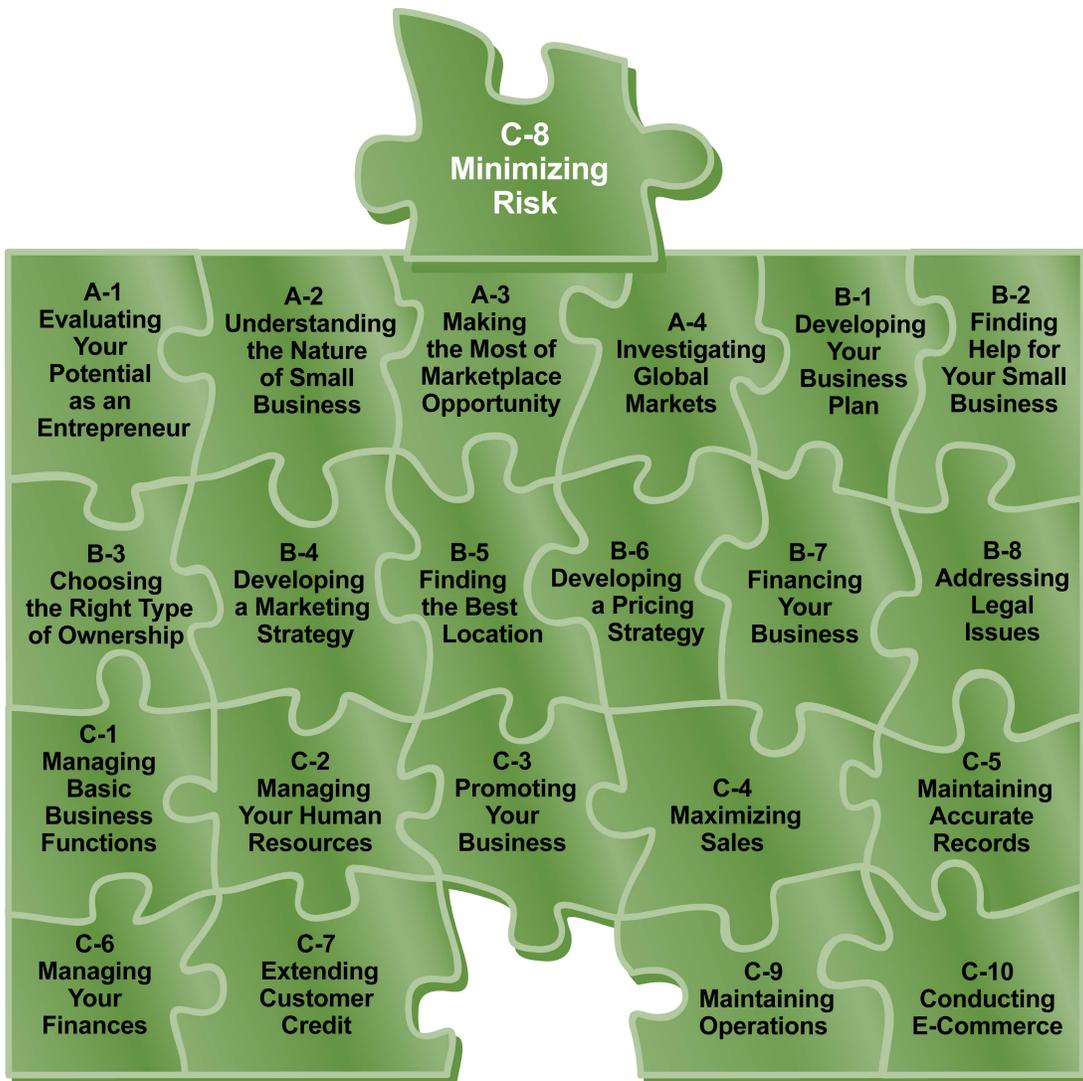


PACE

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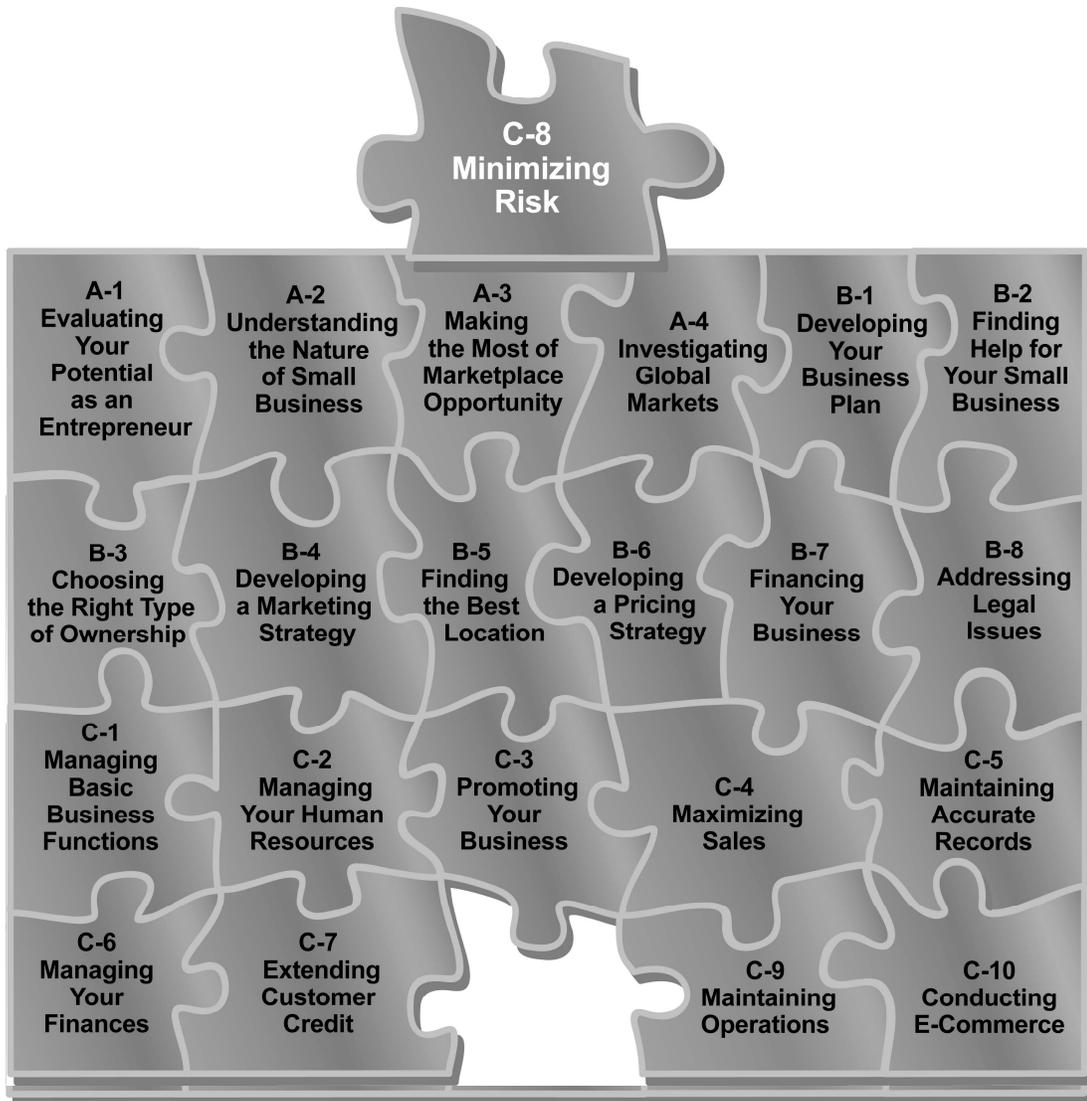
Program for Acquiring Competence in Entrepreneurship



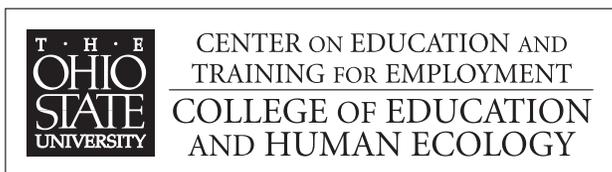
PACE

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Foreword

I am pleased to introduce you to the Fourth Edition of the Program for Acquiring Competence in Entrepreneurship (PACE). PACE represents our continuing effort to respond to the needs of the education and business communities. At no other time in history has understanding entrepreneurship been as important. For one thing, promoting entrepreneurship carries the societal imperative as small businesses as a whole contribute much to the growth and renewal of regional and national economies.

When first published in the late 1980s, PACE properly emphasized that entrepreneurship was based as much on sound planning as having products and services that were responsive to the marketplace. Through its various revisions, PACE continued to focus on the general importance of planning and managing the startup of a small business.

The current PACE edition represents a necessary break from past versions in both its format and some content. For one thing, the text format has been substantially changed from paragraphs to a series of related sections with subheadings. This change allows readers to have greater accessibility to the information, whether it is delivered via a printed booklet or a technology-based approach. And the format allows the instructor/facilitator to have greater flexibility in selecting content to accommodate the needs of various audiences and settings.

In terms of the content, PACE continues to emphasize the importance of planning and managing of a small business. But it now includes a renewed emphasis on meeting customer expectations. Any business cannot exist without a comprehensive understanding of who receives its products or services. In this sense, PACE introduces the topic of conducting e-commerce. Until recently, the entrepreneurial horizon may have been limited to serving local customers only. The advent of the Internet offers the promise of serving many more customers, but not without the accompanying challenges.

