NAVIGATING **RISK**

# Business Risk Index

**Compiled from our 2024 survey with UK business leaders**

Gallagher

Insurance | Risk Management | Consulting

# Contents

# Introduction

## An in-depth analysis of the most pressing concerns, based on insights from 1,000 business leaders across the UK.

The 2024 Gallagher Business Risk Index paints a detailed picture of the challenges facing UK businesses. Based on insights from 1,000 business leaders, the survey reveals that economic pressures remain front of mind across industry sectors.

The high cost of materials and cost-of-living crisis were ranked as the top two risks by medium and large firms in our 2024 survey. One of the most striking findings is the shift in focus from year-to-year.

Employee-related risks, which dominated discussions in previous years, have been overshadowed by concerns like cash flow, late payments, and market volatility.

Then, there are the mainstays of all risk surveys: The exposures that are not going away and which continue to evolve. Cybercrime once again ranked third for medium and larger firms, with climate change moving into the top ten, in eighth position this year.

**Whether your business is facing these challenges head-on or anticipating future risks, this report provides some of the mitigation strategies to help navigate these uncertain times.**

# High cost of materials

02

## Contributing factors

Global supply chain disruptions, worsened by ongoing geopolitical conflicts, natural perils and strikes, have created bottlenecks and shortages in key industries, such as steel, timber, and semiconductors. Increased demand for certain materials, meanwhile, has led to supply-demand imbalances, pushing prices higher still.

Inflationary pressures are another big factor behind the high cost of materials, which was ranked the risk of most concern for medium and large firms in this year's Business Risk Index. Higher transportation, fuel, and energy costs are some of the factors contributing to rising goods prices.

While UK inflation has moderated (down to 2.2% in August 2024), the cost of building materials and components remains high. Currently, precast concrete and pipes and fittings are among the construction materials that are seeing the most significant price increases.[1]

"It's clear that inflation is coming down, but there are still inflationary pressures on raw materials. While the rate of increase has slowed down, costs are still rising, posing a significant challenge for businesses across various sectors, such as timber. Even though inflation is lower now compared to last year, it's still a challenge for businesses, especially when coupled with above-inflation increases in costs like energy prices from last year."

**Tim Chance**
Managing Director of Trade Credit and Surety, UK & Ireland
Gallagher

Within construction, there are additional pressures relating to product safety. In the wake of the Grenfell Tower Inquiry, there is understandable scrutiny on ensuring that materials supplied are adequate.

"There are many regulations coming out from the Building Safety Act that place more emphasis on the safety of the materials. This means they are more expensive because you are using more robust fire-retardant products."

**Tracy Keep**
Construction Specialism Leader
Gallagher

## Impact on business

The high cost of materials is significantly squeezing profit margins, particularly for companies already operating on thin margins. Those reliant on specific materials may have to raise prices, potentially harming their competitiveness and alienating price-sensitive customers.

This is especially concerning in retail and hospitality, where passing on higher costs can reduce sales and lower demand.

For companies that cannot transfer these costs to consumers, financial strain may force cutbacks in staffing, investments, or other operational areas. Over time, these constraints can hinder growth targets, limit market expansion, and stifle innovation.

It's not just day-to-day operating costs where the high cost of materials is an issue, but also in the event of a claim. It can hinder companies' ability to get back to business as usual following a loss, exacerbating business interruption (BI) losses.

"The construction sector, for instance, struggles to obtain steel at reasonable prices and faces difficulties in finding skilled and qualified workers. These challenges have immediate impacts on rebuilding businesses after events like fires or floods, leading to larger BI claims. It is important to assess the business's resilience and ability to recover quickly after an event."

**Neil Hodgson**
Managing Director
of Risk Management Consultancy
Gallagher

## Mitigation strategies

- **Negotiate with suppliers.**
  Work closely with suppliers to negotiate better pricing, secure long-term contracts, or explore bulk purchasing discounts to manage material costs.
- **Negotiate contracts on an open book basis for materials.**
  Agree that materials are based on cost price at the time of supply, where possible, rather than providing a fixed cost contract. That way, all parties share any material price increase, and equally, share the benefit if the prices go down.
- **Explore alternative materials.**
  Consider switching to alternative materials or suppliers that offer more competitive pricing or greater supply chain stability.
- **Streamline production.**
  Identify areas in production processes where materials can be used more efficiently or waste reduced to offset the higher costs.
- **Monitor market trends.**
  Stay informed on market conditions and price forecasts for key materials to better anticipate and manage future cost increases.
- **Pass costs strategically.**
  If necessary, consider selective price increases for customers, focusing on areas where demand is strong and the impact on sales will be minimised.
- **Undertaking regular valuations.**
  Keep sums insured up with the rate of inflation and rebuild costs. Additionally, from a business interruption perspective, it is important to consider a minimum 2-year indemnity period to account for the higher possibility of an extended restoration and rebuild period.

