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THE CRASH DIET: GETTING A RETURN ON RISK MANAGEMENT

By Jessica Kinney, CPA, CFE Fraud Specialist and Manager, Shannon & Associates
And Mike Hohn, Assistant Vice President, AH&T Insurance

Most business owners are in a constant state of risk management, whether they realize it or not. By taking some time and investing a small amount of resources into formalizing your risk management program, you are bound to see a return on your investment. Yes…we mean money in your pocket.

The task may seem daunting as there are so many areas of your business that have risks. One of the elements of risk management is deciding how much risk to accept or try to mitigate versus just avoiding the risk all together. The goal of formalizing your risk assessment is to put together a plan to document your risks (this is all the stuff that keeps you up at night), and then secondly, documenting your reaction to the risk, which is how you will respond to the risks you identified.

We all want a weight loss plan where we see overnight results without having to put in a lot of work. Unfortunately, we don't have that answer, however, we can provide you with a few suggestions to get an immediate return on your risk management efforts.

ROI -- return on your insurance

Do you have an active road map for improving your risk profile? Most companies have areas of exposure that can be reduced by implementing proper business rules and protocols. Whether it's implementing a Safe Equipment Design Checklist, or taking proper measures to protect personal and private data, you have the ability to improve your risk profile in the eyes of your insurer. These checks and balances, when communicated effectively to the insurance market, can also positively influence premiums.

Trade Credit Insurance is gaining in popularity. It not only provides indemnification from customer non-payment, it can also be used as a sales expansion tool by insuring receivables and providing additional means (and comfort) to sell to new customers or to expand to new international markets. By insuring receivables you can often secure better financing terms, and increase lines of credit. It can also free up cash for the company by reducing bad debt reserves. Lastly, trade credit premiums are tax deductible, but bad debt reserves are not.

Reviewing business processes

This is easy money in your pocket. By having a review of your processes which highlights inefficiencies as well as unnecessary risks and missing controls can create an instant return. Bill Greene, General Manager at Reber Ranch, recently had their processes reviewed by Shannon & Associates. He commented, "we have begun to implement the recommendations and mitigate the risks identified by Shannon & Associates, we expect to recoup our cost in just a few short weeks, and we can see the significant return this will provide for our business going forward."

Red Flag Reporting

There are many risks that go along with having employees. Although, we want the employees to be one of a company's most valuable assets, they can, at times become a significant liability. This liability can result due to fraud, a lawsuit involving an employee, or an employee claim due to unsafe working conditions, etc. Three out of every five companies will be sued by an employee for a matter that occurred sometime between the pre-hiring process and the exit

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interview, and the average court settlement for an employee-related claim is $40,000.

Red Flag Reporting is a service that allows a company to implement an independent third party hotline to receive calls from employees related to known or suspected fraud, as well as human resources concerns such as harassment and unsafe working conditions. According to the Association of Certified Fraud Examiners (ACFE) 2012 Fraud Report to the Nations, an average of 5% of an organizations revenue is lost to fraud every year. Utilization of a proper reporting mechanism is what the ACFE identifies as among the most cost effective fraud prevention and detection systems.

By undertaking this crash diet in risk management your organization should be able to see an immediate return on its investment. This sets the stage for successful continued risk management efforts and continued rewards throughout the entire process.

HAS THE "HIERARCHY OF SAFETY" CHANGED AND WHAT'S WITH ALL THIS DOCUMENTATION?

By Jamie Madonna, Principal, AH&T Insurance

Remember "the good old days", as Safety Professionals with decades of experience under their belts like to refer to them, when the safety hierarchy was so simple.

1. Design out the Hazard
2. Guard the Hazard
3. Warn about the Hazard
4. Instruct on ways to avoid the Hazard
5. Use Personal Protective Equipment

What happened? Someone moved the cheese and many are still trying to find it. This new generation of professionals has modernized the world of safety so completely that today's workforce, including many who perform safety functions, no longer recognize the new buzz words.

While the old safety hierarchy hasn't disappeared entirely, the newer hierarchy takes on a more modern approach that consistently preaches the need for task based risk assessments and thorough documentation. This message is delivered in such a way that it pertains to new machinery as well as legacy equipment currently in the field.

The modern "hierarchy of safety" goes like this:

1. Identify the Hazard
2. Estimate the Risk Potential
3. Evaluate the Risk Potential
4. Reduce the Risk Potential to an Acceptable Level
5. Document the entire process

While it's not quite as straight forward as "design out, guard, warn and instruct", ultimately the end result should be the same.

Let's look at a brief history. The older safety hierarchy was evolving rather nicely until the mid 90's. That's when our older siblings, the European Union, began writing legal directives and developing standards that were more "fine tuned" than the generalized U.S. standards in existence. The EU documents were replete with bold faced requirements that forced all manufacturers selling products in the European community to document the design and construction process from cradle to grave. After nearly 15 years, many of these same European Standards are now being adopted by the international community and have become International (ISO) Standards. Subsequently, several United States standards committees have decided to follow the leader by adopting some of the same documentation requirements. In particular, ANSI/PMMI B155.1, ANSI B11 TR3 and ANSI B11.19 require machinery manufacturers to complete documented risk assessments for new machines being manufactured.

