Generally speaking, most business owners can identify the " key people " in their company. They're the people everyone relies on, whether they're the top salesperson, the operations manager who keeps the wheels moving, or the general manager who holds the major client relationships together.

But while many owners recognise these people are important, it can be challenging to calculate their "worth" on paper.

One of the most common mistakes is locking in their value as a simple "set and forget" number. Some businesses base it on salary alone, while others choose a rough estimate and call it a day there. In reality, the financial impact of losing a key person is often much larger than anticipated.

The real question businesses should ask is:

"What would happen financially if this person suddenly couldn't work tomorrow?"

Salary Is Only A Part of the Picture

One of the biggest misconceptions is that an employee's value in insurance terms is equal to their wage, which is not always accurate. While they may be earning a modest amount, they can contribute far more through revenue generation, operational leadership, client retention, or specialist expertise.

These contributions can look like:

- A senior salesperson may influence millions in annual revenue
- An operations manager may keep projects, staff, and suppliers running smoothly
- A technical specialist may hold knowledge that nobody else in the business has

Replacement Costs Are Often Underestimated

On the topic of underestimating, replacing an experienced employee can also be expensive and time-consuming. While many businesses focus only on recruitment costs, replacing a key employee also often involves:

- Onboarding expenses
- Training time
- Reduced productivity
- Delayed projects

- Extra pressure on existing staff
- Temporary revenue disruption

In some industries, where technical knowledge is integral, replacing specialist talent can take months. During that period, the business may lose momentum, customers, or growth opportunities.

With skill shortages affecting many Australian industries , finding someone with the same experience and industry knowledge can involve more time and funds than expected.

Specialist Knowledge Has Real Value

In the case of SME’s, many businesses depend on a person with a specific skill set in some way or another. They may understand systems, processes, client history, and operational details to a level that is not matched throughout the company.

For example:

- A senior technician may understand a specialised system nobody else can manage
- A project manager may hold critical supplier relationships

- A long-term employee may solve issues others cannot

While replacing the person may be possible, replacing their experience is usually much harder and involves forward-thinking.

Client Relationships Can Create Hidden Risk

In many industries, clients build loyalty to people rather than businesses. This is especially true in the case of financial services, real estate, legal and other consultant-based businesses.

If one employee manages key relationships, their absence can lead to:

- Lost clients
- Reduced referrals
- Revenue instability
- Competitors targeting unsettled customers

A simple but important question is:

“Would the client stay with us if this person left?”

This is a key consideration when determining the value of key employees.

Operational Dependency Is a Warning Sign

One of the biggest risks a business can open itself up to is when too much responsibility sits with one person.

You’ll often hear comments like:

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“Only she knows how that works.”

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“We rely on him for every major decision.”

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“The business would stop without them.”

That level of dependency can create major disruption if the person suddenly becomes unavailable, and it is something that should be accounted for when drawing up an insurance policy.

This is particularly common in founder-led businesses, family businesses, and growing SMEs where multiple responsibilities can be heavily concentrated on one person.

Key Person Value Should Be Reviewed Regularly

As your business develops, its needs evolve over time. As revenue grows, staff responsibilities change, and client relationships deepen, businesses should reassess their risk management strategy to cover all bases.

Businesses reviewing key person insurance often discover the financial impact of losing a critical employee is far greater than initially expected. In times like these, it can be a good idea to sit down with a financial advisor, such as Panorama Financial Services . With extensive industry experience and a no-fuss approach, they can help outline where your focus should be aimed.

A practical review should consider:

- Revenue contribution

- Replacement difficulty

- Specialist expertise

- Client dependency

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Operational impact

At the end of the day, valuing a key person isn't about aiming 'thereabouts' and locking in a static figure; it's about understanding where the business is most vulnerable before an unexpected event forces the business to find out the hard way.