risk and how well you're managing it." That leaves you to focus your attention on the road ahead, not on the rear-view mirror.

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