While a number of industries have a long history of performing documented risk assessments and safety audits, other industries didn't feel the necessity to follow suit. However, today's standard operating practices have changed for most mid-sized and larger companies. The operating cost for proper documentation is now considered an integral part of doing business.

Manufacturers are legally responsible to document all hazards, latent and obvious, that exist on their equipment. They must also document the safeguards and safety features incorporated to eliminate and/or mitigate those hazards. The risk assessment must also identify hazardous areas where safety measures were not implemented along with a thorough explanation of why. Possibly the hazard was judged to have a low probability of being encountered due to limited access, or it was deemed unlikely to produce irreparable damage and therefore considered low in severity. It's also possible that the risk of injury becomes "reasonably acceptable" simply because there is no economically feasible means of safeguarding the hazard. The hazard also becomes "reasonably acceptable" when safeguards would unduly impede the work process resulting in loss of production. In both of the previous two situations the manufacturer accepts some extra responsibility for the higher levels of risk. Finally, warnings and instructions can also be included in risk assessments.

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Remember, the ultimate decisions and responsibilities for front line safety belong to the OEM.

Safety and profitability are strange bedfellows but the two must coexist in harmony. Without question, machine manufacturers are responsible for building "reasonably safe" machines. However, they are also responsible for building cost effective equipment which in turn becomes profitable. The delicate balance is found in the need to produce profitable products that are legally defensible should an accident occur on any of the equipment. A completed risk assessment and thorough documentation of the risk reduction process is one very important way manufacturers help make their products less susceptible to litigation.

In the event an accident occurs on a customer's machine, it's crucial that your company can:

- Defend the product
- Defend the product development process
- Defend the decision making process as reasonable
- Defend the risk assessment for the machine in question, or
- Try defending the fact that a risk assessment doesn't exist for the machine

Hierarchy of Safety; Documented Task Based Risk Assessments; Lean and Safe; document why this was done; document why that was done; document why this wasn't done; document why that wasn't done; document why I didn't do what YOU think I should have done; document, document, document. Where does it end, and why do the words keep changing?

I know, let's just change everything to the word "Justify". It's really a word that defines the safety hierarchy and the documentation concerns. I know "justify" is not a modern word because my parents used to say it to me when referring to something I had done wrong. It usually went like this, "Justify your actions, young man."

The simple reality is this; manufacturers can do anything they want pertaining to the safety features and safeguards of the machines they manufacture. However, at the end of the day, manufacturers must be able to "justify" why they either have or have not safeguarded their machines in accordance with pertinent safety rules and regulations. Years from now after the current workforce has either retired or moved on to other opportunities, only the documentation laid down for posterity purposes will be able to tell the true history of the machine. Hence, this is the reason for all the documentation requirements.

AH&T works in partnership with its manufacturing clients, using task based risk assessment, standards compliance, incident management and specialized software to aid in developing both products and the manufacturing process. Through a detailed process, we assist clients and customize programs to make the process of building locally and selling globally simple.

IMPLEMENTING "LEAN" INTO YOUR BUSINESS

By Lindsey Sas, CPA, Shannon & Associates

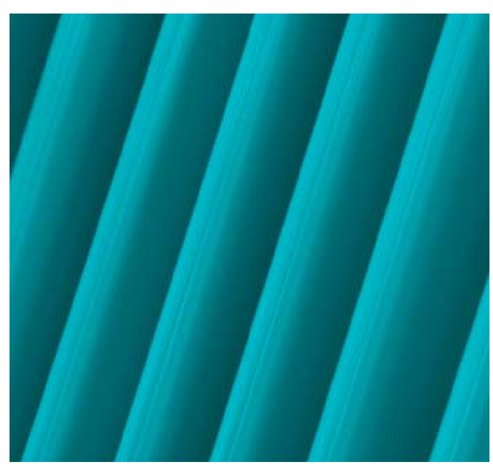
Increasing profits, reducing costs, providing customers with a sense of value, a faster more efficient production process, and satisfied employees; all can be used to describe the benefits of "Lean". Most widely recognized because of Toyota and the Toyota Production System (TPS), some of the top companies in the world are looking to implement this idea. Toyota's business has skyrocketed through focused efforts to streamline processes, eliminate waste, and by following the target costing approach. While many have spent years attempting to integrate "Lean" into their business, there are some key takeaways that every business should look to implement right away.

The first step is to gain an understanding of the value the end user (customer) desires from the end product. Customer service is one reason that customers return to shop at Nordstrom's, the quality of coffee bring customers back to Starbucks, and Apple sells due to innovation. Customer service, quality and innovation are values that end users desire in a product. Once this is determined, the idea is to create this value at a price that the customer is willing to pay. In order, to provide the most value for the best price, it is essential that all processes are streamlined.

The next step is to eliminate waste. Every process, ranging from the accounting process to the manufacturing process can benefit from analyzing day-to-day work flow and looking to cut out procedures that do not add value. This is a task that every employee should be involved in. Procedures should be mapped out from "cradle to grave" to show what it takes to produce an end product. Look at tasks with complete scrutiny and, if the end user is not benefiting, the process should be eliminated.

