Why businesses fail – What you can do to avoid the same fate

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Here's something I probably don't have to tell you: THIS IS A TOUGH BUSINESS. It gets tougher every day. Ten percent programs, rate cutters, jail solicitation, lions, tigers and bears are all making our business more competitive. If it's not the system that works against the bail agent, it's the bail agents working against the bail agents.

Here's your potential advantage: Do not merely ***own*** your own business, actually ***know*** your own business. Here is what I mean.

I'll apologize in advance for this drastic over-simplification, but here goes. Your typical manufacturing company has a very 'fixed-cost' structure. You raise capital or borrow money. You build a manufacturing facility. You manufacture your goods. You have incurred most of your costs up front. Then you incur the costs to sell and distribute your product - and the day you make the sale, you know whether you have made money or lost money manufacturing your product. This is a typical manufacturing business cycle.

What if you turned this business model on its ear? What if a large component of your cost structure was unknown – like bond losses? What if your sales were cyclical? What if you received funds from your sales at the beginning of the cycle? How could you ensure that you were operating profitably?

Collecting the premium is the easy part. Keeping it is the tough part. The truth is, we have many tools to find out how much we get to keep. Most importantly, we have our own history. What are your variables? Labor costs, taxes, rent, advertising, bond losses, recovery costs, subrogation. Many of these things are known (fixed). Many are unknown (variable). But we can look at history to forecast the future and plan for the likely results. You'll have to trust the 'Law of Large Numbers' and have some discipline to execute the resulting plan.

The difficulty of bail is that, hypothetically, you get paid on the front end in exchange for the possibility of paying a loss at some point in the future. If you rely on tomorrow's premium dollars to pay today's bond losses, your model is already flawed. If you've been in business for a while, you have the tools necessary to determine an estimated percentage of today's premium dollars that must be set aside for what statistics say will be your likely future bond losses from the bonds you wrote today.

How? Look at your annual writings. What percentages of those writings are absorbed by the knowns? Rent, Utilities, Advertising, Surety costs, BUF contributions, etc. Once all of these costs are factored in, we move on to the more difficult areas of losses and subrogation. A wise man (pictured on p. __) once told me that you can either go light on premium or light on collateral – but not both. What type of writer are you? If you are required to pay a loss, do you just think that you have to write 10 good bonds to pay for the one bad one or is the prospect of paying a single loss devastating to you? What percentage of the bonds that you write experience a failure to appear? If your percentage is over 10%, you are higher than average. Our most conservative writers may be as low as 4% and agents who rely on heavy collateralization may be as high as 20%. If your percentage is high and you would not consider yourself a heavy collateral writer, you may want to review your underwriting. What percentage of bonds written result in payment? What are the remission rules in your market? What is the size of the average bond that you write? All of these factors can help you *know* your own business.

Once you have your arms around this information, you can project, based on the percentages you derived above, the necessary savings to ensure that you are ready when the dreaded bond loss comes home to roost. Think of the premium dollar being divided into the various components, fixed costs may take up 50% of every premium dollar, projected bond losses account for 8%, subrogation another 6%, and finally Uncle Sam will take his bite of 15%. That leaves 21% of every premium dollar as your 'walking around money.' If you do this exercise and the result is smaller than you expected or (gasp!) negative, you can make the necessary adjustments to spending and/or underwriting before it is too late. Regularly review the information that you believe is important to your business to ensure its continued health. Know your own business.