

Evaluate Your Business's Risk Warning Signs

Risks Below the Water Line

“Risk is a part of pursuing a new opportunity. Having the skills and confidence to identify and manage risk, that’s a game changer.”

—Candida Brush, Babson College

Entrepreneurs commonly identify financial risks as the priority in running their business. In reality, financial challenges can be a symptom of something greater. In this self-assessment, explore examples of both financial and operational risks, and think about how they—and other risks—might apply to your business.

- In Part 1, select each risk factor you may be experiencing.
- Then in Part 2, review the suggested mitigation techniques for each.

Part 1: Risk Questions

1) Which of the following revenue-related risks are you currently experiencing, if any?

- A.** My business has excessive debt in relation to my equity (the value of my ownership in the business).
- B.** My business is dependent on a small number of customers.
- C.** My business is dependent on one product.
- D.** My business is dependent on one or a small handful of vendors.
- E.** None of these

2) Which of the following reporting and operational risks are you currently experiencing, if any?

- A.** I'm experiencing cash flow problems and having trouble making payments.
- B.** My accounting, banking or timecard records are inconsistent.
- C.** My business has inconsistencies in computer system administrative reports.
- D.** My business is experiencing a high employee turnover rate.
- E.** None of these

3) Below, begin to think about risks sometimes overlooked by entrepreneurs. Which of the following equipment, information technology (IT) and facility-related risks are you experiencing?

- A.** My business has equipment that is broken down, damaged or needs repair.
- B.** My IT systems are outdated, damaged or need repair.
- C.** My IT system lacks administrative controls to manage who has access to what information.
- D.** My employees have had work-related injuries.
- E.** None of these

4) Which of the following market and competitor risks are you experiencing?

- A.** My business is experiencing a loss of clients and decrease in sales.
- B.** My business is experiencing a loss of employees.
- C.** My business is experiencing an increase in vendor costs.
- D.** My business is experiencing fixed cost changes.
- E.** None of these

5) Are you experiencing any of these business environmental risks currently?

- A.** My business is affected by a change in laws.
- B.** My business is affected by a natural disaster.
- C.** My business is experiencing a change in community demographics.
- D.** None of these

6) Have you experienced any personal conflict risks recently?

- A. My family has experienced an illness or death.
- B. I've experienced personal events that conflict with my business's interests.
- C. I've had conflicts of interest involving my community involvement.
- D. I'm experiencing a level of comfort that I've gotten used to.
- E. None of these

Part 2: Mitigation Strategies

REVENUE

Feedback for Question 1

- A:** Keep your business's sales and asset growth at an equal pace. To find out the normal range of debt to equity for your business, search for good averages via free or paid services and/or consult an accountant.
- B:** Being too reliant on a small number of customers can cause a business to fail rapidly if those customers are lost. Continually reach out to new types of customers with new products in addition to establishing ways to retain your current customers. Some businesses go by the 80/20 percent rule, with 80 percent of business derived from repeat customers and 20 percent from new customers. What is the percentage that works for your business?
- C:** Reliance on one product will limit your business when/if that dependence fails to allow for changes in customer needs, as well as changes in the market. Brainstorm new ideas by using design-thinking techniques listed in Ascent's Design Thinking excursion to help improve innovation for your business's products, product line extensions and services related to your product.
- D:** When your business relies on a small number of vendors, your business continuity plan is only as concrete as your vendor's business. One vendor also may limit your negotiating leverage. A multiple-vendor strategy may make vendors push for more of your business, resulting in lower prices. In any event, if one vendor is unable to deliver, you will have backup. Don't be afraid to investigate the risks your vendor may face. You'll be able to get access to some of this risk information through business credit reporting agencies or insurance companies.
- E:** Even if your business isn't experiencing any of these risks currently, reaching out to new vendors and new types of customers with new products, in addition to establishing retention mechanisms with your current customers, will cushion you should one product or customer group fail or leave.

