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## Industry News

### ***Manufacturing Resource: Risk Management Strategies for Manufacturers to Survive Tough Economic Times***

By Ray Roach, William Gallagher Associates (WGA)

These are very difficult economic times. Some company strategies are just to survive from quarter to quarter to reach the economic recovery phase. Taking a pragmatic outlook on survival seems to be the answer, with an emphasis on managing for the short and long term. Manufacturers need to control costs and avoid unforeseen or unexpected exposures. In this article, we'll review key areas that manufacturers may not have examined in the past and offer some sound risk management strategies and solutions.

#### **Supply Chain Examination**

When it comes to property, insuring tangible assets such as buildings and equipment is often the principal concern. But in fact, not properly insuring against a loss to your revenue stream could be catastrophic to the financial well being of a company. Having a keen understanding of business interruption exposures facing an operation is essential, along with business continuity planning.

Supply chain examination is the review of all aspects to be sure there are no interruptions in your manufacturing operations by looking closely at the critical path of your supplies, incoming and outgoing. Most manufacturers have implemented the fundamentals of lean supply chain management, but now is the time to be sure your suppliers can meet your raw material requirements.

Some questions to consider are: 1) Are your suppliers financially sound? 2) Have you investigated contingent business interruption and will a supply chain disruption from one of your suppliers cause you a manufacturing delay? One way to combat such a situation is to investigate alternative and second source suppliers for your materials. Also consider your outbound chain to make sure to have investigated your transportation partners, and if they are warehousing your finished goods longer to get full truck loads causing delays in your delivery, possibly causing you to lose customers.

Companies need to insulate themselves from the consequences by spreading their risks more widely; planning for multiple material sources; managing inventory; and most importantly acknowledging vulnerabilities and proactively planning for contingencies. Protection against supply chain disruptions is an important component to operational, human, and ultimately, strategic financial health.

component to operational harmony and, ultimately, stronger financial health.

### **Credit Insurance**

Companies fighting for survival try to maintain market share while avoiding pitfalls that might affect cash flow and the bottom line. Many are looking for alternatives to protect revenue streams and to mitigate the risks associated with entering new markets and/or bringing on new customers, particularly overseas. Credit insurance is a tool that can protect your accounts receivable while providing support for business expansion. Credit insurance can protect your revenue streams by insuring your receivables against insolvency and possibly slow payment. It provides benefits for companies that are faced with working capital constraints, as well as protects companies with high concentrations of customer risk. The insurance involves services and a policy that allows the transfer of non-payment of a commercial trade debt by the seller/policyholder to a third party, in this case, an insurer. Some of the benefits of credit insurance are:

1. Protection from a bankruptcy or insolvency of a customer and thus a loss on Accounts Receivable (A/R).
2. Favorable financing from your lender, either via favorable eligibility of your A/R's or the inclusion of accounts in the borrowing formula that are not eligible without credit insurance.
3. Sales expansion, which can be into a new risky industry, i.e. construction or international business development.
4. Reduction of bad-debt reserves and A/R's risk concentration.

With a global recession, a dramatic increase in both domestic and international business failures and the widespread banking financing difficulties, now is an opportune time to review credit and collection procedures and explore the potential of supporting these by purchasing Credit Insurance. A trade credit policy, when used properly, is an excellent investment to protect and expand your credit position and ultimately revenues.

### **Environmental**

If your manufacturing operation handles hazardous materials and your company presently buys an environmental insurance policy, there is an option of combining this coverage with your General Liability policy to save some valuable premium dollars. The combined form has the unique feature of combining limits and offering full environmental products coverage if your product might cause a pollution event through a malfunction while being used by the customer. And for the first time in 20 years, there is competition in the market for this combined form, which translates to lower premiums for the insured. This combination can provide broader coverage at a cost savings to you. If you have an environmental exposure, this is an area worth exploring.

### **Reduce Exposure to Employment Issues**

Unfortunately, reduction in force actions, or RIFs, have become commonplace in this economic environment. If your company is going through a staff reduction, or just examining this as a cost cutting option, it is prudent to review your internal employment practice related policies. When determining a staff reduction, make sure it is justified and that you have complete documentation if it is performance related and involving the Human Resource department early is key.

Should there be any complications, employment practices liability (EPLI) is insurance coverage that is designed to guard your company against employee lawsuits. The number of lawsuits filed by employees against their employers has been rising, and while most suits are filed against large corporations, no operation is immune. EPLI provides protection against claims made by employees, former employees, or potential employees, covering such allegations as discrimination (age, sex, race, disability, etc.), wrongful termination of employment, sexual harassment, and other employment-related allegations. The coverage can be included as an endorsement to another policy (such as directors' & officers' liability) or as a stand alone policy.

The filing of worker's compensation claims increases during an economic downturn. Employees might be seeking alternatives to experiencing a layoff. Employers need to be vigilant in investigating all workers compensation claims, fraudulent claims can affect a company's experience modification factors for their worker's compensation insurance, increasing their premiums.

Laid off workers might also file additional COBRA claims, which can increase the administrative burden on a company to maintain internal controls. Companies need to be aware of the potential strain on their human resources and manage all increases in activity.

### **Conclusion**

Companies need to constantly evaluate their exposure during a down economy to be sure an unexpected or hidden cost does not cause financial harm. Potential exposures can be mitigated with comprehensive risk management and transfer strategies. Despite a focus on maintaining revenue or market share, manufacturers must continue to evaluate both their external and internal exposures to guard against the possibility of unwanted financial loss. As shown here, there are often solutions that can help you successfully navigate your company through these challenging times.

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