

Prepare and Protect

The small business owner's guide
to identifying and managing risks

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Prepare and protect your business in five steps

This guide provides proactive steps for minimizing risk in your business, so you can focus on what matters most—growing it.

Here's an overview of the five steps to make it happen:

- 1 Secure your business.**
Conduct detailed inspections and regular maintenance and engage your employees in good risk control practices.
- 2 Prevent common risks.**
Fires, theft, customer injury and cyber hacking are just a few of the perils a small business owner may encounter.
- 3 Be aware of less common risks.**
While not as common, risks like customer lawsuits and copyright infringement can be just as damaging to your business.
- 4 Establish a plan.**
A sound business continuity plan can prepare you and your employees should your business experience a major setback or disaster.
- 5 Business insurance 101.**
Getting the right protection for your business can make the difference when a loss does occur; use this section to help you get the coverage you need.



Understanding potential risks can set your business up for success

An essential part of your small business plan is identifying the threats and risks it could face and how to prepare for them.

The smart move is to prepare now—not after a problem arises. Plenty of business owners have learned this the hard way.

According to the Bureau of Labor Statistics, half of all small businesses don't survive longer than five years. Consider a [2017 Federal Reserve Banks survey](#) that assessed the business conditions, insurance coverages and credit standings of small businesses located in FEMA-designated disaster ZIP codes.

The survey revealed **61% of businesses** in the affected area had **revenue losses up to \$25,000**, and **35% suffered losses of more than \$25,000**.

Additionally, as many as [40% of small businesses](#) won't recover from a major natural disaster, according to FEMA.

While natural disasters dominate the headlines, they're not the only thing small business owners need to think about and protect against. There are a wide range of risks, both common and obscure, that can pose a threat.

1. Secure your business

The first step in securing your business is viewing it from a risk management point of view. Start by identifying and listing all the apparent risks that threaten your business so you can **implement the most effective risk-prevention practices.**

Here are a few of the top risks to look for:

- ① **Parking lots and sidewalks:** Look for hazards that might cause customers to trip and fall. Uneven pavement, potholes and cracked or crumbling sidewalks can be tripping hazards and should be repaired immediately. Install proper handrails near all steps and maintain proper drainage in the lot.
- ① **Exterior of buildings:** Store any debris, boxes and other materials that could be fire hazards against the building. Regularly inspect the condition of the roof and gutters along with the exterior cladding, looking for potential water damage or breaks in the building seal. Make sure signage is visible and well secured.
- ① **Interior of buildings:** Be mindful of the overall maintenance of the building. Quickly mark any wet flooring with a “Wet Floor” sign and mop up spills ASAP. Mark any uneven flooring with striped safety tape, and secure doormats or moveable carpets that might cause a fall.



Developing good risk prevention practices

Taking care of your business and involving your employees in safety matters are at the core of risk prevention.

Simple ways to engage employees in risk management include:

- ① Establishing daily and weekly checklists for routine safety and maintenance items.
- ① Posting reminders on bulletin boards.
- ① Meeting on a regular basis about ways to reduce or eliminate risks.
- ① Recognizing and rewarding actions and behaviors that reduce risk.

