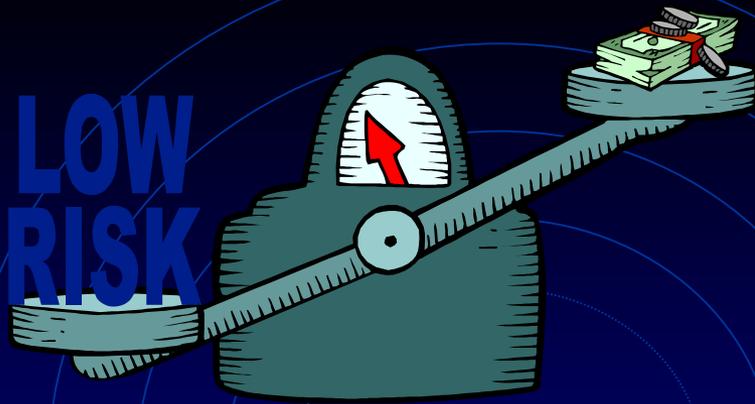
The background of the slide is a solid dark blue color. It features a decorative pattern of several overlapping, concentric circles in a lighter shade of blue. These circles are arranged in a way that they overlap each other, creating a complex, layered effect. The circles are centered around the text, which is the main focus of the slide.

5.02 – Determine Factors Affecting Business Risks

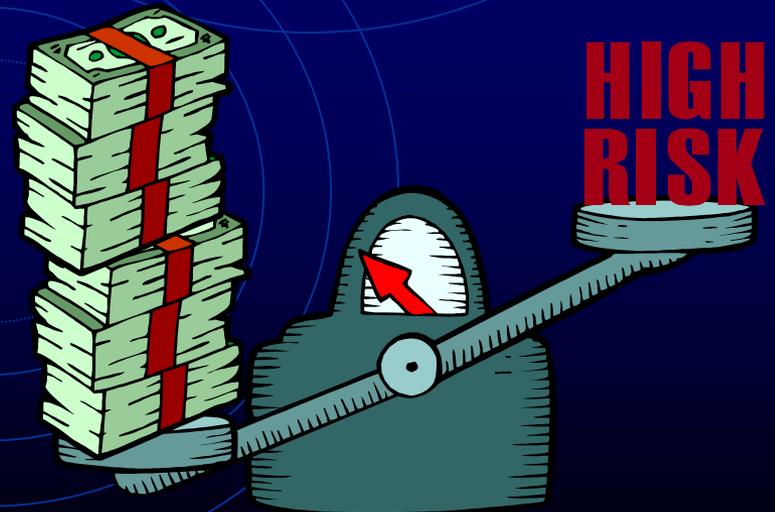
Risk: The possibility
of a financial loss.



**LOW
RISK**



Risk Management:
The process of
managing a
business's exposure
to risk in order to
achieve business
objectives.



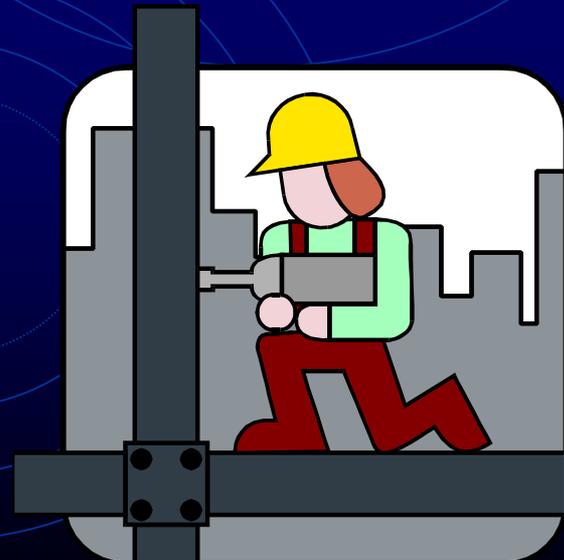
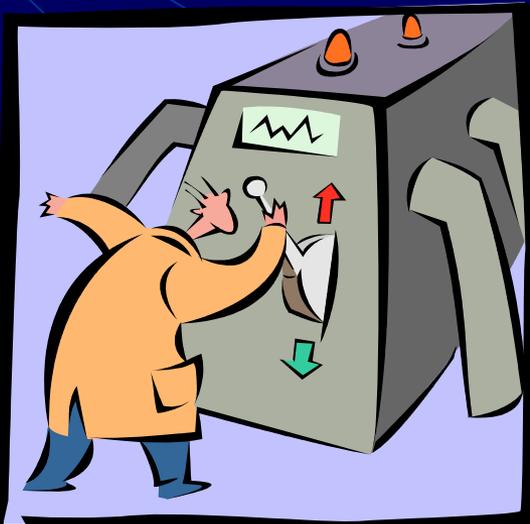
**HIGH
RISK**

***Business risk:* The possibility of business failure or loss.**



Speculative risk: Risking loss to make a profit.

