

The Three Businesses

A few years ago, in a small market town in the north of England, three businesses received grants for expansion and decided to move to larger premises on a new industrial estate bordering a pretty, but fast flowing, river. Locals warned the owners of the businesses that the river was prone to flooding, but after taking advice from various sources all three decided that they could mitigate the threat posed by the river on their newly expanded businesses.

The first business decided to take out flood insurance. The second business also took out flood insurance, but decided to build a flood barrier around its premises as an additional threat mitigation measure. This was quite costly, and as a result the second business was not as profitable as the first. The third business took out flood insurance, built a flood barrier around its premises, and invested in alternative premises away from the flood zone from which it could trade if required. As a result, the third business did not make any money at all in the first year it moved to the new industrial estate.

In that first year the river didn't flood, and the owners of the first business made fun of the owners of the other two businesses because of the money that they had wasted on additional threat mitigation measures. In the second year the river flooded, but not by as much as had been feared, and the damage to all three businesses was minor. Again, the owners of the first business made fun of the others, and the owners of the third business began to have serious doubts as to the viability of their business as their profits were very small.

In the third year the river flooded again, but this time it was much more serious. The premises of the first business were severely damaged, and although they received compensation from the insurance company, it was more than six months before they could start trading again. The flood defences of the second and third businesses kept back the worst of the flooding, and the damage to their premises was minor. The second business suspended trading for a couple of days, but the third business kept trading without interruption.

When the first business re-opened, six months after the floods, the owners found that most of their customers had gone elsewhere, and they couldn't be persuaded to come back. The second business lost some revenue during the short shutdown, which they received compensation for from their insurers, and they managed to retain their customers. The third business was relatively unaffected.

In the fourth year the river didn't flood at all, but the first business went into administration as its revenue had fallen below its fixed costs. The owner of the second business now laughed at the owners of the first business, who had lost their investment, and also at the third business as they had now made significantly more than the owners of the third business for four years in a row.

During the fifth year the river flooded badly, the "worst on living memory" said the headlines. The floods totally overwhelmed the flood defences of both remaining businesses, but the third business managed to keep trading, albeit at a lower level of activity than normal. Both businesses received compensation from their insurers, but it was six months before the second business resumed trading.

The sixth year was another year in which the river didn't flood at all, but despite this the second business went into administration for the same reason as the first business had three years before. It had failed to regain its customers, and its revenue had fallen below its fixed costs. The third business continued, and by now it had become quite profitable.