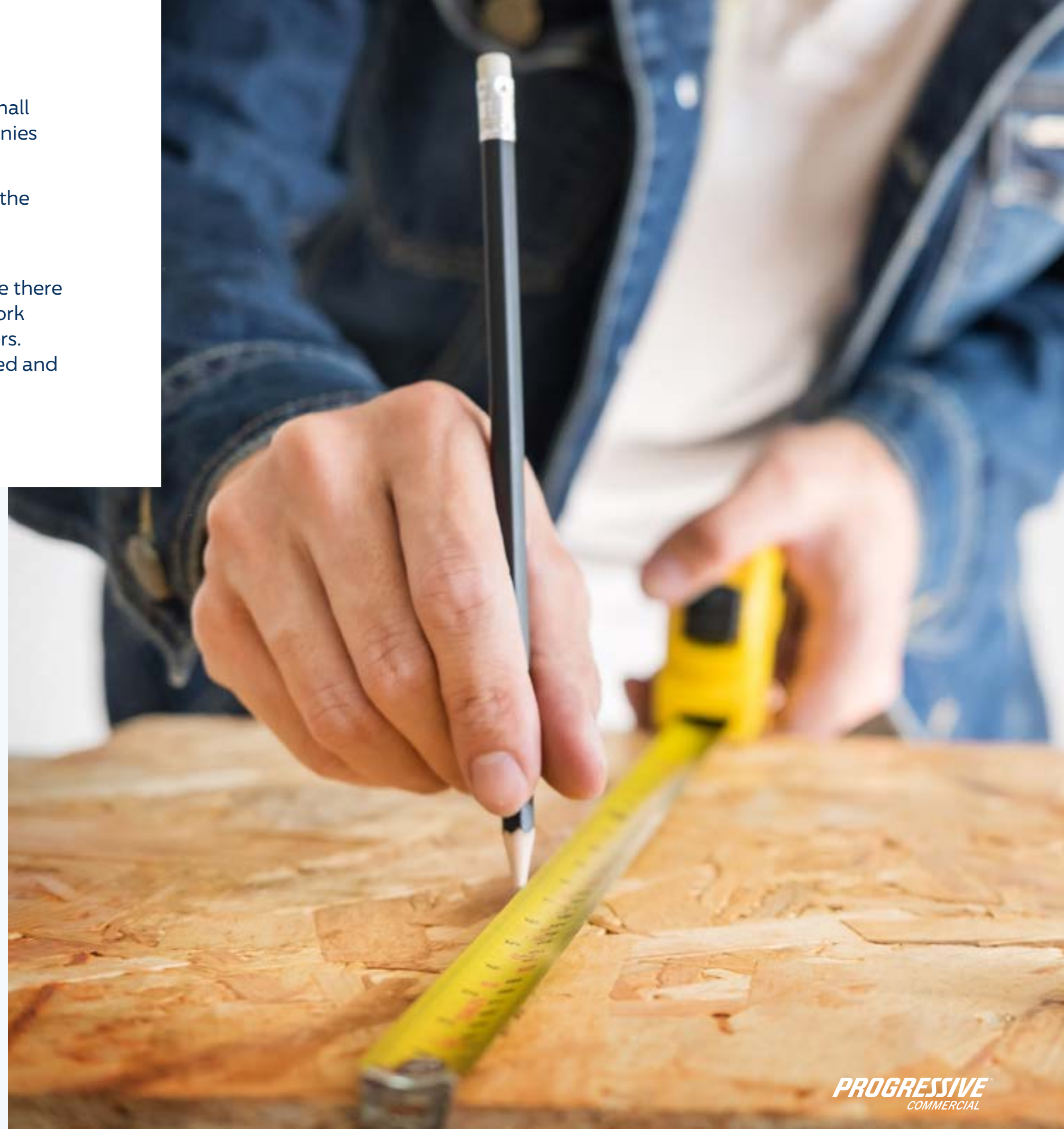
Tim Enfield is in the business of spotting risks. For years, he's served as a small business inspector for Mueller Reports, a firm that helps insurance companies assess the risks associated with the businesses they insure.

Seeing risk through Enfield's eyes can give you a clearer understanding of the steps to take toward protecting your own business.

Enfield's inspection process varies depending on the type of business. For instance, for restaurants and taverns, he heads to the kitchen to make sure there are working fire extinguishers. He checks the hood and ventilation ductwork and makes sure the open-flame stoves aren't located too close to the fryers. Finally, Enfield ensures the automatic extinguishing system (AES) is installed and properly operating over the cooking line in case of a fire.

For contractors, Enfield will tour their office and inspect the safety records and condition of the vehicles used by the business. He also goes to a job site to see if workers are following safety protocol and using equipment properly, along with ensuring the business is compliant with Occupational Safety and Health Administration (OSHA) requirements.

"For contractors, we often recommend what we call 'toolbox talks' where everyone gathers together and talks about important safety issues," **Enfield says**. "Any type of business can do this. It's really about getting everyone engaged and sharing in the responsibility of risk management. It can make a real difference."



2. Prevent common risks

Fire, injuries, theft and cyber security are some of the most common risks your business should be prepared to handle.

Preventing fires

Many businesses find it helpful to appoint someone to be the person in charge of fire safety and prevention. This person is responsible for reading up on and ensuring your business is up to date on all municipal fire codes.

Most of those codes will probably include best practices you know already:

- ④ Have a regular routine to take out the trash daily.
- ④ If you're going to allow smoking outside, create a designated space with smoking receptacles.
- ④ Put your fire extinguisher in a visible place.
- ④ Invest in a fire alarm system.
- ④ Conduct routine fire drills and train employees on the appropriate evacuation routes.

In general, fire extinguishers should be inspected once a year, and smoke detectors once every 10 years.

Check smoke detector batteries regularly.

Avoiding injuries

Making safety a priority at your business is key to avoiding injuries that can result in costly lawsuits. Here are a few things you can do to keep your employees and your customers safe:

- ④ Maintain and inspect all equipment regularly.
- ④ Keep things like goggles, gloves and first-aid kits on hand.
- ④ Post signs with safety reminders for employees.
- ④ Make sure you run criminal background checks on employees, and, if relevant, ensure employees have safe driving records.

