

Risk Management

FOR A SMALL
BUSINESS



FDIC



SBA

Welcome



1. Agenda
2. Ground Rules
3. Introductions

Objectives

- Identify the common risks associated with a small business
- Identify the external and internal factors which affect risk for a small business
- Identify situations which may cause risk for a small business

Objectives

- Identify the common warning signs of risk for a small business
- Implement, monitor, and evaluate a risk management plan for a small business

What Do You Know?

What do you know or want to learn about risk management?



Risk Management

- Identifying areas of threat to the business
- Assessing the potential impacts and managing these
- Growth and continued existence of the business



Discussion Point #1: Risks from Positive Situations

What positive situations or opportunities can you think of that may be risks?



Internal Risks

Human Risks

- Death
 - Owner
 - Employee
- Illness
 - Short term
 - Long term
 - Indefinite



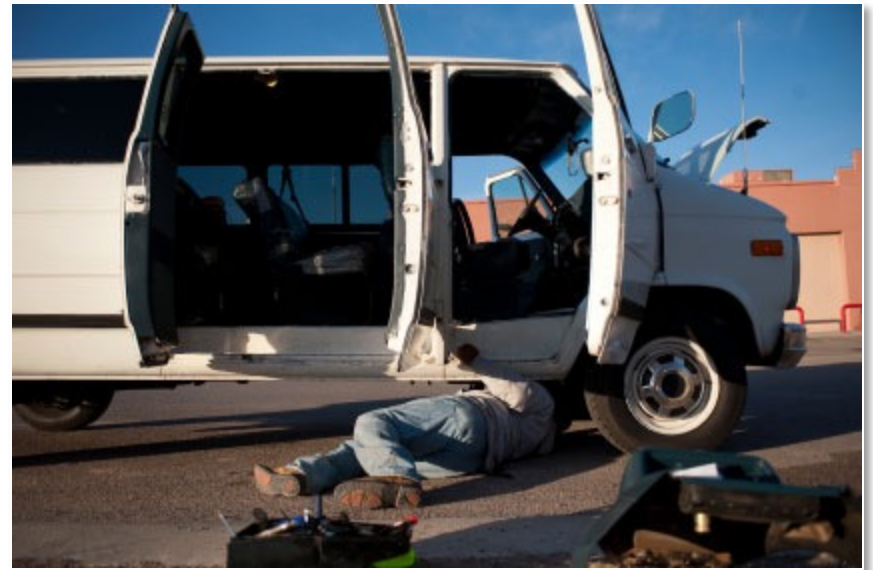
Human Risks

- Theft and fraud
 - Product and inventory theft
 - Time sheet fraud
 - Accounting and cash fraud
- Low morale, dissatisfaction
 - Failure to perform
 - Sabotage of systems, equipment or customers



Equipment and Information Technology Risks

- Equipment breakdowns
 - New equipment integration
 - Worn older equipment
 - Damage to vehicles



Equipment and Information Technology Risks

- Information technology downtime
 - Lack of backup or recovery system
 - Updates and repairs
 - Power and connectivity (physical damage and outdated systems)
 - Lack of administrative controls



Other Internal Risks

- Physical plant repairs
 - Breaks in lines or utilities
 - Routine maintenance
- Incidents
 - Work related injuries
 - Damage to others' property by employees
 - Damage to your property by others



Other Internal Risks

- Cash flow changes
 - Unexpected costs
 - Loss of credit lines
 - Expenses to establish lines of credit



Activity 2: Internal Risks

What other internal risks can a business owner control?



External Risks

Competition and Market Risks

- Loss of clients or customers
- Loss of employees
- Decrease in sales prices/fluctuating markets
- Increases in vendor costs
- Oil or gasoline price increases
- Fixed cost changes (e.g., rent)

Business Environment Risks

- Laws
- Weather
- Natural Disaster
- Community



Discussion Point #3: External Risks

You own a steak house. A tainted meat scare in your area changes demand. How do you manage this risk or control its effects?



