Chapter 34 introduces students to the concept of business risk and risk management; it also identifies the different economic, natural, and human risks faced by businesses. The chapter also explains how businesses limit risk.

**Chapter Objectives**
After reading this chapter, you should be able to:
- Explain the nature and scope of risk management
- Identify the various types of business risks
- Explain effective security and safety precautions, policies, and procedures
- Describe the various ways businesses can manage risk
- Explain the concept of insurance

**EXPLORE THE PHOTO**

**Market Talk** Lead a discussion about how natural disasters can cause a business to lose revenue. Point out that such risks are often weather related and differ by region. Also point out that certain kinds of businesses are vulnerable to certain natural disasters. For example, an agricultural business might be severely hurt by a prolonged drought, but a manufacturing business in the same area may not be affected.

**Quick Think** Student responses may include weather, natural disasters or disasters caused by humans, as well as financial and business risks.

**Follow Up** Ask students to name the weather-related and other natural disasters that may affect businesses in the local area.

**REVIEW THE OBJECTIVES**

**Explain the nature and scope of risk management**. Risk management is the systematic process of managing an organization’s risks to achieve objectives in a manner consistent with public interest, human safety, environmental needs, and the law.

**Identify the various types of business risks**. Economic, natural, and human risks are among the types of risks that a business may experience.

**Explain effective security and safety precautions, policies, and procedures**. There are four basic ways that businesses can handle risks: risk prevention and control, risk transfer, risk retention, and risk avoidance.

**Describe the various ways businesses can manage risk**. Many common types of risks can be controlled and minimized by screening and training employees, providing safe working conditions and sufficient safety instruction, preventing external theft, and deterring employee theft.

**Explain the concept of insurance**. An insurance policy is a contract between a business and an insurance company to cover a specific business risk.
Discuss the performance indicators for the DECA events listed, so that students understand how to demonstrate their understanding.

The event acronyms stand for:

- **AAM**: Apparel and Accessories Marketing Series
- **ADC**: Advertising Campaign Event
- **ASM**: Automotive Services Marketing Series
- **BSM**: Business Services Marketing Series
- **EMDM**: E-Commerce Management Team Decision Making Event
- **FMAL/FMML**: Food Marketing Series, AL/FMML
- **FMDM**: Financial Analysis Management Team Decision Making Event
- **FMML**: Financial Analysis Management Team Decision Making Event
- **HMDM**: Hospitality Services Management Team Decision Making Event
- **HRR**: Hospitality and Recreation Marketing Research Event
- **MMS**: Marketing Management Series
- **QSRM**: Quick Serve Restaurant Management Series
- **RFSM**: Restaurant and Food Service Management Series
- **RMS**: Retail Merchandising Series
- **SEM**: Sports and Entertainment Marketing Series
- **SMDM**: Sports and Entertainment Marketing Management Team Decision Making Event
- **TMDM**: Travel and Tourism Marketing Management Team Decision Making Event
- **TSE**: Technical Sales Event

DECA Events These acronyms represent DECA competitive events that involve concepts in this chapter:

- **ACT**: Apparel and Accessories Marketing Series
- **ADC**: Advertising Campaign Event
- **ASM**: Automotive Services Marketing Series
- **BLMDM**: Business Services Marketing Series
- **BMDM**: Business Services Marketing Series
- **BSM**: Business Services Marketing Series
- **EMDM**: E-Commerce Management Team Decision Making Event
- **FMAL**: Food Marketing Series, AL
- **FMDM**: Financial Analysis Management Team Decision Making Event
- **FMML**: Financial Analysis Management Team Decision Making Event
- **HLM**: Hospitality Services Management Team Decision Making Event
- **HMDM**: Hospitality Services Management Team Decision Making Event
- **IAAM**: Identity and Access Management Systems
- **MMS**: Marketing Management Series
- **QSRM**: Quick Serve Restaurant Management Series
- **RFSM**: Restaurant and Food Service Management Series
- **RMS**: Retail Merchandising Series
- **SEM**: Sports and Entertainment Marketing Series
- **SMDM**: Sports and Entertainment Marketing Management Team Decision Making Event
- **TMDM**: Travel and Tourism Marketing Management Team Decision Making Event
- **TSE**: Technical Sales Event

DECA Prep

**Role Play** Check your understanding of DECA performance indicators with the DECA activity in this chapter’s review. For more information and DECA Prep practice, go to the Marketing Essentials OLC through glencoe.com.
SECTION 34.1

FOCUS

BELLRINGER ACTIVITY

To prepare for reading this section, have students work in groups of five or six to compose their own tales about Sad Sam’s Service Station, a place where everything seems to go wrong. Encourage students to incorporate a wide variety of disasters involving employees, customers, the weather, etc. Have each group share its story and categorize the risks described on the board under the headings such as economic, natural, and human.

