

SAVVY ENTREPRENEURSHIP

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Risk Management for Small Businesses

LEARNING OBJECTIVES

- Identify sources of risk for small-business owners
- Evaluate some of the risks small businesses face
- Distinguish among risk transfer, acceptance, mitigation and avoidance
- Develop a plan that identifies resources to aid in risk management
- Summarize the best practices for when disaster strikes

Case Study: Cone Crazy Experiences a Flood



After a week of rain (not great for business), Willa's luck was getting no better. She entered the shop to find the storage room flooded. Several cartons of ice cream mix, cones and supplies were ruined. Her landlord's insurance will pay for damage to the facility but not to her items.

What should she do next?

Risk Areas for Small Businesses

Risk area: Any event, scenario, or circumstance that can negatively affect the business

Area	Details
Economic risk	Includes loss of income from product damage, poor investments, theft and rising costs
Technological risk	Ranges from equipment failure to cyber hacking
Environmental risk	External situations that can range from extreme weather events to local community policies
Competitive risk	The impact of the actions of rival businesses

Risk Areas for Small Businesses (cont.)

Types of risks:

- Business interruption (due to cyber attack, flood, fire, etc.)
- Internal property damage
- Injury to customer or employees
- Key person loss (retirement, illness)
- Digital information challenges (data breaches, internet drops)
- External property damage
- Employee practices (poor customer relations, theft)
- Broken contracts

NOTE! Every business is different. Assess your business to distinguish what would stop the operations and transactions.

Risk Management Plan



Risk Management Plan (cont.)



["Top 10 Risk Management Strategies for Small Businesses in 2024" video](#)

Strategies for managing risk:

1. Identify your risks initially (marketing, employees, etc.).
2. Create a plan (actions, roles, contacts).
3. Obtain insurance (your safety net).
4. Maintain financial reserves.
5. Use multifactor authentication and other key digital practices.
6. Find diverse revenue streams.
7. Revisit your risk management plan *at least* once a year.
8. Train your employees.
9. Understand and comply with legal requirements.
10. Have a crisis management plan in place.

Evaluating and Managing Risk

A risk matrix allows for the visualization of risk.

- Identify the risks.
- Assign a quantitative value to each risk and the probability of it occurring.
- Assign a quantitative value to the impact effect of each risk.
- Focus the risk management plan on risks with the highest impact/probability score.

Evaluating and Managing Risk (cont.)

CONE CRAZY RISK MATRIX

Risk Description	Risk Impact	Risk Impact		Priority Level
		Effect (1-5)	Probability (1-5)	
Store floods	Business closes temporarily	5	2	10
Employee slips	Medical needs, costs	3	2	6
Customer slips	Medical needs, costs	3	2	6
Power outage	Refrigeration is off; business stops	5	4	20
Owner sick	Employees are in charge	2	2	4
Expenses exceed sales	Business operates "in the red "	4	4	16
Computer cyber attack	Cannot process billing	4	3	12
Tree damage	Business closes temporarily	5	5	25

PROBABILITY	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		IMPACT				

Evaluating and Managing Risk (cont.)

