

own network! I have to figure out how to do this. I like being on the edge; I'm a risk taker."

Kay Koplovitz
Chair, Kate Spade

Evaluating your risks isn't meant to be an exercise in fear (although if you are intimidated by the risks involved, then perhaps you are not yet ready to start your business). Many entrepreneurs think that if they describe the risks they're likely to encounter, they'll scare off potential investors. Quite the contrary is true. For all but the least sophisticated investors, an evaluation of risks shows them you're willing to take a cool, hard look at the situation facing you, and you understand the scope of the threats to your success. It reassures investors that, because you understand the risks involved, you're more likely to take steps to counter those threats.

What Kinds of Risk?

It's not just a matter of high risk or low risk. It's also what kinds of risk. Some risks are more tolerable or more important to different investors — and to you. The key types of risk facing companies include:

- **Market Risk:** that the market will not respond to your products or services, because either there is no real market need or the market isn't yet ready. Market risks are very difficult to overcome.
- **Competitive Risk:** that the competitive situation will change dramatically, and new competitors will enter the market and/or established competitors will reposition their products or services to more effectively take you on. You should carefully think through how other competitors might respond to your entering the market and not assume that the competitive environment will remain the same.
- **Technology Risk:** that the technology or product design and engineering won't work, or won't work as well as you envision. This may be critically important to your company's success, or it may be totally unimportant, depending on the nature of your company, its products/services, customers, and the like. If your business faces substantial technology risks, what is your ability to quickly and effectively improve the technology?

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The apparel business is a tough operational business. Manufacturing, shipping, delivering, making sure everything's on time. There's a tremendous amount of competition, and things get hot and then get cool."

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- **Product Risk:** that the product won't materialize, won't be finished in time, or won't work as promised. This is very similar to the above, only with nontechnology products or services.
- **Execution Risk:** that you won't be able to effectively manage the roll-out and growth of the company because management isn't sufficiently capable, the time allowed isn't adequate, operations aren't in place, and other reasons. You should be able to demonstrate specific steps you are taking to reduce or eliminate such risks.
- **Capitalization Risk:** that you've badly underestimated costs or over-estimated income, and you will run out of money. The best way to avoid this risk is to budget realistically and get enough funding so you do not run out of cash prematurely. Look for investors who have the ability and inclination to offer additional funds as your company progresses.
- **Global Risk:** that, when doing business internationally, you may encounter unanticipated situations that will interrupt or stop your ability to do business, reach your market, or receive supplies.



Use the Risk Evaluation worksheets on pages 151–152 to assess the risks your business faces domestically and internationally.

Balancing Risks & Opportunities