# Supply chain issues

03

## Contributing factors

Global supply chains, strained by geopolitical conflicts like the Russia-Ukraine war, Red Sea attacks, and extreme weather events, remain vulnerable to disruptions, worsened by pandemic aftershocks.

Modern supply chains rely heavily on international suppliers, making them prone to geopolitical disruptions, like trade restrictions or conflicts, that can halt the flow of goods. Increasingly frequent natural disasters further disrupt logistics, delaying production and driving up costs for industries like manufacturing, construction, and retail.

The lingering effects of COVID-19 also continue to impact supply chains. Reduced inventories during the pandemic have been slow to recover, while logistics challenges like driver shortages and port congestion persist. Port strikes, linked to the cost-of-living crisis, are another factor impeding the flow of goods.

## Impact on business

Supply chain disruptions lead to delays, higher costs, and lost customer trust. Longer lead times may drive customers to competitors, while businesses face rising costs from alternative suppliers and expedited shipping. For industries with tight margins, these expenses quickly erode profitability and increase the risk of insolvency.

The lack of predictability within supply chains also complicates planning, making it difficult to forecast and meet future demand.

> "The past few years have made businesses realise how connected everything is, where an event on one side of the world can impact operations somewhere else.
>
> It has made businesses take a closer look at their supply chains and consider how they might diversify their suppliers or even bring some elements onshore."

**Steve Fletcher**
Manufacturing Specialist
Gallagher

## Mitigation strategies

- **Diversify suppliers.**
  Work with multiple suppliers across different regions to reduce dependency on any single source and ensure continuity during disruptions. For example, many firms are increasingly deploying a 'China Plus One' strategy to ensure they are not overreliant on China.

- **Increase inventory buffers.**
  Hold larger reserves of critical materials to cushion the impact of supply chain delays or shortages. Taking a 'just in case' approach should help smooth out future supply chain volatility.

- **Invest in supply chain technology.**
  Use real-time tracking systems, predictive analytics, and automation to gain better visibility into your supply chain and improve response times.

- **Strengthen supplier relationships.**
  Foster stronger partnerships with key suppliers to ensure priority access to goods and better communication during times of disruption.

- **Adopt flexible logistics strategies.**
  Explore alternative transportation routes and methods, such as air freight or regional suppliers, to navigate around bottlenecks or delays.

"Many clients are more focused on supply chain risk management as a key area of their Business Continuity plans. It's important to get the right suppliers and know what your plan B is, knowing your primary and backup suppliers in worst-case scenarios.

A number of companies are trying to support local suppliers, but the cost difference between importing and buying locally is still significant in some areas."

**Mark Eade**
Head of Hospitality & Leisure
Gallagher

# 04 Climate change

## Contributing factors

Extreme weather events, such as floods, heatwaves and wildfires, are becoming more frequent, disrupting operations and damaging infrastructure. The impact of Hurricanes Helene and Milton in the US in late September and early October, along with catastrophic floods across Central Europe in September are some more recent examples of the type of natural catastrophes that may increase in severity in the future.

Stricter environmental regulations are also pushing companies to lower their carbon footprints, resulting in compliance costs and operational changes. Meanwhile, health and safety rules are evolving to protect workers from the impacts of climate change. Failure to comply can lead to penalties and reputational damage.

Rising consumer demand for sustainable products is another driver for businesses to embrace greener initiatives. Companies that fail to embrace sustainability risk losing market share to competitors who are doing more to meet evolving customer expectations for environmentally friendly practices.

## Impact on business

Climate change significantly affects profitability and long-term viability. Companies face higher costs related to infrastructure adaptation, sustainable technology and regulatory compliance, particularly for firms producing task force on climate-related financial disclosures (TCFD).

In addition to the direct threat of property damage and BI, UK businesses are increasingly exposed to contingent BI and additional costs arising from disruptive events in other parts of the world.

Supply chain disruptions are a concern as extreme weather can compromise raw material availability and transport reliability. One example is the restriction of marine traffic through the Panama Canal in 2023 and 2024 because of record low water levels caused by drought.

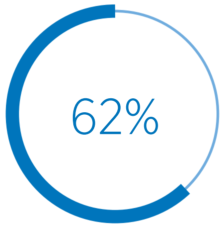
“Exposure to extreme weather on the Continent is an additional source of disruption for firms that have been adjusting to Brexit-related issues by outsourcing operations to Central and Eastern Europe. As an example, I’m aware of a business with warehouses that have been under 10 feet of flood water.”

**Simon McGonigle**
Regional Director
Gallagher

There are also costs associated with resource scarcity, such as in water-intensive sectors like agriculture and manufacturing, which are both a cause and casualty of water scarcity.