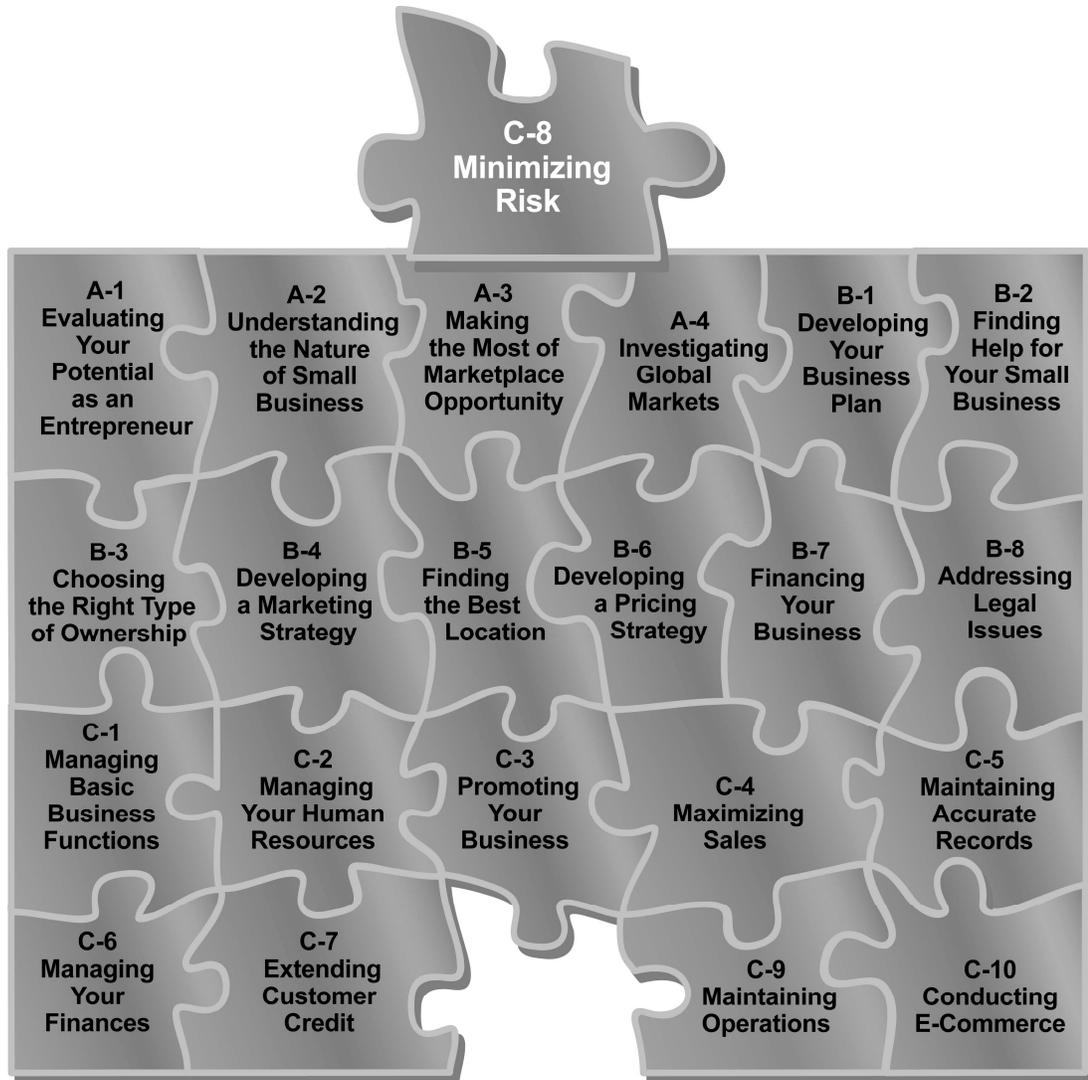
This edition was supported in part by a grant from OSU Extension and in partnership with OSU South Centers – Piketon. We hope that PACE will provide you with the understandings necessary to help you to achieve your entrepreneurship goals.

Ronald L. Jacobs
Director
Center on Education and Training for Employment

Overview

Introduction

Risk is the possibility of damage, injury, or loss to your business. It is especially threatening to small companies because they are less able to absorb loss. As an entrepreneur, you are wise to recognize the potential risks you face and prepare effective strategies to deal with them.



Continued on next page

Overview, Continued

Rationale Risk is an inherent part of the business world. Small business owners must protect their businesses against crime and other events that could harm their financial well being.

Objectives By the conclusion of this module, you will be able to:

- Describe the basics of risk management including:
 - the sources of risk
 - the types of risk
 - the role of the risk manager
 - methods of managing risk
 - identifying risk.
- Explain the types of loss through crime including:
 - shoplifting
 - bad checks
 - counterfeit currency
 - robbery and burglary
 - vendor theft
 - internal theft
 - accidents and lawsuits.
- Define insurance coverage including:
 - the types and their applicability
 - developing a sound program
 - choosing an agent.
- State the factors that impact the amount of premiums.

Continued on next page

Overview, Continued

**Relevant
NCSEE
standards**

This module aligns with the following National Contents Standards for Entrepreneurship Education (NCSEE):

- N.12 Establish parameters for staff responsibility/authority.
- N.09 Develop security policies and procedures.
- N.05 Determine business's liabilities.
- N.06 Explain ways to transfer risk.
- N.02 Determine ways that small businesses protect themselves against loss.
- N.03 Establish controls to prevent embezzlement/theft.
- N.01 Describe types of business risk.

More information on the NCSEE is available at: http://www.entre-ed.org/Standards_Toolkit.

Topics

The topics in this module are:

Topic	See Page
Risk Management Basics	4
Shoplifting	7
Bad Checks	9
Counterfeit Currency	12
Robbery and Burglary	13
Vendor Theft	16
Internal Theft	17
Accidents and Lawsuits	20
Insurance Coverage	22
Insurance Premiums	25

Exhibits

There are no exhibits in this module.

**Before you
begin**

After reviewing the above objectives for this module, determine whether you can already meet those objectives and consult your instructor if you can.

Risk Management Basics

Introduction Risk management is avoiding or reducing the likelihood of loss and minimizing the impact of loss when it does occur through implementation of loss protection policy and procedures.

Sources of risk Managing risk involves more than just installing sturdy locks on your doors and security cameras on the premises. It requires protecting your business against loss resulting from:

- natural disasters such as fire and flooding
 - lawsuits by customers, employees, and others
 - crimes such as shoplifting, bad checks, and theft.
-

Types of risk There are two primary types of risk that you face as an entrepreneur.

Speculative risk – Speculative risk is uncertainty as to whether an activity will result in a gain or loss. It is unavoidable and inherent in the private enterprise system. You have to plan carefully to deal with speculative risk, and adjust to the ever-changing marketplace.

Example: When you decide to build a service center in a new market, you take the chance that it will result in low levels of customer interest.

Pure risk – Pure risk is uncertainty as to whether some unpredictable event might result in a loss. It can result **ONLY** in loss, never in any kind of gain.