As previously stated, the ultimate goal is to create a sense of value to the end user. When waste is eliminated and processes are streamlined, companies are able to produce a better product that could be offered at a lower cost to the end user, resulting in a better bottom line for the company.

This introduction to start a discussion of "Lean" is only touching the surface of the possibilities. Shannon and Associates prides itself as being a local leader in the manufacturing industry and has been a trusted advisor to hundreds of businesses in the Puget Sound for over 50 years. Our experience in helping companies streamline processes, eliminate waste and work toward a better bottom line is vast. If you are intrigued by what you've read and want to dig a little deeper, please contact us to start a discussion at 253-852-8500.



RESHORING: FAD OR THE FUTURE OF AMERICAN MANUFACTURING?

By Bill Virgin

What's it really cost to make whatever you're making in China? Do you really know? And if you did, would there still be a China advantage in price?

Those questions – and hundreds more that they raise – are at the heart of an ongoing debate in American manufacturing over a complex subject that goes by the shorthand term reshoring. In some ways the reshoring debate is an extension and the result of an earlier discussion, one that people in this region are well familiar with, known by the longhand and cumbersome term offshore outsourcing.

Pardon the seeming digression, but to understand the debate we need to break down and analyze those terms. While outsourcing often gets a bad name, in reality everyone does it in their personal and business lives. Most of us could (with enough coaching, the purchase of the right tools and time) change the oil in our cars. Some people do. For the rest of us it's a better use of our time and money to have someone else with the tools and expertise do it. It'll certainly be done faster, and probably better.

It's the same calculation in business. You could, for example, do your own accounting. The fact that you as a business make use of the accounting services of a firm like Shannon & Associates is a reflection of the calculations you've made that it's a task better left to someone with experience and skill in that field, leaving you to concentrate on whatever is your core competency or business function.

Even within those core functions, businesses may choose to outsource. Manufacturers do it all the time to access machinery, processes or technology they don't have. Boeing is a manufacturer but it doesn't fabricate many of the parts and components that go into its planes. It's core competency (in theory) is designing the plane and assembling and integrating the parts. The era of the vertically integrated industrial complex (a car company making the steel that goes into its vehicles) is fading into business history.

The controversies arise when businesses start to address the questions of how much of their processes to outsource, and where to. There are legitimate reasons to outsource production abroad – making products in the markets in which they're to be sold, for example. In the aerospace business, companies like Boeing and Airbus are strongly encouraged to put production facilities in the countries whose national airlines those companies hope to sell planes to.

The biggest driver of offshore outsourcing, however, has been the cost of labor. From apparel to consumer electronics to industrial components, the cost disadvantage has driven production – and jobs – to countries like Mexico and China. The controversies aren't just political ones over job losses. Offshore outsourcing may provide some rewards in terms of cost, but it also brings risk – production and shipping delays, exposure to currency fluctuations, loss of intellectual property. There's also a concern that ceding production to another country means eventually losing the next generation of innovation as well.

It also brings costs that may not show up in a simple calculation and comparison of producing here vs. producing somewhere else, such as the hassles of dealing with language and time differences. Some companies have decided the risks and costs are not sufficiently offset by the financial rewards to send production overseas, and are pulling work back to this country. It's not enough to call it a full-blown trend, but it's more than a few scattered anecdotes. It's occurring often enough to warrant the coining of a new term, reshoring.

An organization called the Reshoring Initiative (reshorenow.org) argues that there would be a full-blown trend if companies understood what they're really paying for by offshoring. To make that point the organization offers a tool called the Total Cost of Ownership, which combines 29 cost factors in its calculations. "Most companies make sourcing decisions based on price alone, resulting in a 20 to 30 percent miscalculation of actual offshoring costs," the organization says on its website.

The head of the Reshoring Initiative told a manufacturing conference in Pasco last year that at least a quarter of the work that's been offshored "would come back if we could just get companies to use total cost of ownership in their sourcing decisions." Comparisons of domestic vs. offshore production could also prove useful for contract manufacturers seeking to win business from domestic companies, and for economic development agencies looking to convince companies to expand locally or foreign companies to invest in production facilities close to their target markets.

Such comparisons are going to get closer looks in coming months as rising labor costs in China and falling energy prices in the U.S. reduce or even erase the supposed price differential.

As with any such business and public-policy debate, qualifiers and conditions abound. The loss of the China price advantage could simply accelerate a shift to production in Vietnam or Indonesia or some other emerging, newly industrialized market. Reshoring doesn't exempt American companies from the pressing, perpetual need to innovate, modernize and become more efficient. But just the existence of the concept of reshoring and its embrace by many companies represents encouraging news. Losing this country's manufacturing base has never sat well with a lot of Americans. Now they have reason to believe that trend is neither inevitable nor irreversible.

Bill Virgin is editor and publisher of the newsletter Washington Manufacturing Alert and a columnist for The News Tribune and Seattle Business magazine.