- Possibilities of loss, no change, or gain
- (Examples: buying new machinery, constructing new buildings)

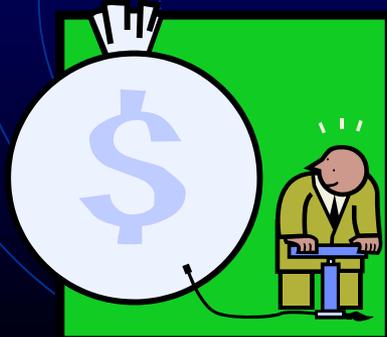


***Pure risk:* The possibility of loss to a business without any possibility of gain.**

- **Economic risks**
- **Natural risks**
- **Human risks**

***Economic risks:* Risks that result from changes in overall business conditions.**

- **Competition**
- **Changing consumer lifestyles**
- **Population changes**
- **Limited usefulness of products**
- **Inflation**
- **Product obsolescence**
- **Government regulation**
- **Recession**



***Natural risks:* Risks resulting from natural causes.**

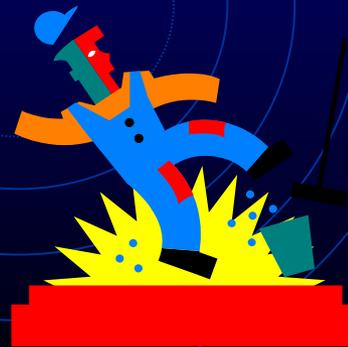
- **Floods**
 - **Earthquakes**
 - **Tornadoes**
 - **Hurricanes**
 - **Fires**
 - **Lightening**
 - **Droughts**
- **Unexpected changes in normal weather conditions**



Human risks: Risks caused by human errors as well as the unpredictability of customers, employees, or the work environment.



- Shoplifting
- Employee theft
- Burglary
- Robbery
- Computer crime
- Stolen credit cards and bad checks
- Accidents and injury



Methods of dealing with business risk

- Risk reduction
- Risk transfer
- Risk retention
- Emergency planning
- Avoidance

Risk reduction

- **Design work areas to reduce the chance of accident or fire.**
- **Educate employees on safe use of equipment**
- **Check and service safety equipment on a regular basis.**
- **Stress the limits of your company's products.**
- **Implement ways to reduce shoplifting.**
- **Control employee theft.**
- **Implement ways to reduce robbery.**

Risk transfer

- **Property insurance: Covers the loss of physical property (cash, inventory, vehicles, buildings).**
- **Real property: Buildings, land, and fixtures.**
- **Personal property: Vehicles, clothing, furniture, jewelry.**
- **Business interruption insurance: Makes up for lost income if a business is shut down for repairs or rebuilding.**



Risk transfer

- **Casualty insurance:** Protects a business from lawsuits.
- **Errors-and-omissions insurance:** Protects businesses from lawsuits resulting from mistakes in advertising.
- **Product liability insurance:** Protects manufacturers from claims for injuries that result from using their products.
- **Fidelity bonds:** Protect companies from employee theft.
- **Performance bonds:** Protect a business if work is not finished on time or as agreed.

Risk transfer

Life insurance: Pays a business in the event of the insured person's death.



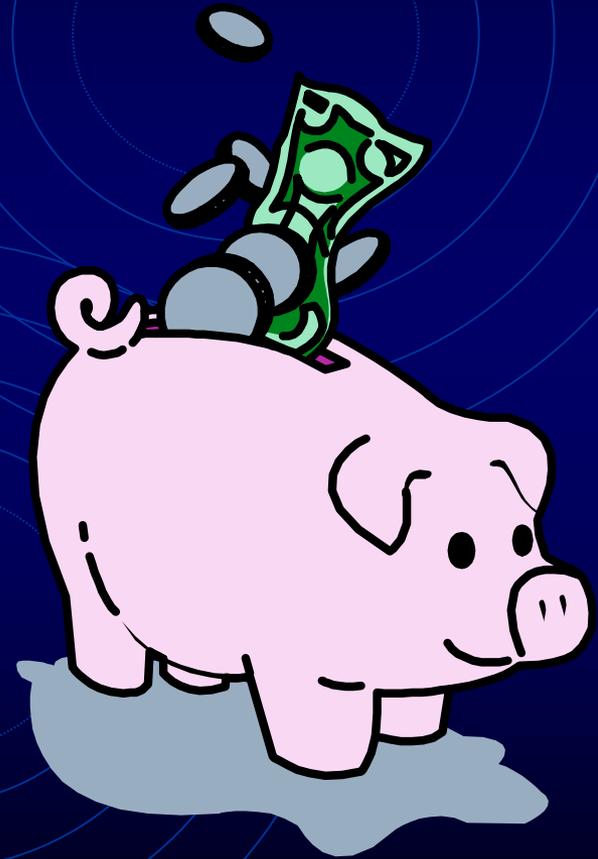
Risk transfer

Workers' Compensation: A government-regulated program that provides medical benefits and income to employees who are injured on the job.



Risk retention

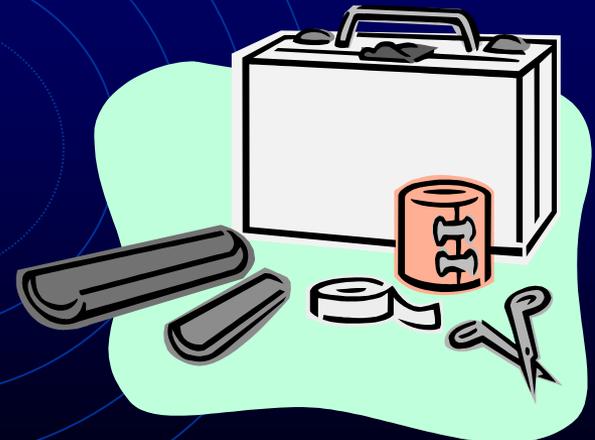
- **Self-insurance against business loss**
- **The business must set aside money each month to help cover the costs should a loss occur.**



Emergency planning



- **Businesses must have procedures in place before a crisis occurs.**
- **Businesses must create emergency response plans to handle emergency situations.**



Avoidance

- **Staying away from things altogether**
- **Do not offer certain products**
- **Assurance of nothing happening by eliminating all possibilities of a risk**
- **Examples – Do not open the store**