Examples: Pure risk consists of hazards such as fire, flooding, death of a partner, or customer injury.

Continued on next page

Risk Management Basics, Continued

Managing risk **Risk manager** – An entrepreneur often assumes the role of risk manager. Although you cannot become an expert in every facet of risk management, you can design a plan to protect your business based on the risks you can identify. Control risk with careful planning that addresses the factors below.

- Analyze current and future economic and market conditions. Your business faces certain risks due to changes that you cannot control. Evaluate the conditions that you can identify (unemployment rates, trends, competition, etc.) and base your business decisions on this assessment.

Example: Fashion changes every season. The style of jeans that were big sellers last year will lay on the shelves the next. And if they're of an expensive variety, sales depend on how well the economy is doing and the amount of disposable income the customer has to spend.

- Consider the consequences of alternative actions. If you have more than one choice for handling risk, think about the consequences of each and select the one that promises the greatest return at the lowest risk.

Example: You can reduce the risk of loss from accepting bad checks by not accepting them at all. But if you choose to do so, you also risk losing business from customers who only pay by check.

- Respond to conditions as they develop and change. Advance planning is valuable, but the small business owner must be flexible enough to adapt to unforeseen circumstances. Revise your risk management plan as needed.

Methods – The most effective methods for controlling risk are:

Method	Description
Avoidance	<p>Abandoning or refusing to accept an activity in which the risk seems too costly. But avoiding one risk may result in loss of a different kind.</p> <p><u>Example:</u> You may decide not to accept checks because of the risk of receiving bad checks. But if you adopt that policy, you may lose business.</p>
Reduction	<p>Using various means to reduce the probability that a given event will occur. The primary control technique is prevention.</p> <p><u>Example:</u> Train service technicians in safe driving practices to avoid the likelihood of traffic accidents while en route to a service appointment.</p>

Continued on next page

Risk Management Basics, Continued

Managing risk (continued) **Methods** – The most effective methods for controlling risk are:

Method	Description
Transfer	Shifting the consequences of a risk to persons or organizations outside your company. The best-known risk transfer device is acquiring insurance.
Assumption	Choosing to assume the risk when loss will not be too costly. Determine the amount of loss, and absorb the loss if it doesn't exceed one tenth of one percent of your annual revenue for any single loss and one percent of revenues for all such losses in a year.

Identifying risks To be most effective, engage in risk management activity on a continuous basis. Frequent review of the risks your business faces lays the groundwork for a sound risk management program. You will find the following tasks helpful in identifying risks that might threaten your business:

Risky business practices – Walk through your physical facility and consult with key personnel to identify any unsafe practices. When you discover an issue, involve employees in the development of a risk management strategy.

Insurance – Review your financial statements to determine which assets to insure. Assess your insurance policies to make sure that you adequately cover, but don't over-insure, your company resources.

Review of the plan – Evaluate your risk management plan on a regular basis. Revise your policy and procedures as necessary.

Loss through crime Small business profits are substantially reduced by crime. You face loss from sources both within and outside your company. Decrease the likelihood of loss through crime by developing crime prevention programs to prevent:

- shoplifting
- bad checks
- counterfeit currency
- robbery and burglary
- vendor theft
- internal theft and embezzlement
- accidents and lawsuits.

Shoplifting

Introduction

Shoplifting, or theft of merchandise by customers, is one of the most serious types of crimes facing retail businesses. Small businesses are especially vulnerable to shoplifting because they are less able to afford sophisticated protection devices and are more hesitant to prosecute the offender.

Common techniques

Although it can be difficult to totally prevent shoplifting, you can alert your staff to typical shoplifting methods. Perhaps your best deterrent against this crime is an alert employee, trained to look for shoplifters using the following techniques to steal merchandise:

- concealing the item in a handbag, shopping bag, closed umbrella, stroller, or even a box with a false bottom
 - hiding the merchandise in a coat folded over the arm or in clothing with large pockets
 - switching the price tag with one of a lesser priced item
 - walking out of the store with stolen clothing hidden under his or her own clothes after using the fitting room
 - one offender diverting the attention of store personnel while another steals
 - returning stolen merchandise for a refund after successfully getting it out of the store.
-

Prevention guidelines for shoplifting

Retail businesses have to protect themselves against shoplifting. Some techniques the prevent this type of loss are:

- Measure shrinkage by carefully managing store records and closely controlling your inventory in order to determine whether merchandise is disappearing from the store without payment. If a department experiences high shrinkage, take measures to identify the source and curb the theft.
 - Post highly visible signs stating that shoplifters will be prosecuted. Follow through when a crime is committed.
 - Keep unused checkout lanes closed and never leave an area unattended.
 - Display small, expensive items in enclosed, locked cases.
 - Assign an employee to closely watch fitting rooms and restrooms, and limit the number of items a customer may take into the fitting room.
-

Continued on next page

Shoplifting, Continued

Prevention guidelines for shoplifting (continued)

Retail businesses have to protect themselves against shoplifting. Some guidelines to prevent this type of loss are:

- Provide maximum visibility in all parts of the store. Place large convex mirrors in corners to allow your staff visibility in every aisle; use two-way mirrors where appropriate; and operate closed circuit TV when possible.
 - Maintain a sufficient number of salespeople on the floor at all times. Provide fast customer service to deter shoplifting.
 - Mark merchandise with electronic pricing tags that cannot be removed by customers and that trigger an alarm when taken through the doors.
 - Install a warning system or code to alert employees when the presence of a shoplifter is suspected.
-

Apprehending shoplifters

Consult your local police department to determine the law on confronting and detaining shoplifters. Some basic guidelines apply to apprehending shoplifters including:

- Apprehension outside the store strengthens your case for shoplifting.
 - Never touch suspected shoplifters because you could be accused of assault.
 - It may be better not to confront the suspected shoplifter, but rather to call your manager or the police. While keeping an eye on the individual, gather the following data:
 - which merchandise was stolen
 - from where it was taken
 - how it was concealed.
-

Bad Checks

Introduction Most businesses accept payment by check. If you do, the risk exists that you'll receive bad checks. You can reduce loss from bad checks by implementing step-by-step procedures for accepting checks designed to fit the specific needs of your store and customers.

