Objectives

• To understand what risk means in a business context
• To learn how to manage risks
Which of these is a risk?

- Throwing $100 into the sea
- Investing $100 in stocks
Which of these is a risk?

**NOT a Risk**

You **know** that you will lose the $100.

**RISK**

You **don’t know** whether your shares will be worth more or less (if anything) tomorrow.
Risk Is...

Anything that has an uncertain outcome.

Assumptions in your plan = Risks
Risk Can Make Us Uncomfortable
You should expect risk in business...

“Wherever there is danger, there lurks opportunity; whenever there is opportunity, there lurks danger. The two are inseparable. They go together”

- Earl Nightingale

“If you’re not making mistakes, you’re not taking risks, and that means you’re not going anywhere. The key is to make mistakes faster than the competition, so you have more chances to learn and to win”

- John W. Holt
…But don’t be stupid
Identifying Risks in Your Plan

• What parts of your venture plan are known facts?
• Everything else is a risk (The Assumptions).
  – Your sales plan states that a distributor will sell your product for 15% of sales. Are you SURE?
  – You think you can sell 5 units/sales rep/month. How sure are you? 85%? 10%?
  – You believe the product will cost you $XXX. Are you certain? Will it cost this in 2012? 2013?
  – What else might change when you go to market?
Weighing Risks

• Once you’ve identified your risks / assumptions,
  – Put a value on how confident you are that those items are true. What facts or observations are they based on, if any?
  – How much will it impact the business if you’re wrong? (Cost, Strategy, Operations, etc.)
  – What will you do if you’re wrong? (Mitigation Plan)
  – How much will that Mitigation Plan cost?

• Don’t worry about being exact; just make your best guess
Lessons From A Lemonade Stand

Did you ever have a refreshment stand or other small business when you were a kid? What would you do differently?
# Lessons From A Lemonade Stand

<table>
<thead>
<tr>
<th>Sales Plan Assumption</th>
<th>Confidence</th>
<th>How to test?</th>
<th>Mitigation Plan</th>
<th>Cost of Mitigation</th>
<th>Risk Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least 20% of people like lemonade</td>
<td>70%</td>
<td>Week 1, have multiple products and survey</td>
<td>Sell other products too. Or.. Be incredibly cute so they buy anyway.</td>
<td>$5</td>
<td>5</td>
</tr>
<tr>
<td>At least 200 people/hr travel by my stand</td>
<td>10%</td>
<td>Count traffic for a week.</td>
<td>Move stand to another location</td>
<td>None, nuisance</td>
<td>2</td>
</tr>
<tr>
<td>At least 10% will be thirsty enough to buy</td>
<td>10%</td>
<td>Note Temp and volumes. See what people buy</td>
<td>Sell other products too. Sell on hot days only. If can’t sell anything, no business.</td>
<td>TBD Could be high</td>
<td>1</td>
</tr>
<tr>
<td>I won’t have competitors</td>
<td>85%</td>
<td>Determine how hard to enter</td>
<td>Intellectual Property, Partnerships, loyalty programs, etc.</td>
<td>Could be High</td>
<td>3</td>
</tr>
<tr>
<td>I can sell drink for $1/cup</td>
<td>50%</td>
<td>Test sell for a few hours</td>
<td>Lower price or sell other products, or get creative on straw/presentation, etc. (i.e., add other value)</td>
<td>Could be high</td>
<td>4</td>
</tr>
<tr>
<td>I can continue to produce lemonade for less than $1/cup</td>
<td>60%</td>
<td>Investigate historical price fluctuations for key ingredients.</td>
<td>Plan to purchase ingredients at times of low demand. Sign contracts to lock in prices.</td>
<td>Ties up capital in inventory</td>
<td>6</td>
</tr>
<tr>
<td>I don’t need a permit</td>
<td>20%</td>
<td>Ask the County</td>
<td>Get a permit</td>
<td>Varies, but cost is high if arrested!</td>
<td>7</td>
</tr>
</tbody>
</table>
Big Risk

• A Big Risk is an Assumption with low confidence that has a high business cost if you’re wrong.
Addressing Risk In Your Plan

• Include the Big Risks in your Risks & Assumptions section -- big assumptions, with potential high cost to your business

• Don’t worry about the little risks. Those you will take care of as you manage the day to day aspects of the business. That’s what we do all day long in our jobs!!!
Take a Look at Your Canvas

Which of these blocks is your business model most dependent on?

