Managing risk and uncertainty for small business owners

Financial Wellbeing and literacy expert Frank Conway from Moneywhizz outlines the best ways small business owners and entrepreneurs can manage risk.

For any business owner, every day presents risks and challenges. So, it is no surprise that even the most high-level planning must factor in risk as a key consideration. Coming up with a great business idea also carries a series of challenges that will impact your income and in the long-term, your Financial Wellbeing.

With the potential of a different challenge every day, have you asked how much risk you can tolerate?

What entrepreneurs and business owners endure

When starting a business, this is very often done using personal cash to fund growth. This often means a business owner may have little or no income for several months (or perhaps longer in some situations). This is the sacrifice a business owner will make in order to get their passion off the ground and on the road to success and generating sales and income.

This is the first and most basic risk a business owner encounters but unfortunately, it will not be the last. During the initial phase of a company setup, they will have some (or a lot) of trial and error so worry will be a risk that can gnaw away at staying the course but it is important to retain belief.

In those uncertain times, it is important to remain focused and committed. You will learn over time to handle the risks and uncertainty.

Following are some key areas to better assess and manage the risks and uncertainties of entrepreneurship:

Separate the business from the personal

Where possible, look to manage business income and business costs separate from personal ones. In addition to separating income and expenses, it is also important to keep a close watch on costs even if income seems stable. The purpose of this exercise is that you will be in a far better position to identify any developing problems that can undermine your financial situation later.

Additionally, a level of income and expense separation will provide a necessary level of financial discipline which will make it easier to account for later. In some situations, this may require taking the extra step of opening a dedicated business account which can take time. This should be considered an investment in greater efficiency later, especially when it comes to accounting, managing tax affairs and even applying for various forms of credit and credit terms since this can help force a level of financial discipline and also, faster information as to how the business is doing.

Plan for shocks

Financial Wellbeing for personal customers means planning for shocks and the same is true for small business owners. In fact, it is even more critical for business owners. Here, business owners must plan for irregular income which is all part of running any business; big and small. One of the best ways of protecting a business against income volatility is to work towards having several months' worth of cash on hand if income stopped due weather, accident or other emergencies.

Protect your personal income situation … and your financial resilience!

As a general rule, a household should attempt to have three to six months savings on hand to pay day-to-day living costs. This is the 'rainy-day' fund and a pillar of Financial Wellbeing.

According to the Bank of Ireland national Financial Wellbeing survey, as many as 14pc of people living in Ireland have little or no saving; these households are already stretched. Unfortunately, small business owners often use their personal bank accounts to get their business started.

But this dual role for a household's bank account can undermine the overall Financial Wellbeing of the family and leave it financially exposed. Yes, a fledgling business may wish to avoid taking on debt in the early years, but it should also carefully balance the needs of the business with those of the household, especially if there is only one regular income.

Build and protect your credit profile

In today's world of faster credit decisions, protecting your personal and business credit rating is extremely important.

At a personal level, this will ensure that in the event you need to borrow money for either personal or business reasons, you have the credit rating to ensure your application is not rejected out-of-hand due to a previous blemish.

Role of Credit References

There are a number of credit reference reports that you need to keep in mind. For personal credit reports, there are:

- The Central Credit Register
- The Irish Credit Bureau

On the business end, there are:

- SoloCheck
- *Stubbs Gazette*

Each of the above perform various credit checks so it is vital that no matter which form of credit you avail of, even where there are credit agreements with suppliers, you are aware of the impact of protecting your credit profile.

In order to protect your credit profile, be it personal or business, it is important to ensure you meet the terms of all credit agreements. Not doing so can mean a negative report. For example, on the Central Credit Report (CCR), this is owned by the Central Bank of Ireland and managed by Crif, a global credit information agency. In addition to consumer credit (loans, mortgages, credit cards), loans to companies, partnerships, clubs and associations are available to lenders and borrowers from 21 January 2019.

This means that credit reports are now available for both consumer borrowing (credit cards, mortgages, overdrafts and personal loans), with information backdated to 30 June 2017, and business borrowing with information backdated to 31 March 2018.

Irish Credit Bureau (ICB): The ICB precedes the CCR and records and reports much of the same consumer credit data as the CCR. It continues to be a primary source of credit reference by Irish lenders.

Stubbs: This s a major source of a wide variety of business credit information. This can include unpaid accounts, unpaid Revenue taxes as well as a whole list of payment disputes linked to both business and business owners. Additionally, in contrast to personal credit reports, access to business credit information is significantly easier requiring a subscription or pay-as-you-go fee; for personal credit reports, permissible purpose is a must before credit information can be accessed.

SoloCheck: This is another service that provides a wide range of credit information on companies and business owners directors.

Bottom line

There are many risks that business owners face; loss of income due to a variety of situations; loss of health and relationship breakdown are some of the most common and biggest disruptions.

But risk, while unpredictable can also be contained through adequate planning. This brings us back to a well-worn phrase: if a business owner fails to plan then they are effectively planning to fail.

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