Getting Real About Risk

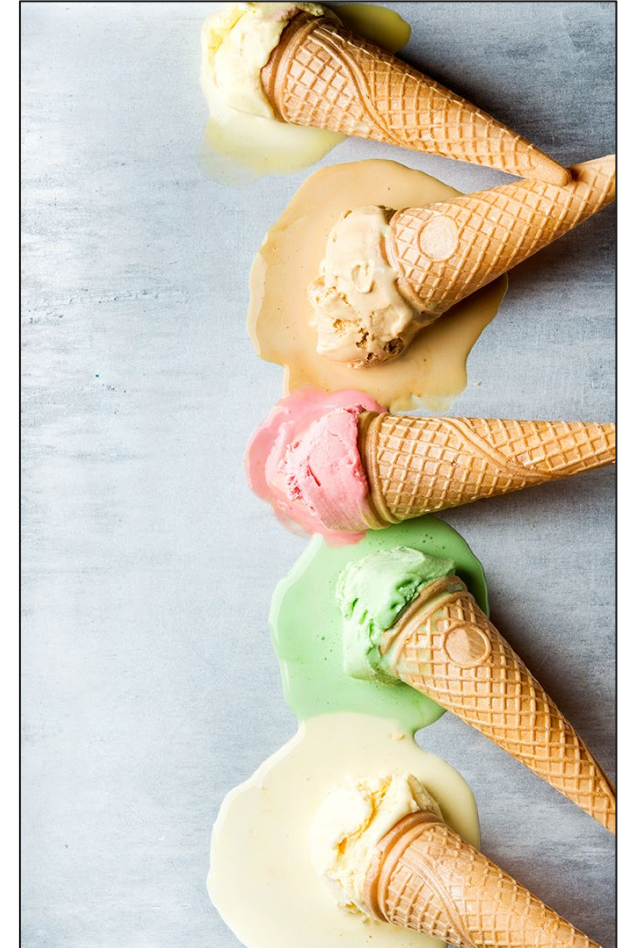
- Risk avoidance
 - If a risk is too much to manage, avoid the scenario.
 - Consider partnerships with suppliers, owners and customers carefully; if one is too risky, avoid it!
- Risk transfer
 - Obtain insurance policies.
- Risk mitigation
 - Take steps to avoid catastrophes.
 - Examples: Double authentication, employee background checks, training
- Risk acceptance
 - Acknowledge the risks and decide to continue operations as is.
 - Example: No preventative maintenance on equipment used daily

Evaluating and Managing Risk (cont.)

Create Your Risk Management Plan

Willa chooses to transfer risk by purchasing an extended refrigeration appliances service plan for \$20 a month for 12 months. That's \$240 for the first year (the manufacturer reassesses fees after that)

Considering the importance of the appliances, this is money well spent!



Evaluating and Managing Risk (cont.)

Where to Get More Help

Risk	Resource
Business liability	Insurance Bureau of Canada— "Business Premises and Liability Risk Management"
Supply chain risk	Business Development Bank of Canada— "6 Steps to Manage Supply Chain Risks"
Economic trend	Business Development Bank of Canada— "Economic Trends and Challenges"
Computer security	Business Development Bank of Canada— "Your Checklist for Avoiding IT Security Breaches"
Cybersecurity	Business Development Bank of Canada— "Cyberattacks: Too Many Risks to Ignore"
Financial risk	Business Development Bank of Canada— "4 Financial Indicators Every Entrepreneur Should Monitor"
Climate risk	Business Development Bank of Canada— "Checklist to Prepare for Climate Emergencies"

What to Do When Crisis Strikes

Listen to the discussion:



1. Ensure the safety of your employees and customers.
2. Have multiple means of contacting employees (cell, email, emergency contact).
3. Restrict access to the workspace.
4. Check equipment and remove damaged equipment.
5. Back up computer data.
6. Inform your clients and customers of what's going on.
7. Contact your insurance representative.
8. Allow your business time to recover.



CHAPTER SUMMARY

- Risks faced by small-business owners can be classified into four areas: environmental, technological, economic and competitive.
- A risk matrix helps a business owner evaluate risk by projecting risk probability and impact.
- Risk transfer via insurance policies is the most common way to manage risk; to mitigate risk is to take measures to reduce risk, such as with employee training and cybersecurity protocols; risk acceptance means the business owner acknowledges the risk exists and proceeds anyway; and risk avoidance is simply creating a business that can exclude the risk, such as not building in a flood zone.
- A solid risk management plan includes a four-step process—identify, assess, respond, monitor. Each area is continually reviewed and adjusted.
- SCORE is a good resource for helping business understand how to react when disaster strikes.