



Dispelling the Myth That “My Company Is Too Small For Risk Modeling”

Small businesses are under a lot of pressure to manage costs and work efficiently and effectively. Accountability is essential; there is nowhere to hide with a flat management structure and sales and expenses are widely shared.

How different are small businesses from large ones?

Being small has some great advantages over large publicly-held corporations: faster reaction times, the ability to make a decision with all the players in the same room, no layers to muddle through, closer contact with customers and clients. The budgets may not be as big, but less overhead and full-time employees to support can bring some pretty sweet profits.

But what happens when a decision backfires? Without the right legal and financial protections, one big mistake could blow everything up. This kind of catastrophe is what keeps owners, CEOs, and CFOs up at night: they need to understand the **risks** of important decisions so the business can survive another day.

That is why financial planning and analysis (FP&A) and risk modeling are the essential twin skillsets every corporation and business must have, regardless of the number of zeroes on their balance sheet or the number of employees on their payroll.

Fortunately for small businesses, it is not necessary to create a new department or hire a slew of new staff to address this need. The core of risk modeling is better left to skilled professionals, often available as project consultants, who have been doing this for decades – they have the experience and gravitas to know what to look for, what questions to ask, and which simulations to run to provide the depth and breadth to counsel a cautious CEO. What emerges from the simulations of the model is the range of all possible outcomes, as well as their likelihood of occurrence, and the sensitivity of the key factors driving the model. And all of this is done before any precious company resources are expended. It's like flying in a flight simulator.

As with trying to lose weight or quit smoking, making the decision to start is often the hardest part.

Start by identifying the key drivers of your particular business. Use historical information combined with management input to project future unit volume. Estimate cost increases of key materials with vendor input. Your vendors will appreciate your foresight! Are there external events tied to weather, the political climate, legal changes, security and safety, or any other cause that could impact your business? Make a list of the possibilities your business needs to consider and be prepared to discuss them with the consultant you hire.

How do you know if your risk analyst is any good?

Hiring anyone is risky to a certain degree, but there are things you can do to avoid making a bad hire. Develop a detailed description of what you are looking for. Ask your colleagues in other companies and professional networks who they have worked with in the past and what those experiences were like. Check client references and ask pointed questions: Was the work sound? Was the person easy to get along with? Did they ask relevant and smart questions to understand your business? Did they stick to the agreed upon budget and schedule? Were they available for follow up questions? If something happened in your business that was unplanned and unexpected, were they available to assist you? Trust your gut as you compile all the feedback and research.

You should also be readily available to the consultant to provide truthful and detailed information about your business. Have him or her sign a confidentiality agreement so you can be direct and candid. Like any good advisor hired to take care of you – think of your physician or lawyer – you will not get good advice if you hide pertinent facts. Professional advice is similar to a sophisticated computer program: garbage in, garbage out.

Get it all out in the open before you agree to work together. Good fit is essential for both parties and will make a fulfilling and fruitful partnership.

Bottom line, no matter how small your business is, you need to be prepared. If you don't know the dangers lurking in the shadows or even those in broad daylight, you will never be able to combat them appropriately. The money you spend on hiring a competent risk manager is an investment in your business' future.



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