

# THE MANAGEMENT FILE

## TOP 10 THREATS TO SMALL BUSINESSES

Insight for business owners and risk managers provided by Tooher Ferraris Insurance Group



Optimism is the fuel that drives the entrepreneurial spirit, so it isn't surprising that most small business owners consider themselves optimists. Too much optimism, however, can get a small business owner into trouble. A business plan built solely on the "best case scenario" is like a house of cards, one gust of wind—or fire or wrongful termination lawsuit—and the entire business can come crashing down. That's why smart business owners temper their innate optimism with a healthy dose of reality. In other words, they learn to manage risk.

The first step in implementing a comprehensive risk management plan is identifying potential risks. To help you get started, we have provided a list of the top 10 threats facing small business owners. As you read through the list, consider the unique risks facing your business and ask yourself whether those risks are being managed effectively:

### 1. Protecting your Property

Property holdings are often a small business owner's largest asset. Therefore, for the long-term security of your small business, it is vital that you evaluate potential threats to your property and develop a plan to manage those threats. Begin by taking a complete inventory of all your assets to determine how a loss might affect your business and how much coverage you need. Property coverage can come in many forms to suit your specific needs, but a typical policy will provide the replacement cost value for your building and the actual cash value for your business property.

You have a lot weighing on your budget already, but don't make the mistake of planning for the "best case scenario" when it comes to your property coverage. Leaving your small business underinsured is a risk too great to take.

### 2. Business Interruption

The U.S. Department of Labor estimates that more than 40 percent of businesses never reopen following a disaster such as a fire or flood. Is your business prepared to weather the storm if disaster strikes? If a fire causes the ABC Company facility to be temporarily unusable, what would you do? Ideally, you would move to a temporary location while your permanent place of business is being repaired, but traditional Property Insurance does not cover this move or the loss of income while the permanent business location is being repaired. Ill-prepared businesses are often forced to completely shut down operations during repair, which can do irreparable damage to their brand and leave employees without work for extended periods of time. To mitigate this risk, consider adding Business Interruption coverage to your Property Insurance policy. This invaluable, though often overlooked, coverage safeguards your business by covering operating expenses and lost income while the permanent business location is being repaired. This will allow you to maintain payroll and, if needed, reallocate current employees to help with the cleanup effort.

### 3. Liability Losses

No matter how well you plan, running a small business can be fraught with unexpected surprises—the only way to completely avoid liability is to shutter your business. Smart business owners do the next best thing: protect their assets by carrying adequate Commercial General Liability (CGL) Insurance coverage. CGL policies provide coverage for claims of bodily injury or other physical injury, personal injury (libel or slander), advertising injury and property damage as a result of your products, premises or operations. A CGL policy with adequate coverage limits enables you to continue normal operations while dealing with real or fraudulent claims of negligence or wrongdoing, and also provides coverage for the cost of defending and settling claims.

#### 4. Key Person Losses

Many small businesses are built around the talents and expertise of a few individuals. If an employee crucial to the functioning of your business departs unexpectedly due to death or injury, would day-to-day operations continue as usual or would disorder and uncertainty ensue? Would you be able to maintain your current level of performance and current revenue stream? How would you cover for the financial loss of the employee or pay for a temporary replacement during his or her recovery? Key Person Insurance can help you answer these questions with confidence. This coverage is designed to provide financial stability in a time of stress and uncertainty, allowing you to keep your business moving forward without missing a beat.

#### 5. Injuries to Employees

Small business owners, especially those with less than 10 employees, often struggle with understanding their employee health and safety obligations. Just like their larger counterparts, small businesses have the same responsibility to indemnify workers who are injured or become ill during the course of their employment. Many businesses do not realize the full effect workplace accidents have on their organization. Beyond initial treatment costs and lost production time, on-the-job injuries have an impact on insurance premiums, which can increase your costs for years to come. Thankfully, by managing exposures and promoting safety, it is possible to control workers' compensation premiums. Having the proper pre- and post-accident procedures in place can drastically reduce the severity of a workers' compensation claim, and implementing a comprehensive safety program can reduce the accident rate. Together, these two steps can produce tremendous long-term savings.

#### 6. Managing Electronic Data and Computer Resources

Small businesses often lack a formal IT department or even rudimentary internet security measures, which leaves them vulnerable to unscrupulous cybercriminals

searching for an easy target. With an estimated liability of more than \$200 per compromised record—multiplied by hundreds or thousands of customer records—the cost of a single data breach incident can be devastating for a small business. If your business stores customer records electronically, it is crucial that you have robust security measures in place. In addition to taking preventative measure to reduce Internet-based exposures, specialized technology coverage, such as Cyber Liability Insurance, can help protect your business against damage from cyber attacks, data breaches and other Internet-based exposures.

#### 7. Environmental Exposures

Think of a business with significant environmental exposures. What comes to mind? Most people think of a large manufacturing, mining or petroleum operation, but these are not the only industries at risk for environmental liability losses. It is important to perform a comprehensive risk analysis to determine your own level of exposure. Keep in mind that because most commercial insurance policies contain pollution exclusions, unless you carry Environmental Insurance, you may be uninsured against significant environmental loss exposures.

#### 8. Employment Practices

From the moment you begin the pre-hiring process until the final goodbyes at the exit interview, you are at risk for a lawsuit. In fact, three out of five employers will be sued by a prospective, current or former employee while they are in business. Although many lawsuits are groundless, defending against them is costly and time-consuming. Your business should take a hard look at whether it can afford to defend itself against accusations of wrongful employment practices. If not, there is an insurance solution called Employment Practices Liability that will protect your company against wrongful termination, discrimination (e.g., age, sex, race, disability) or sexual harassment lawsuits.

## 9. Contracts

When first starting out, many new business owners simply don't have the time or expertise to adequately evaluate each clause in everything they're signing. This oversight, however, can create major problems down the road. In many cases, small businesses become saddled with large additional risks, accepted via risk transfer from savvy suppliers or customers. While it's tempting to shave costs by skimping on legal fees, making sure your business isn't accepting additional and unnecessary risk can save you a lot of money over the long haul, both in legal costs and in insurance coverages.

## 10. Manage Your Supply Chain

Do you rely on one or more third-party suppliers to produce certain components used in your products? If you do, a disaster that interrupts your supplier's regular business operations could have a crippling effect on your production abilities. Although you should always try to minimize potential liability through contingency planning and other risk management techniques, as supply chains grow across the globe, sometimes there is little you can do about the exposures faced by your suppliers. In a perfect world you could simply avoid doing business with companies that present numerous risks or that are unwilling to conform to your standards, but pricing constraints and niche markets limit the number of potential suppliers to choose from. Supply chain insurance is meant to cover losses you incur as a result of an interruption to your supply chain. Such coverage allows you to work confidently with suppliers who face exposures beyond your control.

Insurance is a key component of any comprehensive risk management plan, but successful risk management also involves prevention, training and contingency planning.

Contact Toohar Ferraris Insurance Group at 203.834.5900 to learn more about the tools and resources we can offer to help you manage risks, control workers' compensation costs, advance safety and boost employee morale.