READING GUIDE

BEFORE YOU READ

Predict What are some types of business risks?

OBJECTIVES
• Explain the nature and scope of risk management
• Identify the various types of business risks

KEY TERMS
• business risk
• risk management
• economic risks
• natural risks
• human risks

ACADEMIC VOCABULARY
You will find these words in your reading and on your tests. Make sure you know their meanings.
• stress
• internal

THE MAIN IDEA
Risk is part of doing business. Businesses must manage risks to accommodate public interest, safety, the environment, and laws.

GRAPHIC ORGANIZER
Draw this chart to note the main kinds of risks and examples.

What Is Risk Management?

To achieve our goals, all of us make decisions each day that involve taking risks. The possibility of financial loss is what is known as business risk. Business risks are situations that can lead to financial gain, loss, or failure.

A business cannot eliminate all risk, but marketers can reduce and manage their risks. According to the American Risk and Insurance Association, risk management is the systematic

ACADEMIC STANDARDS
English Language Arts
NCTE 1 Read texts to acquire new information.
Science
NSTA Content Standard E Understanding about science and technology

AS YOU READ

Question Is it possible for a business to eliminate risks completely?

What is NCLB?

NCLB connects academic correlations to book content.
process of managing an organization’s risks to achieve objectives in a manner consistent with public interest, human safety, environmental needs, and the law. Risks are managed by using the best available marketing information, analyzing opportunities, and making wise decisions.

**Types of Business Risks**

Economic, natural, and human risks are among the types of risks that a business may experience. (See Figure 34.1.)

**Economic Risks**

Economic risks are risks that result from changes in overall business conditions. These changes can include the level or type of competition, changing consumer lifestyles, population changes, limited usefulness or style of some products, product obsolescence, government regulation, inflation, or recession.

Businesses that fail to change their products when competitors offer more features and benefits lose sales and experience economic risk. Foreign competition is also an economic risk for many U.S. companies, because foreign products can often be produced and sold for less than similar domestic products.

Consumer lifestyles and population changes are other economic risks facing modern businesses if they fail to adapt products or services to meet customers’ changing interests and needs.

The limited usefulness or style of some products is another potential economic risk. Prices are frequently reduced on products to sell them at the end of the season. Every price reduction reduces both revenue and profits.

Some products inevitably become obsolete or outdated. Known as product obsolescence, this type of economic risk frequently impacts businesses that depend on the latest trends to market goods and services. Obsolescence occurs because new products are constantly being developed.

Changes in the general business environment caused by inflation or recession can present economic risks. For example, businesses in an area experiencing high unemployment will suffer through reduced product sales.

**Government Regulations**

Government laws and regulations can also result in economic risks. Laws that require businesses to pay for such things as special licenses or permits, street and sewer improvements, environmental clean-ups, parking, and general upkeep will reduce profits.

Product recalls, or even the threat of recalls, by government agencies can affect sales and profits. Companies that have to recall products often face high legal costs in addition to expensive repairs and replacements. In 2003, a Texas court ordered the tire company Bridgestone/Firestone to pay $70 million to replace tires, $41 million to manufacture new tires, $15.5 million for a consumer education campaign, and $19 million in legal fees for 14.4 million recalled in 2000. The company incurred costly expenditures because it had to notify all owners by mail, provide free replacements, and then pay the legal settlement costs.

**Natural Risks**

Natural risks are risks that are caused by natural occurrences. They can result in loss or damage of property and may cause a business to be shut down for any length of time. Common natural risks include catastrophes such as floods, tornadoes, hurricanes, fires, lightning, droughts, and earthquakes. Some risks that are caused by people are also called natural risks: power outages, civil unrest, oil spills, arson, terrorism, and even war are classified as natural risks. Businesses can insure against unexpected losses from some natural risks, but not all. For example, a typical business insurance policy may not cover damage caused by acts of war or riots; special insurance may be required to cover regional threats such as earthquakes or floods.

Weather is an example of a natural risk. Some businesses and products depend on predictable weather conditions for success.