Businesses that neglect climate risks may struggle to retain customers, making it essential to develop sustainability strategies and integrate climate risk management into operations.

According to Gallagher research, the rise of climate-related litigation is an ongoing concern, with **62% of firms concerned about the prospect of litigation if they miss their ESG targets.**




## Mitigation strategies

- **Implement sustainable practices.** Adopt energy-efficient technologies, reduce waste, and use sustainable materials to lower environmental impact and operational costs.
- **Diversify supply chains.** Develop relationships with multiple suppliers across various regions to reduce vulnerability to climate-related disruptions.
- **Invest in resilience planning.** Create comprehensive disaster recovery and business continuity plans that include climate risk assessments and emergency response protocols.
- **Enhance reporting and compliance.** Stay updated on environmental regulations and ensure transparent reporting of sustainability practices to meet compliance and stakeholder expectations.
- **Secure climate-related insurance.** Consider purchasing insurance policies that specifically cover climate-related risks, such as extreme weather events, to protect assets and ensure financial stability during crises. Some parametric solutions offer an element of contingent BI from extreme weather events.

# Data breaches and cybercrime

05

## Contributing factors

The rapid evolution of technology has expanded the attack surface for cybercriminals. With cloud computing, Internet of Things (IoT) devices, and remote work, businesses face more entry points that can be exploited.

Human error is a significant factor behind intrusions or accidental data breaches. Phishing attacks and social engineering exploit employee vulnerabilities, leading to compromised credentials or data leaks.

Additionally, organisations often struggle to keep up with necessary security updates, leaving them exposed to known vulnerabilities.

Remote and hybrid working has introduced new risks as employees accessing company networks from unsecured personal devices or networks increases entry points for hackers. Additionally, businesses using cloud and interconnected systems face higher risks, as breaches can spread quickly across systems.

Meanwhile, advanced hacking tools have made it easier for cybercriminals to launch attacks. Phishing, malware, and ransomware are more prevalent, sophisticated, and harder to detect, with attackers constantly refining their methods to exploit system vulnerabilities. This includes leveraging generative AI in carrying out deepfake attacks.

"As the cyber landscape changes on a daily basis, it is vital that you also keep your employees up to speed with cybersecurity training because one of the biggest threats to any organisation's cybersecurity will always be human error."

**Johnty Mongan**
Global Head of Cyber Risk Management
Gallagher

## Impact on business

The immediate financial impact of a cyber attack includes costs related to incident response, legal fees, and potential fines. Companies may suffer reputational damage, leading to a loss of customer trust and loyalty.

In sectors like finance and healthcare, the ramifications can be particularly acute. Losing sensitive data can lead to legal challenges and undermine competitive advantage, as clients may opt for more secure providers.

Operationally, breaches often cause downtime, disrupting day-to-day activities. Cyber attacks can have severe financial consequences, from lost revenue to system repairs and ransom payments. However, the long-term impact is often worse. Data breaches can compromise sensitive customer information, damage trust, and lead to regulatory fines for breaching data protection rules.

> "If you haven't purchased cyber insurance, why not? Or if you have, have you secured an adequate limit of indemnity? Now is a good time to buy more. Whilst insurers want to see that you're doing the absolute basics; employee cyber training, having multi-factor authentication in place, and healthy backups, their expectations around risk controls are now in line with reality."

**Sam Cheshire**
Head of Cyber, UK & Ireland
Gallagher

## Mitigation strategies

- **Invest in cybersecurity infrastructure.**
  Implement strong firewalls, encryption, and intrusion detection systems to safeguard against unauthorised access.
- **Train employees.**
  Conduct regular cybersecurity training to educate staff on identifying phishing attempts and practicing safe online behaviours.
- **Adopt multi-factor authentication.**
  Require multi-factor authentication for all critical systems and data access points to add an extra layer of security.
- **Create a cyber incident response plan.**
  Develop and regularly update a response plan to manage the aftermath of an attack, ensuring that key personnel know their roles in containing and mitigating damage.
- **Cyber insurance.**
  Protect your business from the financial fallout of cyber attacks by investing in cyber insurance to cover data recovery costs, legal fees, and loss of income.

# Cost-of-living crisis

06

## Contributing factors

Several factors continue to drive the cost-of-living crisis, which was ranked in the top 3 of this year's Gallagher Business Risk Index. Inflation is central, with rising costs of essential goods, energy, and consumer products eroding disposable income.

Rising energy, transportation, and material costs impact consumers and businesses alike. For energy-intensive sectors like manufacturing, this is adding to operational costs, pressuring companies to raise prices, which can further suppress consumer demand.

Economic instability, driven by geopolitical tensions, supply chain disruptions, and Brexit's lingering effects, creates an unpredictable financial environment, complicating business planning and growth investments.

As household budgets tighten, consumer spending declines, especially in discretionary sectors like retail and hospitality, forcing businesses to adapt to lower demand.