No check policy You can choose to avoid potential loss from bad checks by not accepting any checks as payment for your goods or services. If you decide to do so, you may lose a certain percentage of your customer base that only pay by check.

Check cashing guidelines Enforce check cashing guidelines to ensure that you only accept good checks. Include guidelines such as:

- Employees should examine the parts of the check closely. Look for signs that it's not good including:
 - rubber stamping of the customer name
 - poor spacing
 - erasures
 - illegible signature.
- Confirm that the check is dated with the current month, day, and year. Never accept a post-dated check.
- Do not accept a check over 30 days old or one that's not dated.
- Make sure that the numbers in the amount of the check matches the numbers written out.
- Ask for identification from the customer presenting the check. Valid forms of ID include a valid driver's license and major credit cards. It's acceptable to ask for two forms of ID – driver's license for a picture ID and a major credit card.
- Compare the check against the list of bad checks you've received in the past.

Continued on next page

Bad Checks, Continued

Additional decisions

You should also develop policies to address the specific areas below.

Amount of checks accepted – Decide whether to cash checks for more than the amount of purchase. If you permit this practice, set a limit on the amount allowable.

Types of checks cashed – Another decision is whether to cash payroll, social security, and similar kinds of checks. If you cash the wide array of checks in circulation, you will establish a solid group of return customers, but you also expose your business to greater risk of loss.

Persecution of bad check passers – You need to establish a policy for prosecuting the individuals passing bad checks. Think about the most appropriate course of action such as:

- notifying law enforcement
 - filing a complaint
 - taking court action when the person is caught.
-

Sources of bad checks

Bad checks can result from a wide range of sources like a careless mistake in checkbook balancing to deliberate forgery. It takes only a few bad checks each month to turn a profitable business sour.

Collection efforts

Contacting customers – Careless customers who don't keep their checkbooks balanced present you with a special problem. If you accept such a bad check, the bank returns it marked "NSF" for non-sufficient funds. Unlike fraudulent checks, you can collect on NSF checks by calling the customer to make it good.

Note: Most businesses charge a fee for handling NSF checks.

Collection agencies – Some businesses turn bad checks over to a collection agency. The related fee is a drain on your budget, but it may be worth it since collection agencies are expert at handling these difficult situations.

Continued on next page

Bad Checks, Continued

Equipment

Equipment is available to help deter accepting bad checks. To investigate the equipment available for protection against bad checks, look in the Yellow Pages or talk to neighboring businesses about what they do. Some of this equipment is explained below.

Database of bad checks – You can utilize a computerized cash register that compares the checking account number on the check to a database of bad checks accepted in the past. This system is limited to people who've already passed a bad check in the store.

Check verification – You can subscribe to a check verification service. You notify the service electronically of the checking account number on the check or the customer's driver's license number. Within seconds, the service notifies you whether the customer has a history of passing bad checks.

Fingerprinting – Although some businesses have installed fingerprinting equipment that places a customer's thumb print on the back of the check, other businesses are hesitant to do so. They think they might turn off customers who would consider this practice offensive.

Photography – Some businesses have installed photographic equipment to take a picture of the customer cashing the check.

Counterfeit Currency

Introduction

Each year millions of dollars worth of counterfeit currency is seized by the Secret Service – most commonly tens and twenties. Although large metropolitan areas are the major bases for counterfeit operations because of the greater number of potential victims, small towns are vulnerable as well; no business is exempt.

Evaluation

When you suspect that a counterfeit bill may have been given to you, evaluate it according to the factors below.

Portraits – Compare the suspect bill with a genuine one of the same denomination. Portraits on real currency are lifelike and have distinct hairlines. On bad bills, they're darker and less distinct.

Paper – The paper on which a good bill is printed is distinctive with visible, interspersed red and blue fibers. Bad bills are usually printed on bond paper with no colored fibers or with red and blue lines printed on the paper.

Dollar amounts – Make sure that the dollar amount on the bill corresponds with the proper portrait.

Pens – Swipe bills with pens designed to detect counterfeits.

Counterfeit currency guidelines

Enforce counterfeit currency guidelines to ensure that you only accept good bills. Include guidelines such as:

- If you suspect that a customer is attempting to pass a bad bill, instruct the employee to delay the customer and notify the police.
 - If the suspected passer of counterfeit currency leaves, write down his or her description. Notice his or her height, weight, coloring, and any other distinctive features, such as speaking with an accent or tattoos.
 - Ask the employee to write his or her initials and the date of the incident on the suspect bill. Otherwise, don't allow the currency to be handled any more than necessary in order to preserve any fingerprints.
 - Place the bill in a protective cover and surrender it only to the authorities when they arrive.
-

Robbery and Burglary

Introduction

Although robbery and burglary account for a small percentage of business loss, this crime is still a danger to the small business owner. When a robbery or burglary occurs, the loss can be substantial not only to physical property but to personal health as well.

