5 business risks every business should plan for: Part 2

Risk is often used as a blanket term when describing decisions made under various levels of uncertainty. But keeping the concept of risk so broad doesn't do you or your business any favors when trying to navigate and make decisions. Instead, you want to understand the type of risk you are taking and how it can affect your business.

Here are the different types of risk you can expect to face as a business owner:

1. Market risk, also known as systemic risk, refers to the risk of loss due to fluctuations in the market. To mitigate this risk, an entrepreneur should develop and implement various strategies that inform you of potential changes or disruptions.

Known as a market analysis, it's a process that allows you to explore potential opportunities, challenges, and preferences. The end result should help you better understand your audience, the available market, and if you need to pivot the focus of your product or service.

2. Competitive risk refers to the chance that direct or indirect competition impacts the revenue or margins of your business. This is often due to competitive advantages in product specifications, price, or marketing strategy.

This type of risk is higher for startups since they usually face competition with companies that have established their presence in the market several years prior. An entrepreneur can minimize this risk by conducting a SWOT analysis and come up with strategies to counter their competitors.

3. Credibility risk refers to the risk that an entrepreneur faces when putting out a new product or service in the market. The credibility of a brand name helps greatly in establishing a business and can influence the purchasing decisions of potential customers.

According to a study, approximately 59 percent of consumers prefer to buy new products from brands that they are familiar with, and 21 percent report they bought a new product because it was from a brand they like.

To mitigate credibility risk, there are several strategies to consider. These include building a professional online presence via your business's website and social media accounts, focusing on quality products and services, and avoiding questionable business deals.

4. Technology risk refers to the risk of losses that business owners face due to technology failures. For example, lost revenue due to the crash of your eCommerce website, a security breach resulting in the theft of customer data, or failing to transition employees to working remotely due to a lack of available tools.

The best way to minimize this risk is to invest in up-to-date technology that is both affordable and reliable. Regular maintenance and security checks should be done to ensure that everything is running smoothly and all customer data is protected. Additionally, being sure to listen to your employee's needs and how a lack of tools or resources is leading to issues or failures can help you avoid unnecessary problems.

5. Financial risk refers to the risk that the company's cash flow will not be sufficient to meet its financial obligations. This is easily the biggest concern for most business owners as cash flow defines the health and stability of your business.

This risk isn't just limited to a lack of sales or higher operational costs, it also includes your funding sources. You'll need to be careful when selecting investors and determine if the rate of return and stake in your business is reasonable for the amount of funding.

You'll need to actively manage, adjust, and forecast your financial risk as this will be the most direct and consistent risk for your business.

How to better manage risk as an entrepreneur:

Taking risks is closely linked with entrepreneurship. You may be leaving a steady-paying job, risking your reputation with new products, and adding financial risk with a loan or investment. On top of that, there are risks involved in hiring employees, marketing strategies, and even customer service.

Instead of being discouraged or aimlessly moving forward, you can instead work as a calculated risk-taker, who carefully takes steps toward your goals. Risk is inevitable, but by understanding that you can find ways to reduce unnecessary risk in your business and develop a risk management plan. This ongoing guide will differ for every business and is meant to be adjusted and improved over time.

Here are some potential steps to include to get you started on your own plan.

Identify risk Proactively observe and weigh the potential risks that you don't have control over.

Action steps

Have 2-3 immediate actions you can take to mitigate different types of risks. If it's something unexpected, such as a market crisis or equipment failure, this could potentially save your business time and money in the short term.

Employee responsibility Give your employees an active role in identifying, managing, and mitigating risk. The more prepared they are the more likely your pre-defined actions will be executed successfully.

Document the risk Keep written documentation for how to deal with different types of risk and how effective the plan was when those risks occurred.