OPERATIONS

Feedback for Question 2

- A:** If your expenses are greater than your income, adjustments should be made. In general, you want your business to have a positive cash flow. If you are having a hard time covering checks, your business has a cash flow problem. Check the timing of when you are paid and when people pay you. If possible, renegotiate payment terms with your vendors to help improve cash flow. For example, if your payment terms with your clients are Net 30 and your payment terms for your vendors are due on receipt, then you'll run into cash flow issues in between the time you buy materials and the time you sell the product.
- B:** If your accounting records contain errors, you probably need to institute internal controls. Internal controls include but are not limited to making sure to separate out your bookkeeping, deposits, reporting and auditing. Have passwords to prevent unauthorized users in your accounting system. Perform physical audits of cash and inventory regularly. Audits or spot-checks of your accounting system may uncover errors or fraud. When you perform an audit, make sure that your project or job sheets match what has been submitted and that your timesheets match what has been submitted for payroll. Have a consistent method to track invoices, receipts and travel expenses. Ensure that your payroll ledger is matching up with bank account statements. Pay any outstanding checks to former employees, and remove any former employees that are still in your accounting system.
- C:** When you generate reports, check that there have not been any changes in user access since your last review. If there have, this could be a reason for the reporting errors. Create user access for your employees tailored for their job functions. Remove users in your system that are no longer employed at your business. Make sure that system updates have been documented and approved. Monitor your business's transactions or changes for ones that seem out of the ordinary.
- D:** Ask yourself what the root cause of the high turnover rate might be. Is this a result of poor hires, lack of training or the work environment? Invest in your employees by providing adequate training, either on or off the job. Properly vet potential job candidates by performing preliminary phone interviews and, when necessary, doing background checks. Ensure that your work environment is offering equal to or better than what your competitors are as far as compensation packages, time off and other work-related perks.
- E:** Even if you're not experiencing these operational and reporting issues, renegotiating payment terms with vendors can potentially help with some cash flow problems. Instituting internal controls of your accounting and bookkeeping records will cut down on errors and the potential for fraud.

EQUIPMENT, INFORMATION TECHNOLOGY (IT) AND FACILITY

Feedback for Question 3

- A:** Older technology and equipment may run more slowly or require more maintenance than new equipment. In industries requiring heavy equipment, fleets and the like, worn parts may result in damage or cause company vehicles to break down. Estimate the cost for one day of broken-down equipment, and decide at what point new equipment is worth the investment.
- B:** Downtime from physical damage or outdated systems may slow your business's profits. Most businesses rely on a computer system to process credit cards. Have a backup plan in place if your systems go down. For instance, is your credit card processing system compatible with mobile devices?
- C:** Lack of administrative controls may lead to downtime, in addition to fraud and theft. Manage the different levels of information access categories by job duty. An employee that ships out inventory or accepts returns should have different access than an employee in accounting where credit is issued. Using a firewall to stop intruders is a cost that is well worth it. The cost of being hacked is far worse if it shuts down your system or leaks out customer information.
- D:** Did you know that according to the Bureau of Labor Statistics, roughly 3 million injuries occur in the workplace every year?¹ As an employer, you must post OSHA citations, injury and illness data and the OSHA poster in your business where your employees will see them. Training your employees on proper lifting techniques will help cut down on injury. Ensure that areas are well-lit and ladders, cranes, lifts or scaffolds are all in excellent condition to help prevent falls.
- E:** Even if you are not experiencing any of these risks, ensuring that your equipment, IT and facilities are all in good working order will make for a safer and better environment for your employees and cut down on the risk of loss of profits.

MARKET AND COMPETITION

Feedback for Question 4

- A:** Market changes will cause your business to change. Competitors will advertise sales, and your wholesale costs will go up and down. Shop your competitors and check their advertising. Investigating and shopping your competitor's products and services is extremely important so you know how you are different quality-wise. Knowing what your competitor's customers like and dislike about their products or services will help you gain a competitive edge by improving your own product or services in those areas.

- B:** Having a noncompete clause or form that employees sign will prevent them from taking your business's intellectual property (IP) with them to a competitor without legal repercussions. Reading reviews on employee-reviewed job sites will help you get an idea of your competitors' employee retention rates and salaries.
- C:** There could be a variety of factors causing an increase in vendor costs. For example, an increase in oil prices could be the reason for vendor prices going up, or new tariffs may have been put in place. For these reasons, it is good to not be reliant on one or a small number of vendors. Is it time to revisit pricing with your vendors or search for new ones? If you can find out how much it costs your vendors to make their products, then you'll have a better time negotiating prices with them. Get multiple vendor quotes for the same items. If they won't negotiate on price, see if you can get a better warranty or payment terms.
- D:** If your rent has gone up, there may be an increase in demand. You may get a lower rent rate to start out if you sign a lease during a building's construction, but the rent may go up when your lease renews as demand increases. Analyze your financial statements, particularly your income statement, to help you determine how these fixed cost changes are going to affect your profits.
- E:** Even when you're not experiencing market or competitor risks, it's good to shop your competitors and check their advertising. Reading reviews on employee-reviewed websites will help you to see your competitors' retention rate and salaries. Stay current with your financial statements to know how any changes in costs impact your profit margin.