Robbery vs. burglary

Robbery is stealing from a person by violence or threat.

Burglary is breaking into a building with the intent of stealing.

Highly vulnerable businesses

Some businesses are more vulnerable than others because of their location or the type of goods or services offered. Businesses particularly susceptible to robbery and burglary:

- are located in high-risk crime areas
 - maintain valuable inventories (jewelry or liquor)
 - keep large amounts of cash on hand
 - are open 24 hours a day or late into the night.
-

Prevention guidelines for robbery

Any vulnerable business has to protect itself against robbery. Some guidelines to prevent robbery are:

- Empty cash from your registers throughout the day. Cash registers crammed with bills make it easier to commit robbery. Keep cash onsite in a strong safe that's both fire and burglar resistant, and keep the safe locked at all times.
 - Make regular and frequent bank deposits. Many business owners perform this task during daylight hours when there's more traffic. Vary your hours and route for making bank deposits whenever possible, and don't carry the cash in obvious containers.
 - Contract with an armored car service for making bank deposits, if you can afford it.
-

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Robbery and Burglary, Continued

Prevention guidelines for robbery (continued)

Any vulnerable business has to protect itself against robbery. Some guidelines to prevent robbery are:

- Don't keep large amounts of cash in the building overnight. Make night deposit drops after closing.
- Keep lights on at the business at night, both inside and out. Lights not only deter crime, they also make it easier for police on patrol to spot robbers.
- Establish procedures for employees to follow during a robbery. Train employees to remain calm if confronted by a robber, and advise them to cooperate in every way, including handing over the cash and not provoking the robber to use a weapon.
- Install a silent alarm for employees to trigger if a robber confronts them.
- Post signs indicating that you have a security system in place. State that cashiers cannot open the safe and that only minimal amounts of cash are kept onsite.
- Install an electronic alarm system and surveillance cameras to both deter robbery and record any illegal activity that might occur. Also make it a point to announce this protective device on signs.

Prevention guidelines for burglary

Protecting your business against burglary begins with a physical inspection. Identify how a burglar might enter your facility, and then take action to correct the weak spots. Some guidelines to prevent burglary are:

- Secure all points of entry; install heavy locks on all doors and windows. Experts recommend a sturdy deadbolt (with as long a bolt as possible) and pin tumbler cylinder.

Note: You can ask a locksmith to inspect the premises and prescribe the safest locks for your business.

- Implement a sound key control plan. Issue keys to employees that have been stamped "Do Not Duplicate." Change the locks every time an employee leaves or quits without returning their keys.

Continued on next page

Robbery and Burglary, Continued

Prevention guidelines for burglary (continued)

Some guidelines to prevent burglary are:

- Carefully plan how to protect windows and the merchandise displayed in them. Some tips for making windows difficult for burglars to enter are:
 - Install tempered or laminated glass in display windows to make it harder for burglars to “smash and grab” merchandise displayed there.
 - Securely fasten iron screens, grills, or bars outside windows at night. You can remove them during the day so as not to detract from the merchandise on display, or hire an ironworker to design an attractive screen or grill to enhance the building while deterring criminals.
 - Protect transoms, skylights, ventilator shafts, air vents, and utility access covers with steel mesh screens or bars. Because they’re usually hidden from view, such entrances are inviting to burglars.
- Clear your grounds of overgrown shrubbery, especially near windows or entrances that might be safe places for burglars to hide.
- Lock up ladders, ropes, and tools that could help a burglar gain entry into your business. Never leave these items outside in plain view.
- Illuminate your building’s exterior and interior with lights. Since burglars work in the dark to conceal their illegal activity, keeping your business well lit will deter them while helping police identify suspicious persons.
- If your business is located in a high crime area, hire security guards who patrol inside or check the grounds at specific intervals.

Note: If this service is too expensive, consider pooling your resources with neighboring businesses to hire a security firm to patrol the area. Or you can also purchase or rent watchdogs that present an intruder with an immediate physical threat.

- Install an alarm system. Before spending a large sum of money, thoroughly investigate the systems on the market and consult with local law enforcement agencies or security specialists to choose the most effective one providing adequate coverage for the best price.
-

Vendor Theft

Introduction

In addition to theft from customers, businesses also face the risk of theft by vendors. Vendor theft occurs when delivery persons leave less than the number indicated on the delivery form that the receiver signs. The delivery person may take the items that he or she doesn't leave and use or sell them for profit.

Prevention guidelines for vendor theft

Enforce vendor theft guidelines to ensure that you receive the goods or services for which you pay. Include guidelines such as:

- Check all deliveries carefully. Assume nothing about the contents of the delivery.
 - Check to verify that the correct amount was delivered. Note any shortages or overages immediately, and ask the delivery person to sign the bill with the difference noted.
 - Designate a specific time and place for accepting deliveries. Most vendor theft occurs during peak business hours when the person receiving the delivery is rushed and cannot take the time for a physical count of the delivery.
 - Establish control of the delivery process. Establish consistent procedures for checking deliveries from vendors and make sure that employees follow them.
-

Internal Theft

Introduction

Unfortunately, small businesses can experience loss from internal theft, or theft committed by their own employees that substantially cuts their profits. One type of internal theft is embezzlement by trusted employees.

Reasons for internal theft

There are two general reasons why employees steal from their own company.

- To punish the employer for real or imagined grievances. This reason is based on feelings of boredom or being underpaid, underappreciated, underutilized, or not respected.

Solution: Take measures to reduce negative feelings toward the company. Respect each employee and openly recognize the value he or she adds to your business. Consider job enrichment activities that build mutual appreciation.

