

Risk management for small businesses takes off

By Cindy Weiss, CLAS Today



Jay Vadeloo, director of the Goldenson Center

Risk management is a growth area for large corporations, where having a chief risk officer on the executive team is now common enough to have earned its own acronym – CRO.

But how do small businesses manage risk, with their fewer resources and smaller staffs?

The Janet and Mark L. Goldenson Center in Actuarial Science in CLAS has developed a new Enterprise Risk Management (ERM) service for small businesses, analyzing areas where small businesses are at risk and offering advice on how to manage it.

The center sends teams of actuarial students to meet with the small business owner, collect data and information from interviews and financial reports, and over the course of six to eight weeks, analyze the business's weaknesses and prepare a plan to address them.

The students then present their data, charts and PowerPoints and leave a detailed report with the business owner.

"It was kind of an eye opener, what they showed us," says Jerry Puiia, co-owner with his brother, Joe Puiia, of three Between Rounds Bagels shops in Vernon, South Windsor, and Manchester, with a catering operation, too, and plans to franchise.

It's not that he couldn't have culled the information himself, says Jerry Puiia, who has a master's degree in engineering and an MBA and used to work as an engineer at Pratt and Whitney.

But operating a seven-day-a-week cash business leaves very little time to analyze the mountains of data that his computer systems collect.

The actuarial students, on the other hand, showed him a methodical way to

analyze the information and see clear results, such as less profitable menu items that could be eliminated to streamline a drive-through service.

They can also offer business owners advice on how to attract young customers, says Jay Vadiveloo, director of the Goldenson Center and a senior consultant for Towers Watson, who advises the students. That may include advice on redesigning a website, marketing on Facebook, or updating the look of a store.

The students benefit by learning to work as a team, adapting their analyses to the needs of each business, and thinking out-of-the-box.

"I tell my students, the fact they've quantified something doesn't make it right, and the fact they can't quantify it doesn't make the risk go away."

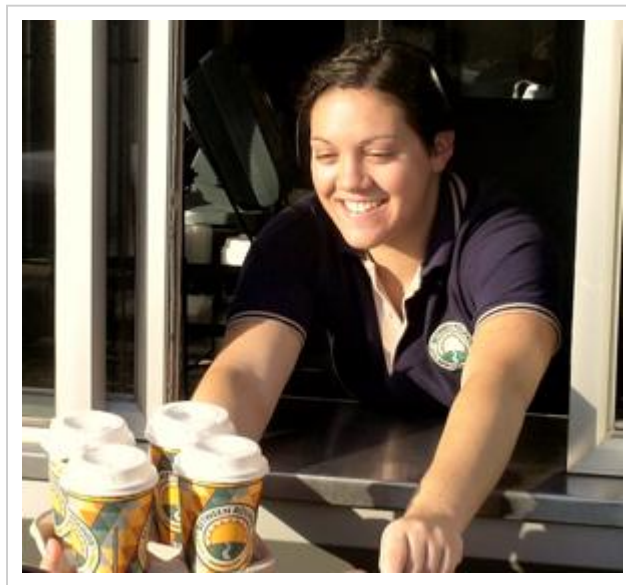
Actuaries, once largely associated with insurance plans and pensions, have evolved to become risk managers who work in such areas as hedging, investments, and the derivatives market, he says.

Certified Enterprise Risk Management, or CERA, is one of the latest actuarial qualifications, he notes.

"We're good at modeling risk."

Small businesses are particularly vulnerable to risk, he says. Their typical weaknesses are "key man" – all knowledge about the business is in the hands of one or two people; concentration – they are focused on only one product; and too-fast growth.

In 2009, the Small Business Association reported nearly 61,000 small business bankruptcy filings in the U.S. Connecticut had more than 10,000 small businesses open that year and more than 13,000 close, according to one of his students' reports.



A risk assessment suggested changes to a small business's drive-through menu. Photo courtesy of Between Rounds Bagels

But the ERM for small businesses project does not work with brand new businesses or shaky start-ups. Rather, it assesses risk for those that have established themselves but are looking for ways to compete in a tough

economy.

In one project, students worked with a family-owned fuel company in eastern Connecticut that has been in business for more than 70 years but is finding itself vulnerable to oil price spikes. They showed the owner how he could use derivatives to hedge, speculate, and reduce his own wholesale costs.

When the report is delivered, "We want the owner to walk away with deliverables," says Vadiveloo.

To date, the Goldenson Center's endowment has covered the cost of the risk assessments. But Vadiveloo would like to see the service expanded globally, perhaps funded by banks or large corporations that use small businesses as suppliers.

"If the small business sector is successful, it's a boost to the economy," he says.

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