> "The cost of doing business is increasing, but at the same time, there's a cost-of-living crisis, making it difficult to raise prices. This squeezes the profit margin and forces businesses to explore different models to increase their profits.
>
> This could mean measures such as reducing the number of employees, increasing efficiency, or using more online tools. Businesses are really being pushed to consider what they need to do differently to survive."

**Dominic Roe**
Managing Director, Retail & Consumer and Hospitality & Leisure
Gallagher

## Impact on business

The crisis has led to reduced consumer spending, particularly in non-essential categories. Many businesses face shrinking revenues as customers cut back, prompting them to rethink pricing strategies, reduce costs, or delay investments, especially in retail, dining, and tourism sectors.

Operationally, rising costs for raw materials, energy, and services squeeze margins. Companies risk alienating customers by pushing up pricing in competitive markets where there is high price sensitivity.

Financial strain further extends to labour, as increased wage demands from employees seeking to match inflation add further pressure. Medium to large companies ranked the high cost of salaries as their 9th biggest concern in this year's risk index.

"With the cost-of-living crisis, the risk register should consider how it affects staff retention, recruitment, and overall quality. Each of these factors has its own associated risks, such as a decline in quality or availability. As a result, businesses may need to hire temporary staff, which can increase costs and introduce new risks."

**Neil Hodgson**
Managing Director
of Risk Management Consultancy
Gallagher

## Mitigation strategies

- **Adapt pricing models.**
  Explore value-based pricing, offering more affordable options or bundling services to attract budget-conscious customers without eroding profit margins.
- **Reduce operational costs.**
  Look for ways to increase efficiency and cut unnecessary expenses, such as renegotiating supplier contracts or optimising energy use.
- **Diversify revenue streams.**
  Explore new product lines, services, or markets that may be less affected by consumer spending cutbacks to maintain steady income.
- **Improve customer engagement.**
  Focus on customer retention by enhancing loyalty programmes, improving service, and offering flexible payment options to maintain relationships with your existing customer base.
- **Prepare for long-term uncertainty.**
  Use scenario planning and flexible budgeting to adjust quickly to changing economic conditions, allowing for more resilient business strategies in times of crisis.

# Low cash flow

07

## Contributing factors

Cash flow constraints were ranked sixth for medium to large firms, reflecting ongoing pressures on the balance sheet. Key contributors to cash flow problems include late payments, especially when combined with additional cost and price pressures.

While easing, inflation continues to play a role, as sharp increases in supply, energy, and service costs, along with sluggish consumer demand, are further stretching margins. High levels of debt coupled with rising interest rates make loan servicing more expensive, putting further strain on businesses that are reliant on credit for cash flow management.

> "The good news is that debt protection products are an affordable solution. It's a really valuable product, especially in these tough times, for providing balance sheet protection."

**Tim Chance**
Managing Director of Trade Credit and Surety, UK & Ireland
Gallagher

## Late payments

Again, a key driver is the tightening of credit across industries, while inflation and rising interest rates have led businesses to extend payment terms or delay settlements to manage their own financial pressures.

The complexity of modern supply chains and corporate payment approvals further prolongs the process. Economic uncertainty has made companies more cautious with cash reserves, delaying payments.

## Impact on business

Low cash flow can severely hinder business operations. Late payments severely affect cash flow, limiting a company's ability to pay bills, meet payroll, and invest in growth. Delayed payments can also strain supplier and creditor relationships, reducing trust, creditworthiness and increasing the cost of doing business.

Prolonged cash flow problems often result in increased borrowing at higher rates of interest, creating a difficult debt spiral. This affects short-term stability and damages creditworthiness, complicating future financing. For some businesses, ongoing cash flow issues can ultimately result in insolvency or closure.

There is a particular concern for so-called 'zombie' companies, which are carrying significant debt and struggling to pay the interest. Many of these companies have not yet failed because they have been propped up by fiscal stimulus and low interest rates in recent years. But a reckoning could be coming, and it is no time for complacency.

According to Tim Chance, a Carillion-size default can have a huge impact on firms in the wider value chain, even on those with healthy balance sheets.

"A strong company can be brought down by failures elsewhere. One company collapsing can have a domino effect, impacting even a previously strong other company. That's why credit protection is essential to safeguard against such risks."

**Tim Chance**
Managing Director of Trade Credit and Surety, UK & Ireland
Gallagher

## Mitigation strategies

- **Improve cash collection processes.**
  Implement strict invoicing and follow-up procedures to ensure timely payments from clients. Invest in digital tools that automate the process and monitor payment schedules to reduce delays and improve transparency.

- **Negotiate better payment terms.**
  Work with suppliers to extend payment terms or establish more favourable conditions that align with your cash flow cycle. Offer incentives for early payment and penalties for late payments.

