



PM FORMALISATION OF MICRO FOOD PROCESSING ENTERPRISES SCHEME

## MODULE-3

# ENTREPRENEURIAL RISKS - HANDOUTS



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## ENTREPRENEURIAL RISKS

Include marketing studies, permits, photographs of your product, credit histories, marketing materials, and property rights such as resumes, a patent, contracts, or other legal agreements pertinent to your business. It will help in establishing the credibility of your business ideas

*"Risk is a necessary part of progress. If you keep your foot on first base, you cannot steal second base"*

Let's have a look at some of the justifications for risk-taking in small business and entrepreneurship:.

- In the future, you won't have any questions
- By taking chances, you can learn
- Without risk, innovation is impossible
- Opportunity is directly linked to risk
- Risk-takers enjoy a competitive advantage



## TYPES OF ENTREPRENEURIAL RISKS

There are various types of risks faced by entrepreneurs from the beginning of their entrepreneurial journey till their idea finally turns into a successful venture. The following are the different types of entrepreneurial risks:

- 1. Financial Risks:** Every Entrepreneurial venture requires funds to transform an idea into reality. Therefore, a critical risk faced by Entrepreneurs is arranging funds. This may be In the form of loans, capital arranged with the help of family and friends or an Entrepreneur's Own Savings. Adequate financial planning should be done by an Entrepreneur so that they don't become Bankrupt.
- 2. Strategic Risk:** Each Business requires a near flawless Business Plan with framing the right strategies. However, even a well-thought-out Business Plan can sometimes lead to failure. As a result, The strategy becomes ineffective.



**3. Legal and Compliance Risks:** When an Entrepreneur plans to start their operations in A Country, They have to be wary of the laws of the land. A company has to abide by existing laws and adapt to the changing legal environment in the future as well. This is one of the significant entrepreneurial risks that an Entrepreneur may face. Any law framed in favor of or against an industry can change the trajectory of its success.

**4. Operational Risks:** An operational risk arises when the day-to-day activities of a business may decrease its profits. It could be due to simple employee errors or undercharging or overcharging customers. A natural calamity like floods, storm, fire etc. might destroy or damage the company's physical assets resulting in disrupted operations. A recent example of negative impact on company's operations was due to the Coronavirus pandemic.

**5. Market Risk:** Entrepreneurial Risks can emerge from market-based factors as well. For instance, when the economy is growing and blooming, customers might get attracted to purchase luxurious Goods. This leads to an increase In demand for luxury products. On the other hand, When there's an economic depression, the demand for such products can significantly decline, leading to a severe risk faced by Entrepreneurs. In such a scenario, tools such as Market Research, Survey And Analysis can help Entrepreneurs undertake efficient Entrepreneur Risk Management.

**6. Reputational Risks :** risks include company lawsuits, negative publicity, product safety recall and online negative reviews from customers. A reputational damage may result in an immediate loss of revenue as there is loss of customers and channel partners.

**7. Cybersecurity Risks:** As more and more businesses have started using online and mobile platforms for sales and payments, as well as for acquiring and storing customer data, which exposes them to a greater possibility of being hacked, encountering cyber security risks for companies and their stakeholders.

**8. Competitive Risk:** To become a successful Entrepreneur, it's crucial to be aware of competitors. If there are not enough competitors in an industry, It may imply that the demand for the concerned product is not enough. Moreover, Entrepreneurs should be able to make prompt moves to get an innovative idea or product patented before their competitors can take advantage of it.

## FINANCIAL RISKS

Businesses with a relatively high debt-to-equity ratio are deemed to be at a greater financial risk, as lenders view them as having a greater likelihood of defaulting on payments and going bankrupt.

The following are types of financial risk:

- When a company extends credit to customers, there is a chance that those customers will stop making payments, resulting in a decrease in revenue and earnings.
  - When a lender extends business credit for purchases, a company also faces credit risk.
  - If the company lacks sufficient funds to repay the loans, it will default.
  - Currency risk, also known as exchange-rate risk, can result from the fluctuation of one currency's price relative to another. For instance, if a U.S. company agrees to sell its products to a German company for a certain amount of euros, but the value of the euro suddenly increases at the time of delivery and payment, the U.S. company loses money because it now costs more dollars to purchase euros.
  - A company faces liquidity risk when it is unable to convert its assets to cash. This type of business risk frequently arises when a company requires a large amount of cash to meet its short-term debt obligations. For example, if no buyers come forward, a manufacturing company may be unable to generate cash by selling obsolete machines.
- Ideas for financial risk management:**
- Aim to operate on a lean budget with low overhead and minimal debts, and save as much money as possible to maintain a consistent cash flow.
  - When looking for loans, prioritize those with the lowest possible interest rates.
  - Observe fluctuations in foreign currency exchange rates.
  - Make regular debt payments on time.

- If a company derives the majority of its revenue from one or a small number of clients, the financial risk associated with the loss of one or a few clients could be substantial. Businesses may wish to diversify their customer base so that the loss of a single customer would not have a devastating effect on their bottom line.
- Sign up for our weekly newsletter, Business Class: The Brief, to stay informed.
- Expect to receive hand-selected small business insights and motivation in your inbox.



**APPROPRIATE ENTREPRENEUR RISK MANAGEMENT IS CRUCIAL TO SUCCESS. EACH STEP TAKEN SHOULD INVOLVE ADEQUATE RESEARCH AND PLANNING SO THAT AN ENTREPRENEUR TAKES CALCULATED RISKS. THIS WOULD PREVENT THEM FROM FAILING.**



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