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**Extended Activity**

**Business Conditions**

Display headlines and articles from local print or online newspapers discussing current business conditions. Lead a discussion about the general business environment in your area. Ask students if business is going through an inflationary or a recessionary period and to describe some of the risks associated with these factors. Point out that recessions often lead to higher unemployment, which leads to lower revenues for local businesses, which in turn feeds higher unemployment as businesses cut costs and lay off workers.
SECTION 34.1

**Skill Practice**

**Independent Practice**

**Human Risks**

**L1** Ask students to identify and list human risks that a retail grocery store or supermarket faces.

**L2** Ask students to identify and write a one-page report on a common workplace hazard.

**L3** Have students research and report on the Sarbanes-Oxley Act of 2002, which established a set of rigorous accounting standards for public companies in the wake of the Enron scandal. Have students explain how Sarbanes-Oxley will help public companies better manage business risk.

**Extended Activity**

Bring in items such as cassette tapes as examples of product obsolescence. Ask students how product obsolescence is an economic risk.

**Types of Business Risk**

*Preparing and Coping* There are three main categories of business risk.

**How do businesses manage risks?**

**Economic Risks**

These include overestimating demand for merchandise. This store bought more summer styles than its customers wanted and now has to sell them at prices near cost to make room for the fall lines. Better planning could help manage this risk.

**Natural Risks**

These include unexpected weather conditions as well as catastrophes, such as hurricanes. Earthquakes and fires are other natural risks to businesses. Both prevention and risk transfer are important in managing this kind of risk.

**Human Risks**

These include risks related to on-the-job safety as well as employee dishonesty and error. Training in the use of potentially dangerous machinery is an important part of managing safety risks.

**Caption Answer** Businesses may take preventive measures to avoid risks, transfer risks (for instance, by buying insurance), assume responsibility for the risks, and avoid risks.

**Figure 34.1** Types of Business Risk

**Discussion** After students read Figure 34.1, ask them to identify additional business risks that could be included under each category. For example, underestimating demand for a product and buying too few items might be considered an economic risk because it might lead to the loss of good customers to other stores. Market research and better planning could help manage this risk. Have students share and give reasons for their responses.

**For instructions, ideas, and answer guide, go to the Teacher Center at the Marketing Essentials OLC through glencoe.com.**

Ask students to name types of risks that can be anticipated.
A mild winter season or below-normal snowfall represents lost revenues and a natural risk for ski resorts.

Protecting your business property against the risk of loss by fire is a direct way to manage risk. Installing smoke detectors, portable fire extinguishers, and automatic sprinklers, for example, will help to protect your staff, property, and revenue.

**Human Risks**

Human risks are risks caused by human mistakes or dishonesty, or other risks that can be controlled by humans. They range from the financial impact of robbery or embezzlement to job-related injury or illness.

**Customer Dishonesty**

Loss caused by customer theft, fraudulent payment, or nonpayment is a human risk. The National Retail Federation determines that shoplifting cost retailers $15 to $37 billion per year. This loss is passed on to all of us in the form of higher prices for every product to cover inventory shortages, pay for security personnel, and install theft prevention systems. Additional examples of customer dishonesty include the nonpayment of accounts or paying for goods and services with fraudulent checks or credit cards.

**Employee Risks**

Employees represent another human risk for business. For example, members of management at the energy trading giant Enron Corporation and its accounting firm, Arthur Andersen LLP, used questionable accounting techniques that inflated profits and hid losses. These fraudulent practices resulted in the company declaring bankruptcy in 2001—which was, at that time, the largest bankruptcy in U.S. history. Thousands of Enron employees lost their jobs, and many people lost savings they had invested in Enron stock. In addition, Arthur Andersen LLP, previously one of the top five accounting firms in the United States, lost its auditing license and sold its assets to competitors.

**Skills and Working Environment**

In a restaurant, failing to properly cook or handle food can lead to customers becoming ill or hospitalized. To reduce risks of this type, many companies have instituted safety programs that stress the importance of proper food handling.

**A Difficult Choice**

Herring’s Auto Supply has been in business for twenty years, but a new discount store opened nearby about six months ago, and sales have been off ever since. Herring’s has had four low sales months in a row. Bills from vendors are piling up, and Mr. Herring is concerned that if he pays all the bills, there will not be enough cash on hand to pay all his employees when payday comes around at the end of next week. This situation has never happened in all his years of business.

Mr. Herring asks the store’s manager what she thinks they should do. The manager thinks it is more important to pay the employees than to pay the vendors. After all, they work for Mr. Herring. Mr. Herring points out that the vendors have employees they need to pay, too.

**CONCEPTS**

Ask students to list the three types of risk that businesses face and to provide an example of each.

Economic risks include changes in taste and style, product obsolescence, and technology advancement; natural risks include storms, earthquakes, or even war; human risks include employee error or negligence and customer dishonesty.