- To take advantage of a permissive view of what constitutes theft. Explain to employees what you consider as theft. Many of them don't consider simply taking home low-cost supplies like pens or stamps as theft. But they can be weakening your bottom line without even realizing it.

Solution: Define standards for honesty. Let employees know that you expect them to refrain from taking home supplies and other small items that they might consider harmless.

Types of internal theft

Internal theft occurs in many ways, often when employees handle money. Be aware of opportunities for dishonest employees to steal:

- petty cash
 - cash payments received in the mail
 - company funds by cashing checks for fictitious bills made out to non-existent vendors
 - supplies, equipment, or merchandise
 - in the form of kickbacks, split commissions, or deals with suppliers or customers
 - by ringing up merchandise for friends or relatives at less than the ticketed price.
-

Continued on next page

Internal Theft, Continued

Pre-hire activity

The first steps in preventing theft occur during the hiring process when you:

- carefully screen job applicants, checking their employment history and asking them to explain lapses between jobs
 - choose to use a lie detector to test the honesty of potential employees (expensive with questionable results)
 - conduct background checks. Consider bonding employees who have regular access to funds.
-

Prevention guidelines for internal theft

Control internal theft because over time you can experience substantial losses because of it. Some guidelines to prevent internal theft are:

- Set a good example for your employees.

Example: If you receive an overshipment, immediately return the excess or report it to the vendor.

- Audit accounting records on a regular basis. Hire a competent accountant from an outside agency if necessary.
 - Perform spot checks to ensure that cashiers are ringing up sales at the correct prices. Do not permit cashiers to ring up their own purchases.
 - Inspect trash receptacles to make sure that no merchandise is hidden in them for retrieval once placed outside.
 - Inspect employee packages and bags when they leave the premises.
 - Observe loading and unloading procedures for accuracy. Check to verify that you receive the proper number of items ordered and that outgoing shipments contain the correct amount of merchandise.
 - Perform spot checks of loading to make sure that no stolen goods are placed on the trucks.
-

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Internal Theft, Continued

**Prevention
guidelines for
internal theft
(continued)**

Control internal theft because over time you can experience substantial losses because of it. Some guidelines to prevent internal theft are:

- Do not allow employees to park in the receiving area. Shut and lock the receiving door when not in use. You can also install alarms that ring each time the door is opened.
 - Utilize the same devices used for shoplifting to detect theft by employees if appropriate – convex mirrors, two-way mirrors, and closed circuit TV.
-

Accidents and Lawsuits

Introduction In addition to crime prevention, business owners are charged with the responsibility of protecting their firms from potential lawsuits from customers or other individuals.

Avoiding accidents Do everything within reason to keep your customers, employees, and vendors safe. Court decisions have gone against business owners when it was proven that a dangerous condition existed that employees or managers should've spotted during routine inspection.

Reasons for lawsuits The most common liability claim against businesses is for falls. Injuries related to falls in your facility will most likely be caused by:

- customers and employees tracking in water and mud
 - slippery floors after waxing or mopping
 - cluttered aisles caused by restocking
 - unmarked changes in floor levels.
-

Prevention guidelines for falls Follow the guidelines below to help prevent falls from occurring at your place of business.

- Keep floors dry. Quickly mop up water tracked in, put up “Caution/Wet Floor” signs, and put down non-skid mats at entrances. Be aware of potential tripping hazards such as the corners of the mats curling up.
 - Schedule maintenance properly. Wax floors during off-hours, and make sure that wax is applied correctly. Court decisions have gone against companies that have improperly applied floor wax.
 - Remove clutter in aisles. Instruct employees to place boxes out of the main path when restocking shelves.
-

Continued on next page

Accidents and Lawsuits, Continued

Prevention guidelines for falls (continued)

Follow the guidelines below to help prevent falls from occurring at your place of business.

- Conduct regular inspections. Assign someone to inspect the premises for hazards such as tripping hazards, inadequate lighting, improperly cleaned floors, and clutter in the aisles. Where the level of the floor changes, make sure it's clearly marked with signs and reflective tape or paint. Maintain written records of your inspection program.

Note: Insurance companies often inspect a business before issuing an insurance policy to them. They look for potential sources of accidents that might result in physical injury to customer, employees, or vendors.

- Educate employees. Deliver your safety message clearly and often. Emphasize safe practices to employees at meetings, on bulletin boards, and by posting signs in conspicuous places around the facility.
-

Handling accidents

Caring for the injured person – When someone falls at your place of business, make him or her as comfortable as possible. Immediately call for medical assistance. If a trip to the hospital is required, call an ambulance rather than use a company car or personal vehicle. Doing so may open the business to other liability claims if something goes wrong.

Post-incident activity – After taking care of the person involved in the accident, take the following actions:

- Prepare a written description of the conditions surrounding the accident, including photographs of the accident site
- Identify any witnesses and obtain statements from them
- Determine the cause of the accident
- Check your records to find out when the site was last inspected.

Settling out of court – Although most lawsuits for falls are settled out of court, business owners still incur attorney fees and settlement amounts by allowing the accident to occur in the first place.

Insurance Coverage

Introduction

Entrepreneurs purchase insurance in the event that a problem arises. In general, consider a policy for the situations described below. Each type of insurance provides a means of managing a particular kind of business risk.

Types of insurance

Fire insurance – Fire insurance is one of the most common types of policies. In most cases, this type of policy has the following components:

- covers your inventory, fixtures, and equipment, besides the physical building
- is supplemented by an extended coverage endorsement that insures you against loss from wind, hail, explosion, riot, and smoke
- states a maximum amount payable for such a loss.