Personal Conflict Risks

- Family obligations, illnesses or deaths
- Events of disaster that affect the home
- Community involvement
- Complacency

Discussion Point #4: Risks to Continued Operations

What is required for your business to continue operations?



Risk Identification

- Written business plan
- Outside sources to assist in identifying
- Risks of your vendors or supplier
- Business continuity assessment



Warning Signs

- Excessive debt in relation to owners equity (total liabilities / owner's equity)
- Reliance on a small number of customers
- Reliance on one product
- Reliance on one or a small number of vendors

Warning Signs

- Cash flow problems
- Irregularities in accounting, bank or timecard records
- Irregularities in computer system administrative reports
- High employee turnover rate

Risk Evaluation

- Identify needs for business continuity
- Identify needs for potential or planned growth
- Discuss risks with managers
- Communicate risks to managers

SWOT Analysis

- Strengths
- Weaknesses
- Opportunities
- Threats



Other Resources

Small Business
Administration

Audit Firm or
CPA

Bank or
Commercial
Lender

Risk Insurance
Provider

Internet Source

Risk Measurement

- Effect on potential earnings and cash flow
- Impact on the business for future growth
- Costs related to the risk, should it occur
- What would change in your business as a result
- Weighing costs versus the benefits of the control

Importance of Risk Management



Cash Flow

Stability

Credit

Longevity

Risk Control Management and Implementation

Equipment and Vendors

- Inclusion in initial written business plan
- Readdress, monitor and update business plan periodically
- Insure equipment and use service plans
- Know your vendors and suppliers – backup relationships

Business Continuity

- Location to continue business operations
- Establish a manual system
- Train staff to continue operations
- Backup operating systems, list staff duties and contacts
- Review contracts with vendors for provisions
- Know systems provider backup and contingency operational plans

Information Technology Systems

- Do not share login information
- Protect systems with firewalls
- Institute levels of access
- Perform other reports
- Sample transactions or use trial transactions
- Conduct scheduled and surprise audits

Competition

- Shop them
- Check advertising
- Product lines
- Pricing
- Customer interaction
- Employee retention



Activity 5: Assets

What is your most liquid asset?
How can you protect it?



Accounting and Cash Control

- Separation of duties
- Dual control of cash
- Levels of authority observed
- Periodic audits
- Surprise audits
- Insured deposits – FDIC
- Plan for reserves in the budget

Employee Management

- Pre-employment screening and background checks
- Job descriptions and duties
- Communicate clear expectations
- Cross train staff
- Identify temp agencies that specialize in your field
- Periodic evaluations and feedback

Employee Management

- Manage by being present or walking around
- Audit for payroll or time fraud
- Benefits and compensation for retention
- Incentives to avoid injuries and damages

Business Work Strategy

How can you manage your own risks?