**KEY TERMS**

Have students review key terms, their spellings, and definitions in small groups.
The business environment or work setting itself often becomes a risk. Customer or employee accidents are potential human risks. Commercial airlines, for example, prepare crews for emergencies not only caused by mechanical problems but also by human factors. A passenger might fall in a crowded aisle, break an arm, and sue the airline. Employees could also be overcome by toxic fumes or sickened by other environmental hazards. Another type of risk sometimes faced by employers is the threat of sexual harassment or physical violence in the workplace.

**Computer-Related Crime**

Over the past decade, computer-related crime has emerged as a significant new human risk for businesses. Malicious programs called computer worms or viruses can be downloaded inadvertently by employees and can wreak havoc on internal computer networks and communications systems. Individuals may also penetrate the security of computer systems to gain access or information for mischievous or criminal purposes, including industrial espionage such as stealing proprietary company information or client lists.

Computer crime is committed by many different kinds of people, from current or past employees to professional cyberthieves. Protecting a business from computer crime requires securing the computer network using passwords, encoded firewall programs, and virus detectors. It also requires being vigilant about scanning for operational or human security risks that affect technology and keeping up to date on security alerts released by software producers. Training employees on privacy policies and the proper handling of confidential information related to voice mail, e-mail and Internet use is necessary to minimize risk of computer intrusion or information theft.

**Key Terms and Concepts**

1. Product obsolescence poses an economic risk because new products are being developed, and many businesses depend on marketing the latest trend. If the products are not sold before they become obsolete, prices have to be reduced.
2. Possible answers include floods, tornadoes, hurricanes, fires, lightning, droughts, earthquakes, terrorism, power outages, arson, war, and unexpected changes in normal weather conditions.
3. Human risks are caused by human mistakes, dishonesty as well as the unpredictability of customers, employees, or a failure to maintain a safe work environment.

**Academic Skills**

4. Price without shoplifting: $28.79; $29.99 \times 0.04 = $1.20; $29.99 - $1.20 = $28.79

5. Students should be able to identify the cause and effect of a company's bankruptcy.
SECTION 34.2
Handling Business Risks

BEFORE YOU READ
Predict What are some of the methods businesses use to handle risks?

OBJECTIVES
- Explain effective security and safety precautions, policies, and procedures
- Describe the various ways businesses can manage risk
- Explain the concept of insurance

KEY TERMS
- insurance policy
- extended coverage
- fidelity bonds
- performance bonds

ACADEMIC VOCABULARY
You will find these words in your reading and on your tests. Make sure you know their meanings.
- undergo
- device

THE MAIN IDEA
Businesses use various strategies to help prevent, avoid, and protect against accidents, injuries, fires, thefts, defective products, and environmental and other disasters.

GRAPHIC ORGANIZER
Draw this chart and fill in the boxes with different methods of handling risk.

Ways of Handling Business Risks
There are four basic ways that businesses can handle risks: risk prevention and control, risk transfer, risk retention, and risk avoidance. An effective risk prevention program for a business should use a combination of all these methods.

ACCEDSTANDARDS
NCTE 1 Read texts to acquire new information.
NCTE 3 Apply strategies to interpret texts.

Question
Which method of handling risks do you think is most important for a business?

AS YOU READ

Develop Concepts
THE MAIN IDEA
Ask students to read the main idea and then discuss how they can protect against similar risks in the home. Have them brainstorm what precautions they take to lessen the chance of injury or loss.

Suggest to students that they come back to this question after reading the section and see if they answer it differently.

VOCABULARY
KEY TERMS Read the key terms aloud and ask the students to predict their meanings.

ACADEMIC VOCABULARY Refer students to the OLC through glencoe.com for the Academic Vocabulary Glossary before they read the section.

GRAPHIC ORGANIZER
Model using the graphic organizer for students. Tell students to go to the OLC through glencoe.com for a printable graphic organizer.

NCLB connects academic correlations to book content.
RISK PREVENTION AND CONTROL
Ask the class to brainstorm techniques that they are familiar with that employers use to screen future employees. Have students volunteer their experiences applying for jobs or volunteer your own experience. Have them relate what kinds of questions they were asked on application forms and in interviews. Ask: Were they asked to provide documents such as a driver’s license? What might a prospective employer learn about someone from his or her driver’s license? Ask students if they have ever had to provide references when applying for a job and to explain why they think an employer would contact a reference before deciding to hire someone.

Reading Strategy
Guided Practice
Understand Preview the following phrases by reading them aloud. Discuss the basic meaning of each, then ask students to do research to find out more about them.