Note: Purchasing fire insurance doesn't take the place of active fire prevention measures. Besides insuring your business, implement fire prevention procedures such as good housekeeping and maintenance practices; use of smoke detectors, heat detectors, and fire extinguishers; and establishment of a no-smoking policy.

Casualty insurance – Casualty insurance protects your business from specific loss situations, such as burglary, robbery, and larceny. Some business owners also purchase a *business interruption rider* to provide income if the business is closed down because of other damages.

Example: You have a fire that results in closing your doors. While business is halted, you still have to pay salaries to key employees and make loan payments. The business interruption rider provides income to meet those expenses.

Liability insurance – Liability insurance protects your business from claims arising from personal injury or property loss. It is one of the most important protections that a small business can have and provides coverage against customers having an accident and bringing a lawsuit against your company.

Note: Another form of liability insurance is *product liability*, which protects a manufacturer against claims that his or her product is unsafe. Product liability insurance is often prohibitively expensive.

Continued on next page

Insurance Coverage, Continued

Types of insurance (continued)

Fidelity bonds – This coverage protects your business from loss due to dishonesty, such as embezzlement. Consider it carefully if you’ve decided to delegate authority for handle money or company assets to others.

Surety bonds – These bonds cover the failure of one person to perform a legal obligation to another (such as failing to construct a building to meet safety code). Before issuing a surety bond, the insurance company checks the reputation, credit rating, and resources of the principals involved and your company’s competency to do the work.

Workers compensation – Workers comp provides medical care, death, or dismemberment benefits and income payments for employees who are injured or killed on the job. The state determines specific benefits payable to the worker, and exemptions from workers comp coverage exist in most states.

Example: An exemption may be given to a small business owner with few employees.

Key person insurance – Key person insurance covers you if partners or employees essential to managing the business become disabled or die. *Business continuation life insurance* provides cash upon the death of one owner to buy the partner’s share of the business from heirs.

Developing a sound program

To make sure that you’re adequately covered, develop a sound insurance program by following the stages below.

Stage	Description
I	Recognize the risks. You face risks inherent to running a small business; face them realistically. Drop the “it can’t happen to me” attitude and protect your company from misfortune.
II	Devise a plan. Identify your expectations from your insurance protection and do everything possible to prevent loss and minimize the cost of losses that do occur.
III	Study insurance costs. Review your program periodically and confirm that your coverage is adequate with the lowest premiums available.
IV	Seek professional advice. Rely on an insurance agent or broker to help you determine the amount of coverage needed – not too much but enough to safeguard against unfortunate circumstances.

Continued on next page

Insurance Coverage, Continued

Choosing an agent

Develop your risk management program with the counsel of a competent insurance agent or broker. In choosing an insurance provider, consider the provider's qualifications and the areas in which the provider can assist you.

Qualifications – Select an insurer with the following qualifications:

- reasonable cost for services provided
- types of coverage offered
- flexibility in meeting your requirements
- financial stability of the firm.

Areas of assistance – Find a trustworthy professional for assistance in:

- evaluating your exposure to loss
- comparing your insurance alternatives
- preventing loss from occurring
- assisting in claims processing
- reviewing your insurance program routinely.

Note: Insurance agents and brokers are salespeople. Although most are reputable and sincere, a few may not be. Buy your insurance coverage cautiously from someone you know to be reputable and knowledgeable.

Group coverage

If you're a member of a trade association, you may qualify for special policy rates from a group insurer.

Insurance Premiums

Introduction To purchase insurance, you pay a premium that goes into a fund. When an insured party suffers a loss, the fund reimburses that person. Although premiums may seem high, the real loser is the business owner who suffers a loss and isn't covered by an insurance policy.

Cost factors Developing an insurance program requires defining exact insurance costs. Premiums vary according to several factors affecting the risks that your business faces including:

- type of activity involved in conducting business
- your location (near emergency facilities, in high crime area)
- your record of accidents and claims
- materials or merchandise that you use or store
- construction materials used in the building
- your safety program for minimizing risk and ensuring safety
- safety equipment kept on hand.

Examples: A business operating in a high-crime area has a greater need for coverage and higher premiums. A business that has experienced a high number of burglaries incurs high premiums or even cancelled policies. Furthermore, this business may have difficulty even finding an insurance provider willing to sell them a policy.

Endorsements Insurance premiums are also affected by the endorsements that you choose to extend or limit your coverage beyond the basic policy – for example, an endorsement on your fire insurance that extends your coverage to insure against loss from wind, hail, explosion, riot, and smoke.

If you need to...	Then your premium is...
extend your coverage to include more risk	higher.
limit your coverage to exclude unneeded coverage	lower.

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Insurance Premiums, Continued

Actual cash value vs. replacement cost

Another decision that affects how much you pay in premiums is whether to insure an item for the actual cash value or actual replacement cost.

Actual cash value is the difference between the cost and depreciation of an asset.

Replacement cost is the cost of replacing an asset with a similar asset having the exact same features and functions of the replaced asset.

Example: The replacement of items like manuscripts, microfilm, and blueprints is likely to be much more than their actual cash value.

Affect on premiums – The table below presents the affect this decision has on the amount of your premium.

If you insure an asset at its...	Then your premium is...
actual replacement cost	higher.
actual cash value	lower.

Deductible

The amount of your insurance premium is also impacted by the deductible, or the amount of the cost you'll cover in the event of loss. Increasing your deductible decreases your insurance premiums, but it causes your business to face larger losses in the event of a claim.

PACE

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