

[Reading and worksheet excerpt from National Academy Foundation's Entrepreneurship Course for Academies of Finance, Lesson 14: Managing Business Risk]

Vignette: Business Risks

Directions: Read the following example about a new restaurant business, and mark the clues about the types of risk the business faces by underlining or circling relevant phrases or passages. Then, review the parts you have marked and identify the top three risks to the business. Finally, answer the questions at the bottom of the page.

Tam Nguyen walks into her new Vietnamese restaurant around 5 o'clock, to see how things are going just as it opens for dinner. As she walks in, she notices that the waitress is just seating some customers and has left the cash register and tip jar unattended.

Tam walks around toward the kitchen to say hello to the cooks. They are busy rushing around and preparing rice, soup, and chopping vegetables for the other dishes. She watches one of the cooks slide a sharp cleaver and cutting board into the sink, and then fill the sink basin with hot water and soap.

The cook then walks over and exchanges greetings with Tam. He seems a little concerned. "There was an article in the paper today," he says. "There is a sickness related to peanut products that come from a certain factory. We have many peanut dishes on our menu, but we don't know if our peanut sauces were sourced through that factory. Do you think it's safe to serve them to customers?"

Tam wonders if she should call the local Food and Safety Administration office to find out, and promises she'll look into it.

"The soup smells wonderful tonight," she says to reassure him, walking past the simmering pot on the stove. Then, Tam opens the refrigerator to check on the jars of peanut sauce and find out who manufactures them, and she also notices that the shelves are overflowing with vegetables and other foods that will probably go bad before they can be served. "We ordered too much this week," she says to herself.

As she walks back out to speak with the waitress, her glance falls on the smoke alarms above the kitchen door. She has been meaning to test the alarm batteries for some time, but she doesn't want to do so when customers are around because the loud noise might upset them.

At the register, she watches a customer hand over a \$100 bill, and her waitress makes change for the man and shoves the bill under the cash drawer.

From there, Tam sits in the back of the restaurant and goes over the business's financial statements from its first two weeks in operation. The business so far has met and exceeded its sales expectations and earned positive reviews from local food critics, ensuring that it will continue to have customers. However, she has also been spending more on supplies than expected. Last week some equipment broke, and she had to front the money to replace it. So although the business has customers, it is still short on cash. In addition, one of her competitors less than a half-hour away has offered customers 2-for-1 meals and has begun to offer heavily discounted specials.

Tam is a bit worried, but she thinks that aside from the small cash flow issue, things are going well.

Do you think things are going well with this business? What risks would you point out to Tam, if you were helping her with the restaurant?