- **Assess client credit risk.**
  Evaluate the creditworthiness of new clients before extending credit terms, and limit exposure to businesses with a history of late payments.

- **Build cash reserves.**
  Prioritise savings and build a cash reserve to act as a buffer during periods of low cash flow or economic uncertainty.

- **Explore financing options.**
  Consider short-term financing solutions like lines of credit or invoice financing to smooth out cash flow gaps without taking on long-term debt.

- **Monitor cash flow regularly.**
  Use cash flow forecasting tools to predict future shortfalls and address potential problems before they become critical.

- **Trade credit insurance.**
  Companies can protect their balance sheets against late payments and insolvency by taking out trade credit solutions.

# Lack of skilled talent

08

## Contributing factors

Technological advances have created new roles that the workforce is not equipped to fill, particularly in areas like cybersecurity, data science, and advanced manufacturing. The education system has then struggled to produce enough graduates for these fields.

Additionally, an ageing workforce and declining birth rates have reduced the influx of younger workers, intensifying competition for talent. Businesses are now competing across sectors, driving up salaries and making it harder, especially for smaller firms, to attract top talent.

“One of the critical risks that both retail and hospitality sectors have faced is staffing levels,” said Gallagher’s Dominic Roe. “Brexit has had a big impact on the resource pool which, coupled with the effects of the cost-of-living crisis, has driven wage inflation. Talent acquisition and employee retention are huge issues, as is the quality of staff available, which is crucial if businesses in the sector are to maintain service standards to encourage loyalty in their customer base.”

In construction, Brexit also continues to have an impact, according to Tracy Keep.

> “For years, we’ve relied on experienced builders from Eastern Europe and elsewhere to fill the skills gap rather than training our own employees. Now there’s a realisation that the construction workforce is ageing, with many workers in their 50s and older possessing valuable knowledge and skills.
>
> There’s a concern about who will fill their shoes, especially because the trend towards subcontracting means that people aren’t receiving the same level of training that they used to as formal apprentices. As a result, there’s a lack of skilled workers to take over.”

