Managing Business Risks

SCORE mentors love to help small businesses grow. Personally, I take great pleasure in watching a business grow and be successful as I work with the CEO over the course of months and even years. But this process can be a painful one without attention paid to how the business is going to deal with future risks that it may very well encounter. A growing business faces many risks. Some can be managed operationally; others can be mitigated by buying insurance. So today, let’s review some of the most common risks that SCORE mentors discuss with their clients.

Some risks are best managed by purchasing insurance to reduce the amount of risk assumed by the company and transferring it to an insurance company. Most risk managers typically recommend the following types of insurance as essential for small businesses:

- **Workers’ compensation insurance**: protects your business against claims made by employees who are injured on the job.
- **General liability insurance**: protects your company from claims of bodily injury or property damage in the course of doing business, such as a customer who slips and falls in your store.
- **Commercial auto insurance**: protects your business from claims arising from use of your business vehicles.
- **Property insurance**: protects your business and equipment against damage or loss caused by common risks such as theft or fire.

In addition to these most common types of insurance, a business may have certain needs that could include a consideration of some other protection such as:

- **BUSINESS INTERRUPTION INSURANCE**: This provides income if a natural disaster or other covered event prevents your business from operating normally. For example, a company that depends on the internet and computer operation for all or a major part of its business. What would happen if the internet service is cut or goes down for some reason?
- **KEY MAN INSURANCE**: If a partner or co-owner of your business dies, key man insurance provides funds to buy that person’s share of the business back from his or her heirs.
- **BUSINESS CREDIT INSURANCE**: If your company sells to businesses outside the U.S. and Canada, business credit insurance provides coverage against your customer failing to pay. You may have little or no legal recourse against foreign-owned companies otherwise. Our SCORE mentors have dealt with companies that export and sell products all over the world.

Other types of business risk can be mitigated by making changes to your company operations (practices). There are several of these, but here are two examples:

- **CONCENTRATION OF CREDIT**: Extending too much credit to a single customer or several large customers puts your business at risk. As a rule of thumb, no one customer should account for more than 20 percent of your annual sales.
SINGLE-PRODUCT RISK: If your company sells a single product, you risk becoming obsolete when a new product or competitor is introduced. Multiple-product companies are much better protected from risk.

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