

SAVVY ENTREPRENEURSHIP

# 12

## 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

BUSINESS RISK AREAS	
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 risks initially (marketing, employees, etc.)
2. Create a plan (actions, roles, contacts)
3. Insurance (your safety net)
4. 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 visualization of risk

- Identify risk
- Assign quantitative value to risk probability
- Assign quantitative value to risk impact
- Focus risk management plan on risks with 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				

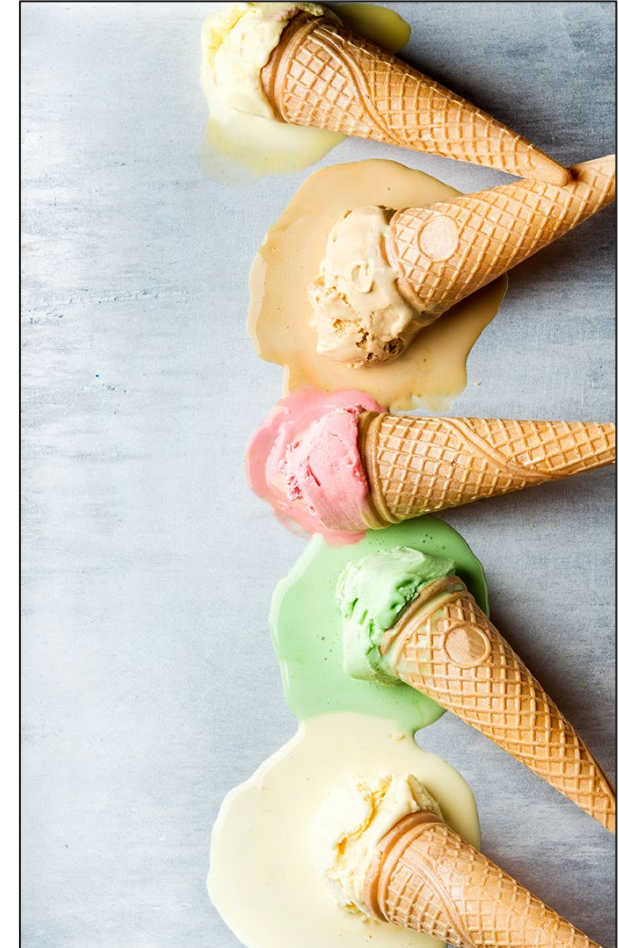
# Getting Real About Risk

- 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
  - 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

# 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 (manufacturer reassesses fees after that)

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



# Where to Get More Help

Risk	Resource
Food handling	<a href="https://servsafe.com">servsafe.com</a>
Manufacturing, auto mechanics, lab testing	<a href="https://osha.gov/safety-management/hazard-prevention">osha.gov/safety-management/hazard-prevention</a>
Restaurants, bakeries, and other eateries	Local public health department
Landscape equipment and horticultural work	<a href="https://osha.gov/safety-management/hazard-prevention">osha.gov/safety-management/hazard-prevention</a>
General liability insurance	<a href="https://sba.gov/business-guide/launch-your-business/get-business-insurance">sba.gov/business-guide/launch-your-business/get-business-insurance</a>
Workers' compensation insurance	<a href="https://dol.gov/general/topic/workcomp">dol.gov/general/topic/workcomp</a>
Cybersecurity	<a href="https://ftc.gov/business-guidance/small-businesses/cybersecurity/cyber-insurance">ftc.gov/business-guidance/small-businesses/cybersecurity/cyber-insurance</a>

# 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, 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.