**Tracy Keep**
Construction Specialism Leader
Gallagher

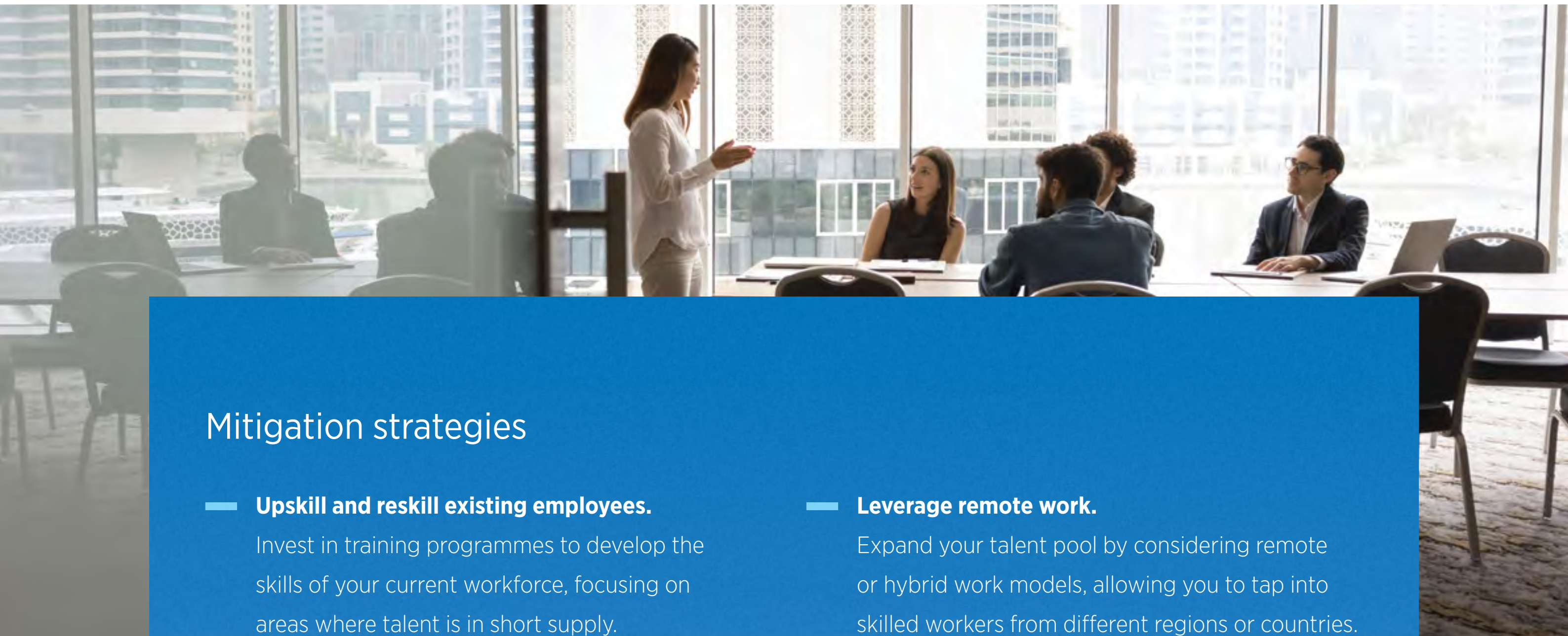
## Impact on business

The talent shortage impacts productivity, with companies unable to fill key roles or relying on fewer experienced staff, leading to delays and reduced efficiency. A skills gap can also be a source of operational risk, with accidents and machinery breakdowns more likely to occur when the workforce is inexperienced.

Growth is also stifled, as firms may be unable to expand into new markets or take on projects due to a lack of qualified personnel, ultimately risking their competitive edge in fast-moving industries.

"Businesses are recognising that their current workforce may not have the necessary skills for the future, but addressing this challenge isn't always a priority. Organisations need to start retraining employees and implementing skills-based recruitment in order to address the skills gap before it becomes an issue."

**Tiree Houghton**
People Experience Director
Gallagher



## Mitigation strategies

- **Upskill and reskill existing employees.**
  Invest in training programmes to develop the skills of your current workforce, focusing on areas where talent is in short supply.
- **Partner with educational institutions.**
  Collaborate with universities and vocational schools to create programmes tailored to your industry's needs, ensuring a steady pipeline of qualified candidates.
- **Improve recruitment processes.**
  Enhance your recruitment strategies by broadening your search criteria, using data-driven tools to identify potential talent, and offering competitive compensation packages.
- **Leverage remote work.**
  Expand your talent pool by considering remote or hybrid work models, allowing you to tap into skilled workers from different regions or countries.
- **Develop strong employer branding.**
  Position your company as an attractive place to work by promoting a positive work culture, career development opportunities, and a commitment to innovation.

Tiree Houghton said that as businesses face rising salary costs, "one of the most powerful things an organisation can offer is a strong and well communicated Employee Value Proposition (EVP). A great EVP will help organisations attract, retain and motivate staff."

# High cost of salaries

09

## Contributing factors

Further contributing to the concerns around talent and skills gaps is the cost of salaries for firms, which are already feeling the pinch. While the challenges of the Great Resignation are somewhat behind us, firms wanting to secure the best talent are expected to pay above the odds.

Although overall wage growth has begun to slow, certain sectors are continuing to feel the pinch.

^ 5.9%

**Manufacturing, for instance, saw the largest annual regular growth rate in salaries at 5.9% between May and July 2024[2].**

Persistent talent shortages across sectors remain a key driver of higher salaries. With fewer qualified candidates, businesses are offering higher pay and benefits to attract top talent. Inflation, while moderating, is also pushing wages up as employees seek higher compensation to keep up with extra living costs.