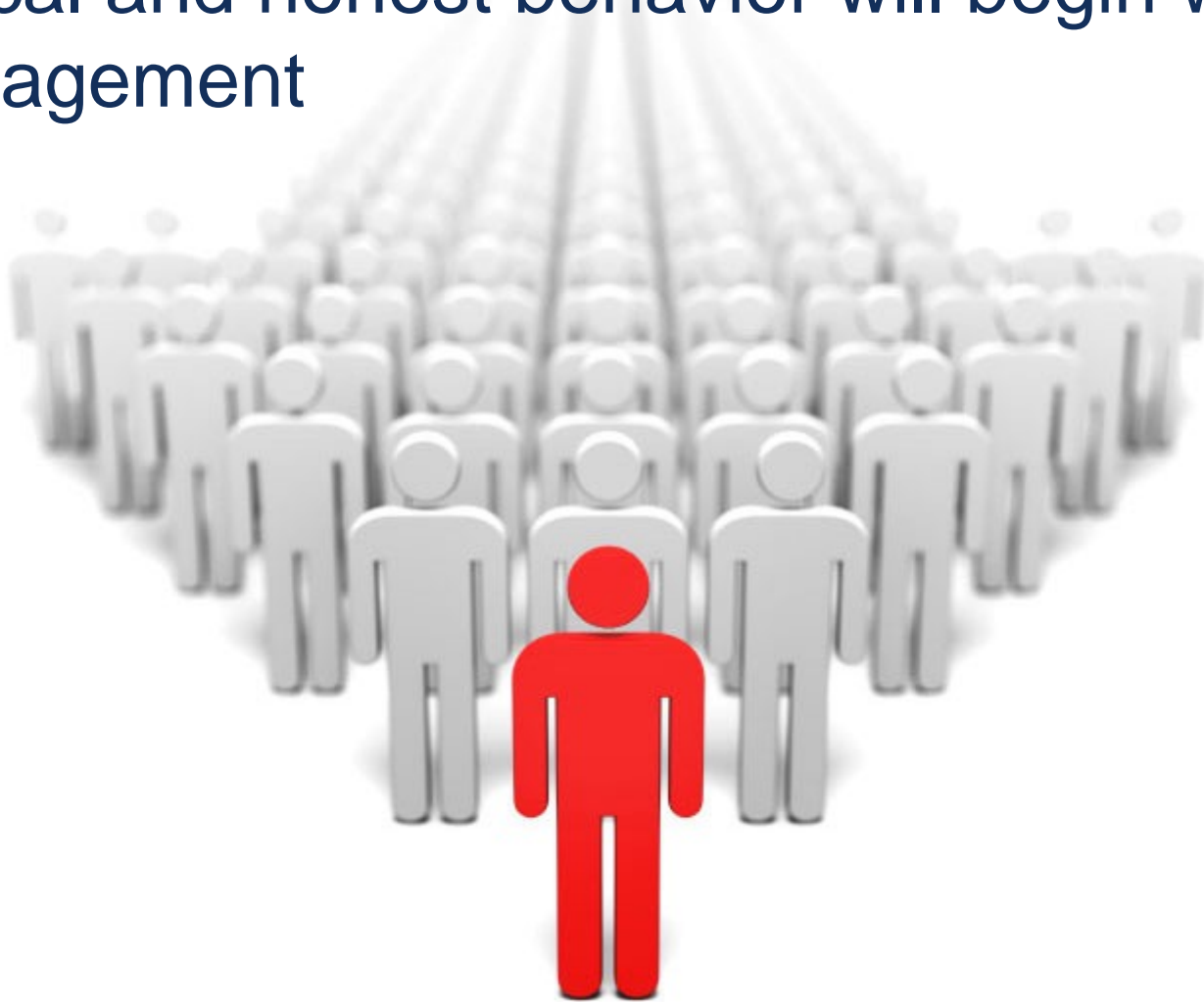
- Set work hours
- Plan work with a balance
- Set realistic goals
- Train support staff or an assistant
- Include in disability or death in business plan
- Support system
- Anticipate family and home needs

More on Control Management

- Communication within organization
- Routine assessment of physical plant
- Be alert to changes in the community and laws
- Awareness of news in the economy
- Utilize lines of credit only when needed
- Insure against damages from weather and disasters
- Backup utilities – phones and generators

Lead by Example

- Ethical and honest behavior will begin with management



Exit Strategy

- Include exit strategy in business plan
- Revisit it periodically
- Insurance payment and liquidation of assets
- Liquidation of assets without insurance
- Trustee to handle
- Family member
- Employees

Plan and manage risks to succeed!



Eight Key Points to Remember

- There are internal and external risks associated with a small business
- Begin assessing the risks by completing a list of those events or resources involved with the business that could impact continued operations and cash flow
- The costs to insure or minimize risks should be weighed to the potential impact involved
- A business continuity plan should be part of your overall business plan

Eight Key Points to Remember

- Strategies to avoid risks can include: communication, setting expectations, support systems, training staff, insurance, assessment and contingency planning
- Be honest in reviewing your business for risk and warning signs
- Seek assistance from others
- An exit strategy is important

Summary

- What final questions do you have?
- What have you learned?
- How would you evaluate the training?



Conclusion

You learned about:

- Internal and external risks of a small business
- How to identify and reduce the negative effects these can have on your business
- Warning signs of risk
- The steps in risk management planning
- The importance of containing these risks
- The need for an exit strategy