Source: Business Model Generation, written by Alexander Osterwalder, Yves Pigneur et al.
Risk in Your Value Proposition

• Your business is centered around your Value Proposition. If it is not sound, your entire business model won’t work.

• How certain are you that you have identified the problem correctly?
  – Does your target market see it as a problem?

• Is your solution technically, culturally, socially viable?

• Is your solution worthwhile? Are people willing to pay for it?
Other Possible Risk Areas

<table>
<thead>
<tr>
<th>Area</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Relationships</strong></td>
<td>• As outsiders, can you build trust with your target market so that they will buy from you? Does your model rely on them making repeat purchases?</td>
</tr>
<tr>
<td><strong>Key Resources</strong></td>
<td>• Is your plan dependent on a new technology? Are you sure it will work and it will be accepted?</td>
</tr>
<tr>
<td><strong>Channels</strong></td>
<td>• Will you be using an existing channel? How do you know you can get in?</td>
</tr>
<tr>
<td></td>
<td>• If you are using a new channel, will people be open to using it?</td>
</tr>
<tr>
<td><strong>Key Partners</strong></td>
<td>• Does your plan depend on a relationship with an NGO, another business, or government? How established is it?</td>
</tr>
<tr>
<td><strong>Revenue Streams</strong></td>
<td>• Are your customers willing to pay for your solution? Are they able to pay what you are asking?</td>
</tr>
</tbody>
</table>

This list is by no means exhaustive, but is meant to start you thinking about where there may be risks in your plan.
Example: Risk in Your Plan

Let’s say success of your plan rests on selling 100 water filters per year. You’re not positive you can sell that many. Don’t ignore it! That’s irresponsible and unfair to someone who might want to invest in you. And it reflects poorly on you if you ignore it. A good manager or investor will ask you about it: “How do you know that people will buy this?”

What do you do?
First, Don’t Panic

People seldom have a complete plan. That would take too long. But you have done a lot of research.
State Your Lack of Data As A Risk

• “We spoke in depth to a small number of potential consumers, who said they would buy the product. In order to sell 300 filters, 10% of the households in our village would need to purchase, but we don’t know how many actually would.”

• Investors and managers expect to see that you have identified risks. It shows that you have been thinking ahead.
“It is our recommendation that prior to launching the sales channel or signing up distributors, we demonstrate the product at the market to gather further feedback on functionality and price.

“We will allow 30 households to try the product free for a month. If at least 5 of the households wish to purchase at the end of the month, we will move forward.”
“Validating this important assumption will cost $2000. $1500 will go towards products, and the other will go towards the cost of the demonstrations.”
State the Impact on Your Plan

- “The acceptance rate of at least 10% is key to business success. At 7%, with these financial projections, we will just be breaking even.”

- Now, repeat for the other Big Risks
The Unknown

• Some things are impossible to predict now
  – Will your raw materials source suddenly dry up?
  – Will an NGO start giving away similar filters in your area?

• But you can keep an eye on them, and in some cases, try to influence to tip one way or the other……
  – SO: If your primary supplier becomes too expensive, find another one.

• Can you think of some examples for your business, that you CAN’T know right now? How will you track them so you can know as soon as possible?
Summary: Risk Management

1. Identify Big Risks

2. Set up a plan to monitor the risks
   - What do you need to know?
   - How will you learn this information?
   - What’s the earliest you can get the information?
   - How much will it cost to gather the information?

3. Look into alternatives solutions to your biggest risk factors

4. Decide at what point you will stop going forward