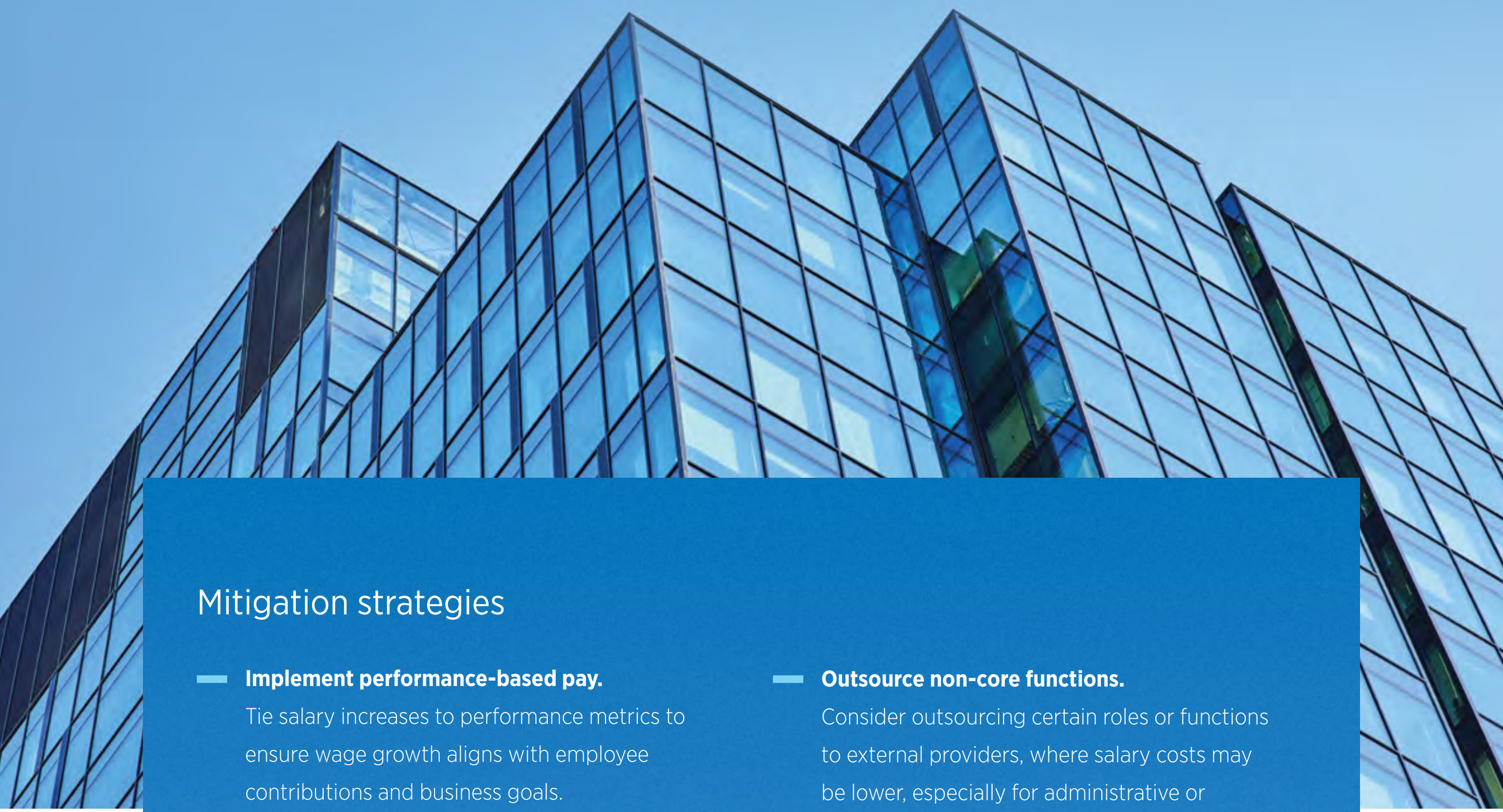
“We’ve been working on a project for a client who is facing challenges due to rising salary costs,” says Gallagher’s Tiree Houghton. “The client cannot meet the rising salary expectations, so needs to look at other ways to attract and retain staff. Whilst cutting spend across other areas, such as work environment and benefits, will help fund higher salaries, it will not support your employees nor your ongoing recruitment.”

“The focus needs to be around spending in areas which will deliver maximum ROI. We know people are placing greater importance on a company’s purpose and culture, so are working with them to embed that into the DNA of the organisation.”

**Tiree Houghton**
People Experience Director
Gallagher

## Impact on business

The rising salary burden is squeezing profitability. Many are forced to delay hiring, cut operational expenses, or raise prices. Wage competition also leads to high turnover, with companies needing to increase salaries to retain employees, creating a costly cycle that further diminishes margins.



## Mitigation strategies

- **Implement performance-based pay.**
  Tie salary increases to performance metrics to ensure wage growth aligns with employee contributions and business goals.
- **Automate and streamline processes.**
  Invest in technology and automation to reduce reliance on labour-intensive tasks, thereby lowering the need for additional staff.
- **Improve employee retention.**
  Focus on creating a strong company culture, offering career development opportunities, and providing non-financial benefits like flexible working arrangements to retain talent without relying solely on salary increases.
- **Outsource non-core functions.**
  Consider outsourcing certain roles or functions to external providers, where salary costs may be lower, especially for administrative or support tasks.
- **Re-evaluate compensation strategies.**
  Develop a more balanced compensation package that includes bonuses, equity options, or other non-salary benefits to manage costs while remaining competitive.

# Competition and sector volatility

## Contributing factors

The rise of digital platforms and e-commerce has lowered barriers to entry, enabling new players to quickly compete with established businesses. These agile entrants often undercut prices, innovate, and offer tailored experiences, intensifying pressure on incumbents.

Changing consumer behaviour also fuels competition, as customers seek better value, convenience, and personalisation. Buying behaviour is increasingly erratic, with purchasing confidence vulnerable to change, especially in retail, where e-commerce and changing habits are altering demand patterns.

Businesses that fail to adapt risk losing market share to those who meet evolving demands. “Many businesses have had to reinvent and update themselves, and we’ve seen many of them struggle or even close down,” said Gallagher’s Dominic Roe. “In the retail sector, businesses that haven’t stayed relevant or adapted to the changing market, including their online presence, have faced challenges.”

> “Retail and hospitality businesses are becoming more nimble, regularly assessing whether they are doing the right things and if they need to adapt to change. Rebranding and other similar strategies are being considered. They also prioritise client experience to attract customers.”