Also, remember to seek expert help. OSHA can [help small businesses](#) by supplying compliance guides for their rules and respond to small business owners who have questions about compliance. The agency has regional offices throughout the U.S. and includes small businesses in their process for creating rules and regulations.



Preventing theft

The threat of theft can come from criminals, customers and your employees, which is why it's vital to take the proper precautions to protect your business from commercial theft.

From a property standpoint, some of the same practices you'd use to secure your home applies to your business.

- ④ Lock your doors when you leave and make sure they're secure.
- ④ Make sure your business is well lit, both inside and outside.
- ④ When shopping for an alarm system, consider one with motion detection that will automatically alert police.
- ④ Install fencing, if needed.

For employees, conduct pre-employment background checks and make sure controls are in place to track inventory and cashflow. Install video cameras at all entrances and exits, along with any sensitive areas, like the cash register. Limit access to sensitive areas, such as the safe room, to only employees who need it.

Further, keep a second set of records for all critical operations, such as accounts receivable, inventory and insurance plans. It's a good idea to keep those records in a different location from your primary place of business.

Cyber security and data loss prevention

While major cyber attacks in the news might make it seem like they only happen to large corporations, no business is immune to data security breaches. When you keep customer information on hand, a breach can severely hamper your operations and strain relationships with customers, not to mention potentially leave you liable for a lawsuit.

Fortunately, having a solid plan in place to guard against cyber threats, combined with the right software and a [cyber insurance policy](#), can provide protection and give you peace of mind.

- ④ Formulate and automate a backup plan in the form of people and practices, as well as software. If a system you're using shuts down, is there an alternative way for employees and customers to gain access to systems necessary to doing business? If you're a one- or two-person operation, is there someone else trained to do basic business operating tasks?
- ④ When it comes to software and data protection, back up your work in more than one place, even work saved remotely on an external hard drive or in the cloud. Secure your passwords, and if possible, consider using a Virtual Private Network (VPN) for internet access.
- ④ Train and teach your employees the importance of practicing good online habits and cyber security. This can include frequently changing passwords and being aware of phishing emails.

A good software program can also help you ensure that your network hardware, critical data, documents and other information are safe from cyber theft or damage. When choosing software, consider whether it can:

- ④ Identify data that could be compromised or vulnerable, like customer credit card numbers or addresses.
- ④ Detect and prevent data intrusion and hacking.
- ④ Generate audits and reports of the health and current state of your systems.



3. Be aware of less common risks

Fire and theft are relatively common risks, but risks that may not be as obvious can be just as dangerous to your business. Consider these scenarios that could affect your small business:

- Ⓢ **Lost or corrupted files:** With more documents and forms being converted to digital, businesses rely on digital storage to operate. Without a backup hard drive or cloud system, the cost of the lost work and files can be substantial.
- Ⓢ **Damaged goods:** If you're in the restaurant or food business, you probably don't think about the fridge breaking down. But the cost to repair it, along with replacement food, can put a sizeable dent in your profits.
- Ⓢ **Reputation risk:** Your reputation is one of the most valuable assets of your business. Yet a scathing social media review or bad publicity can damage the reputation you've worked years to build in a few moments. Get a plan in place to quickly respond to reputation risks and make things right.

- Ⓢ **Competitive risk:** You've trained your employee well. So well that they abruptly leave and open their own shop down the street, taking many of your customers with them. Non-compete agreements can help minimize your competitive risks.
- Ⓢ **Copyright infringement:** If you have proprietary technology, content or information, take the necessary legal steps to make sure it's protected from competitors.
- Ⓢ **Expired registrations and policies:** You took the steps to protect your business, but do you have a follow-up plan in place to ensure those protections are still in force? There's nothing worse than thinking you're covered and then learning that a policy expired or that you didn't take action necessary to activate the policy.

Because there's really no end to unexpected risks that could impact your business, the key is to be proactive and have policies and backup plans in place to minimize their likelihood and impact. That may mean expanding your business contingency plans to include less-anticipated risks that can affect your business and making sure your business insurance covers them.



4. Develop a plan

Even the best risk prevention plans aren't infallible. Natural disasters, freak accidents and a range of unanticipated events can limit your ability to do business if you're not prepared.

Developing a business continuity plan provides you with a roadmap to keep your business up and running while working through a crisis.

The federal government has a variety of [helpful tools and resources for businesses](#) to create continuity plans as well as assess their readiness for national disasters.