ENVIRONMENT

Feedback for Question 5

- A:** Your business is more than the space you rent or buy. What happens around it can affect your business. Federal, state and local ordinances will change. Many of these state and federal laws help protect consumers from deceptive advertising and illegitimate pricing comparisons. Keep abreast of the laws that affect your industry through trade publications and business organizations, and review policies on the Federal Trade Commission's website.
- B:** Did you know that the United States had roughly \$44 billion worth of damages² caused by natural disasters in 2016? Having a contingency plan in place that includes a location that you can use in case of a short- or long-term natural disaster is paramount. Explore options for business insurance that covers damage from natural disasters, such as commercial property insurance and flood insurance. In the event you aren't able to work in your present location, your plan should include a list of the steps to take, by job position, for re-establishing operations at the backup site. Describe the responsibilities for inputting manually captured information

into your computer system for when the system is running again. Train staff on your continuity plans and alternative strategies. Have trial runs or periodic testing of your manual systems. Keeping additional computer capability at another location can mean being down for a few hours instead of days. Just as you plan for these risks and the possible consequences, your vendors should as well.

C: Neighborhoods will change over time as the needs of the community change. There may be factors that contribute to a declining market and more empty storefronts—for example, “suburb-ification” or gentrification of an area. In a time when some brick-and-mortar businesses are shutting their doors because of online shopping, it’s more important than ever that you engage with your community and make your business a destination. Seemingly small things can matter, like providing Wi-Fi to your customers so they’ll want to stay longer, having comfortable furniture, integrating the Internet of things (IoT) by pushing in-store reward notifications to your customers, and supporting local community events. Community involvement can also make a difference. You might try participating in a community beautification project or partnering with a local charity to donate your products/services to those in need. It can be good for the neighborhood as well as your PR.

D: Even if you haven’t experienced any of these environmental risks, make sure to have a continuity plan in place should you encounter one of these situations.

PERSONAL CONFLICTS

Feedback for Question 6

A: Without a plan for continuity and contingencies, medical emergencies or death can wreak havoc on small business owners. But the reality is that children become ill and aging parents may need increasing care. Make sure to have a plan. While some business owners name a trustee to handle the closing of a business, others may have active family members to assume business ownership or perform the closing.

B: There are always going to be situations, such as broken heating/cooling systems and plumbing repairs, that will require immediate attention. These types of things can keep you away from your business until they are resolved. Have a good insurance policy and a list of trusted tradespeople handy that will at least ensure you will get the work done as quickly and in as professional manner as possible. Sites like Angie’s List can be useful since they specialize in crowd-sourced reviews for structural repairs and services.

C: We don't usually think of outside activities and community involvement as a risk, but consider how you would handle this situation: your best salesperson wants to attend an out-of-town playoff game with their daughter on the busiest day of the month. Have a public time-off calendar for your employees so you won't have any surprises and can make sure you have good coverage. If there are blackout days that employees can't take off, put those on the calendar and make sure employees understand policies. Incentivize with perks during busy seasons.

D: Yes, complacency is a risk. Getting too comfortable could mean that you are putting in fewer hours each day or spending less on advertising or marketing. Complacency can also lead to low morale in employees and thus less productivity. There are many ways to increase productivity and morale. When you receive positive customer feedback, reward your team with fun company-paid activities. Doing something as a team will strengthen your bonds and help with communication. When possible, give your employees a chance to apply for jobs first before posting externally. This will encourage your employees' professional growth.

E: Even if you haven't experienced any of these personal conflicts, make sure to have a continuity plan in place should you encounter one of these situations. Team-building activities with employees helps build morale. It's never too soon to make a list of trusted contractors and tradespeople that you can call on should a pipe spring a leak or your AC go out in the middle of July.

Conclusion

There are many internal and external factors that can affect your business. To help mitigate both of these risk types, remember to:

- Set realistic expectations and goals to mitigate risks.
- Have support systems in place in case of emergencies.
- Train your staff on what to do in case of emergencies.
- Have adequate insurance in place.
- Conduct internal audits and assessments.
- Have a contingency plan.
- Be systematic and honest in reviewing your business for risk and warning signs.

Additional Resources:

For a deeper dive, check out the FDIC's [Money Smart](#) Series:

- [FEMA's Continuity Plan Tool](#)
- [Federal Trade Commission News and Events](#)
- [What Kind of Records Should I Keep?](#)

¹ Bureau of Labor Statistics, *Economic News Release, Employer-Reported Workplace Injury and Illnesses—2017* (Nov. 8, 2018), <https://www.bls.gov/news.release/osh.nr0.htm> (accessed Feb. 19, 2019).

² Debarati Guha-Sapir, Philippe Hoyois, Pascaline Wallemacq & Regina Below, *Annual Disaster Statistical Review 2016: The Numbers and Trends*, Center for Research on the Epidemiology of Disasters (CRED) (October 2017), https://reliefweb.int/sites/reliefweb.int/files/resources/adsr_2016.pdf (accessed Feb. 19, 2019).