**Dominic Roe**
Managing Director, Retail & Consumer and Hospitality & Leisure
Gallagher

**Economic pressures like inflation and rising costs further exacerbate competition, forcing companies to operate on tighter margins and engage in price wars, eroding profitability.**

## Impact on business

Increased competition can significantly affect revenue and profitability, particularly for businesses unable to differentiate themselves. Pressure to lower prices or offer discounts can squeeze margins and limit growth opportunities. This focus on short-term survival can lead to higher costs with uncertain returns.

Additionally, competition can result in customer churn, with loyal clients switching to better deals or offerings, making it challenging for businesses to regain lost market share. Sector volatility poses significant challenges for business planning and growth. Companies may face unexpected revenue drops or rising costs due to market shifts.

Financial uncertainty can cause hesitation in investment and expansion, as businesses fear overextending in a volatile market. This cautious approach can stunt growth, limit opportunities, and lead to layoffs or downsizing during downturns.

"Businesses may need to diversify, explore new opportunities, and invest in research and development to stay competitive. Identifying these risks early on and continuously addressing them is crucial for the long-term success of a business. It requires ongoing evaluation and adaptation to changing circumstances."

**Neil Hodgson**
Managing Director
of Risk Management Consultancy
Gallagher

## Mitigation strategies

- **Differentiate through innovation.**
  Focus on offering unique products or services that set your business apart from competitors, whether through quality, features, or customer experience. Diversify and reduce reliance on a single source of revenue, making the business more resilient to sector-specific changes.
- **Enhance customer loyalty.**
  Build stronger relationships with existing customers through loyalty programmes, personalised service, or improved customer support to reduce churn.
- **Improve operational efficiency.**
  Streamline operations to reduce costs, allowing for competitive pricing without sacrificing profitability.
- **Invest in market research.**
  Keep a close eye on competitor strategies, market trends, and consumer preferences to stay ahead of shifts and adjust your approach as needed.
- **Collaborate with industry partners.**
  Engage in partnerships or alliances within the sector to share resources, knowledge, and innovations, creating a more robust response to volatility.
- **Focus on niche markets.**
  Target niche markets or specialised customer segments where competition may be less intense, and your business can develop a more focused value proposition.

# Conclusion

**The 2024 Business Risk Index highlights significant challenges for UK businesses, ranging from the persistent cost-of-living crisis to specific threats like supply chain disruptions, cybercrime, and rising levels of competition.**

While each risk is unique, they share common themes of economic instability, shifting market dynamics, and the ongoing fallout from global shock events.

To tackle these risks, businesses must be proactive and responsive, employing strategic measures such as diversifying revenue streams, strengthening (and even shortening) supply chains, improving operational efficiency, and transferring more volatile risks off the balance sheet using insurance.

Focusing on innovation, building customer loyalty and leveraging technology will help mitigate risks and maintain competitiveness in what continues to be a challenging economic environment.

Importantly, the value of building and maintaining a robust risk management framework cannot be overstated. In a world of increasing uncertainty, now is the time for businesses to evaluate, adapt, and fortify themselves for the future.

As they do so, they should continue to lean on their broker partners for risk management and insurance advice and expertise. As companies grow and evolve, brokers are best placed to evaluate what this means for an organisation's risk profile, to stress test how insurance coverages will respond, and to ensure adequate protection remains in place.

## Appendix

Top 10 risks identified by medium and large organisations

| Rank | Risk | % |
|---|---|---|
| 1 | High cost of materials | 20% |
| 2 | Cost-of-living crisis | 20% |
| 3 | Cybercrime | 19% |
| 4 | Competition within sector | 16% |
| 5 | Supply chain issues | 15% |
| 6 | Low cash flow | 15% |
| 7 | Data breaches | 15% |
| 8 | Climate change | 12% |
| 9 | High cost of salaries | 12% |
| 10 | Lack of skilled talent | 12% |

Top 10 risks identified by all survey respondents (from sole trader/micro businesses to large organisations)

| Rank | Risk | % |
|---|---|---|
| 1 | Cost-of-living crisis | 20% |
| 2 | Competition within sector | 20% |
| 3 | High cost of materials | 19% |
| 4 | Low cash flow | 16% |
| 5 | Cybercrime | 15% |
| 6 | Late payments owed to my business | 15% |
| 7 | Volatility within our sector | 15% |
| 8 | High cost of salaries | 12% |
| 9 | Supply chain issues | 12% |
| 10 | Lack of skilled talent | 12% |

Results taken from a survey of 1,000 business leaders conducted by Opinium on behalf of Gallagher in July 2024, respondents were asked to select the current top risks to their organisation.

## Sources

[1]"Accredited official statistics Construction building materials: commentary September 2024." *GOV.UK*, 2 Oct. 2024

[2]"Average weekly earnings in Great Britain: September 2024." *Office for National Statistics*, 10 Sep. 2024.

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