[This article](#) from Progressive Commercial's Business Resources breaks it into five parts:

- ④ **Identify your business's scope:** What things would prevent your business from operating as usual? What steps can you take to address them? Identify the most critical business functions and teach other employees or a partner how to do them.
- ④ **Prioritize business needs:** Document your needs based on the results of the business's scope, then identify gaps in strategy to meet those needs. Always make sure at least one person knows where your [business insurance](#) information is located.
- ④ **Create your plan:** Organize a "recovery team" for a worst-case scenario; write business continuity and IT disaster plans, and document manual workarounds in case you need them. Back up this information to both a physical and digital location so you can continue basic business functions.
- ④ **Hone, preach, practice:** Review and practice your business contingency plan with your staff regularly. This will give you the opportunity to review any potential holes in your plan, as well as give everyone a chance to rehearse what to do in case the plan is put into action.
- ④ **Maintain and update:** Review your plan every six to 12 months to ensure it's still up to date. Be sure any growth or change in your business experiences is reflected in your plan.

Business contingency planning doesn't just provide peace of mind. It also forces you to identify and assess potential risks. This can further assist your risk prevention efforts, as well as help you determine what insurance coverages you need to protect your business.

5. Business insurance 101

Why do I need business insurance?

Insurance is a key part of running your business. From protecting your delivery vans to your business personal property, getting the right coverages for your small business can protect you in case of a loss.

Even if you're simply running a home-based business, your homeowners policy probably doesn't provide coverage if a client gets injured while visiting your home office.

Further, if you break a law you don't know about, like an OSHA regulation or an intellectual property law, your business could be vulnerable. Business insurance, by contrast, can help provide the protection you need.

Which kinds of insurance does my business need?

The answer can be complicated. Luckily, Progressive has developed a [Product Selector tool](#) that helps assess the type of insurance your business may need. An in-depth conversation with your agent, either over the phone or in person, can help you answer this question in greater detail.

Types of business insurance



General Liability Insurance:

This is often known as business insurance and is a fundamental policy. General liability insurance can cover third-party injury and property damage, personal and advertising injury and legal costs.



Business Owners Policy (BOP):

A BOP typically provides general liability protection with the added benefit of protecting your property. You'll want to consider a Business Owners Policy if you operate a small- to medium-sized business that requires both liability and property protection. Larger businesses typically aren't eligible for a BOP because they need more extensive property coverage than what these types of policies offer.



Professional Liability Insurance:

This coverage protects against claims of professional negligence, such as giving incorrect advice or failing to deliver a service. It's typically needed by client-focused businesses in the event a client is unhappy with the work of your business and pursues litigation.



Commercial Auto Insurance:

If you use your vehicle for business purposes, you likely need commercial auto insurance. This includes transporting clients or running routine business-related errands.

- Use this [tool](#) to determine whether you require commercial or personal auto insurance.



Workers' Compensation:

Workers' comp covers injuries, medical bills and missing wages for your employees if an incident occurs while they're on the job. Most states require certain small businesses to have this kind of insurance, and it'll cover employees regardless of their negligence. It won't cover the employee if the injury occurred during their off-hours.



Cyber Insurance:

Cyber insurance covers damages in the event of a data breach, like data recovery software and business interruption costs. Cyber insurance can also include coverage for third-party damages in the event there's a breach or cyber incident involving a client or customer. Additionally, it can cover the cost of legal fees and settlement costs after a data breach.



Commercial Property Insurance:

You should consider this coverage if you operate your business from a physical location outside of your own home. It protects your building and business personal property from things like fire, weather damage and vandalism. Coverage for your property can be purchased on its own or as part of a BOP.

Other types of insurance: These coverages may be necessary for circumstances specific to your business.

④ **Surety Bonds:**

These bonds are commonly purchased by businesses that contract with the government or other organizations. You buy the bond because it's required by the organization hiring you, also known as the "obligee" (usually the state government). The bond is designed to protect the obligee in case you fail to fulfill the duties of your contract or don't follow all applicable laws.

④ **Liquor Liability:**

Covers the legal, settlement and medical costs associated with risks of selling and serving alcohol at a place of business. This is often required in order to obtain a liquor license.

④ **Employment Practices Liability Insurance (EPLI):**

This covers an employer against potential employee claims of sexual misconduct or harassment, wrongful termination and defamation.

④ **Builders Risk:**

This insurance protects businesses that work with large materials from damages to materials and equipment. In a construction context, this would protect materials even before they're installed or a project is complete.





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Putting it all together

Following the roadmap detailed in this guide can help make sure your business is set up for success. By identifying, mitigating and insuring against risks, you can focus on growing your business and achieving your goals.

- ④ **For more information or for more help,** work with a [SCORE mentor](#) to prepare and protect your small business.