THE TIPS AND TRICKS TO TAKE CALCULATED RISKS IN BUSINESS.

SUCCESS FILES

HOW TO... LOOK BEFORE YOU LEAP

THEY SAY NOTHING VENTURED, NOTHING GAINED, BUT HOW CAN YOU BE SURE IF A BUSINESS RISK IS WORTH TAKING?

Microsoft founder Bill Gates faced his biggest decision in the embryonic stages of his business: should he sell the rights to his new software product to IBM for an up-front fee or should he license it for less money and take a punt on its long-term profitability? Gates chose the riskier second option and famously made a fortune.

Few businesses prosper without taking chances, but how can you tell which risks are worth taking and which should be avoided? "Most SMEs muddle along in the middle without an appreciation of what constitutes a good and calculated risk," says SME consultant Dr Greg Chapman, author of *The Five Pillars of Guaranteed Business Success*.

While the global financial crisis has spooked many people, Chapman believes present markets offer risk-takers a chance to succeed: "The rules change and the goalposts move, which creates opportunities." There are, however, some key rules to follow before leaping into a business risk.

MAINTAIN OBJECTIVITY

Chapman recommends starting with a clear vision that isn't clouded by subjective enthusiasm for your business project. "Part of the problem is we fall in love with our own ideas and misjudge the risk," he says, so don't be afraid to get an objective opinion about your business venture. "The riskier a project is, the more important it is to ask an independent expert to examine what you plan to do. That in itself is a risk-mitigation strategy."

QUANTIFY THE RISKS

The next step is to test your business strategy against your vision and quantify the risks. To better understand the dangers involved, Chapman urges you to undertake a SWOT analysis that evaluates the strengths, weaknesses, opportunities and threats involved in your business venture. "It's really about ensuring that you understand the risks of the business," he says. A break-even analysis that estimates, for example, how many sales you will need to make to recover the cost of your investment is another simple yet effective tool. "The higher the threshold for break-even, the riskier the venture," Chapman says.

PLAN AN EXIT STRATEGY

It's important to have a 'Plan B' in place if markets head south or your sales are slower than expected. Put simply, if your venture is floundering you need an exit strategy. Chapman warns against taking the view, 'We'll just throw more money at it because it's going to work eventually.' "It may not," he says, "and pretty soon all that money will be gone."

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