

# SUSTAINABILITY: It Isn't Just for the Environment

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I am not a horticulture professional. I don't even mow my own lawn. But I work closely enough with this industry to know that "sustainability" is more than a popular buzz word that applies to environmental issues. I encourage you to think about sustainability in another sense. Sustainability is also a strategy for keeping your business safe, profitable and viable for the future.

As I listen to the news and read the newspapers, it is clear the difficult financial times we currently face are going to test the sustainability of your business, my business and many others. The climate for business today is stormy. Higher taxes and fees from the regulatory side, lower revenues from the shrinking economy, and higher operating costs all threaten the sustainability of your business.

Controlling costs during these times will help weather this storm. I recommend caution, however, when considering what costs to reduce and what costs to eliminate.

As a licensed insurance professional, I am trained to analyze risk. I understand that there are only so many things you can do to deal with risk and various hazards. In basic terms, here are your choices in dealing with risk:

## 1 You can avoid the risk altogether.

This might be a desirable choice, but may not be possible. After all, you can sell your delivery trucks to avoid having to pay a driver, buy fuel and insurance, and avoid the payment of damages if you cause an accident. But if you can't deliver your product, the customer might not buy it.

## 2 It may be possible to transfer some of your risk to others.

The most common way to transfer risk is by purchasing insurance. When you purchase property insurance on your buildings and inventory, you are transferring to the insurance company the financial calamity of damage to your property.

## 3 You can implement a loss control program.

Not all hazards can be controlled in this manner, but many can. Careful scrutiny of all operations and business practices will reveal areas where better controls can be instituted. Housekeeping, for example, is a simple loss control effort that has great impact but doesn't cost much. Control of trash, safe stacking of merchandise, keeping aisles free of obstacles, and proper maintenance of safety devices such as fire extinguishers, go a long way to reducing incidents and damage.

## 4 You can prudently retain more of the risk.

Proper attention to controlling and reducing hazards is vital to retaining more of the risk. A common way you retain risk in your business is through the application of deductibles. If you have judiciously applied the other risk reduction practices mentioned above -- avoidance, transfer, and loss control -- you may have put yourself in a position to retain more of the risk yourself. Presuming the controls work, and you don't suffer a loss, this reduces the cost of transferring that risk to the insurance company, and saves you money.

## Let me share a case study,

which will illustrate the importance of risk analysis to reduce costs. An agent came to me with a request to lower the fire insurance premiums for one of his larger customers. Times were tough for the customer, and he was looking for ways to reduce any and all costs. Insurance is always an easy target. After all, he reasoned, when was the last time he had a fire burn down one of his buildings, or had a delivery driver involved in a fatal accident?

As I worked with a loss control specialist to analyze the risk, it became apparent that there might be a way for the customer to retain more risk and, therefore, lower the premium.

The main location of this operation included a large steel building housing processing equipment. The customer had good controls, didn't allow smoking in the building, kept oily rags in certified cans, kept fire extinguishers charged, and used a night watchman to patrol the premises. Not much more to do there. However, the other major component of their operation involved the use of large wooden boxes, which transported and stored the product until it was taken into the building for processing.

A careful analysis of the operations revealed that the value of the boxes, even in an empty state, was more than that of the building and the processing equipment combined.

The practice was to store the empty boxes right next to the building. If a fire source, such as a lightning strike, ignited the boxes, it would probably destroy the building, too. So the customer had always purchased insurance according to that model.

Working with the customer and loss control specialists, we determined just how large of a stack of boxes could be lost without impacting the business negatively. Then it was determined how far apart the stacks needed to be so as not to spread fire from one stack to another. The result of this exercise allowed the customer to totally self-insure the loss of the boxes. No one stack of boxes was allowed to get larger than the customer felt he could afford to lose in a fire. In addition, the customer was comfortable increasing the deductible he was paying for on the building and equipment. The result of the effort was the elimination of hundreds of thousands of dollars in insurance coverage to the boxes, and an increased credit for carrying a higher deductible on the building.

When looking to control costs in these uncertain economic times, do not ignore the risks and hazards of doing business. However, working closely with your insurance agent and provider, you may discover options for having a sustainable business -- for you, and generations to come. ■