- drug testing
testing for illegal substance use
- injuries due to improper lifting a workplace injury

Screening and Training Employees
The best way to prevent the human risk of employee carelessness and incompetence is through effective employee screening, orientation, and training. Background screening on all job applications, checking references, and requiring driver licenses are often used to assist in new employee selection. Many employers also use pre-employment tests for basic and technical skills to find the right people. Larger companies and some smaller ones now require prospective employees to undergo testing for illegal drugs before being hired. Drug abuse can lead to increased human risk by making employees careless and more likely to ignore or forget safety rules.

When employees begin a new job, some form of orientation, training, and instruction is normally provided. The training may be brief verbal instruction or extensive training that lasts several weeks or months. Workers should be trained in rules and regulations relating to safety.

Providing Safe Conditions and Safety Instruction
According to the National Safety Council, in 2005 there were 5,700 workplace deaths in the United States due to unintentional injuries. In 2004, 6.8 million workers suffered disabling injuries. The financial impact of workplace accidents leading to wage loss, medical expense, and workers’ compensation disability payments is staggering.

Based on these numbers alone, safety and health information must be provided to all employees. When employees receive safety instruction and have safe working conditions, the potential for on-the-job accidents is greatly reduced.

To manage such risks, businesses can design all employee work zones and customer selling areas for efficient foot traffic and storage. They can also provide training on proper ways to safely lift and store merchandise.

Many companies address workplace safety by developing accident management programs, which include:

Risk Prevention and Control
Business risks can be handled through prevention and control. Many common types of risks can be controlled and minimized by screening and training employees, providing safe working conditions and sufficient safety instruction, preventing external theft, and deterring employee theft.

- drug testing
testing for illegal substance use
- injuries due to improper lifting a workplace injury

PHOTO GUIDE

DETERRING THEFT
Closed-circuit television systems can help to deter both employee and customer theft.

What other systems do retailers use to help prevent theft?

Extended Activity
Have students, research information about and/or visit the Web site of OSHA, the U.S. Department of Labor Occupational Safety & Health Administration. Ask students to choose one section of the site and summarize its contents in a five-minute oral presentation.

Follow Up
Invite a store manager to talk to the class about how his or her business deters employee theft and shoplifting.
Skill Practice

Independent Practice

Providing Safe Conditions and Safety Instruction

L1 Tell students to imagine that they have been hired for the summer to work on the janitorial and grounds crew at school. Ask them to identify what safety training and equipment they would expect to receive at their orientation session.

L2 Ask students to write a one-page memo detailing an effective workplace safety training program for a computer-oriented business.

L3 Ask students to research why some states have banned lie detectors for job screening. Have them document their findings in a one-page report. Possible reasons include unreliability of equipment, misinterpretation of test results, invasion of privacy, and constitutional limits on self-incrimination.

Case Study

Some Risks Pay Off

Cirque du Soleil is not your average circus. You will not see lion tamers, but you will see world-class acrobats and dancers performing amazing feats combined with fantastic sets, lighting, and music. Each Cirque show has a theme, and the company introduces one new show each year, after three years of development.

The company was started in 1984 by 23-year-old fire eaters Guy Laliberté and Daniel Gauthier. They persuaded the Quebec government to fund a show by street performers in a Montreal festival. Success led to well-received shows across Canada.

Taking a Gamble

Production companies offered to take Cirque on the road with traveling companies. Despite the temptation of having the shows in different locations with different casts to bring in more revenue faster, Cirque’s managers decided that each show should only have one cast to maintain the highest level of performance. This allowed Cirque to raise ticket prices significantly. Forgoing immediate profits was a risk that paid off.

Think Strategically

What kinds of business risks do you see associated with Cirque du Soleil’s business, including transporting people and sets around the world? How would you manage such risks?

Go to the Marketing Essentials OLC through glencoe.com to find an activity on business risks.

For instructions, ideas, and answer guide, go to the Teacher Center at the Marketing Essentials OLC through glencoe.com.
Develop Concepts

Guided Practice

Preventing Theft After students have read the material about preventing external theft, lead a discussion about shoplifting, burglary, robbery, and the difference among them. Make sure students understand the difference between a misdemeanor and a felony. A misdemeanor is a less serious crime, such as shoplifting. A felony is a more serious crime, such as auto theft or bank robbery. Point out that a less serious crime, such as shoplifting. A misdemeanor is a less serious crime, such as shoplifting. A felony is a more serious crime, such as auto theft or bank robbery. Point out that state laws differ in their definitions of what constitutes a felony.

Extend Have students brainstorm ways employees can steal from employers. You might suggest that taking office supplies for use at home, use of the telephone for personal calls and long distance, personal use of photocopiers and fax machines, and inappropriate use of office postage and mail services are considered by many employers to be theft.

Extended Activity

Ask students why sexual or racial harassment can be considered a workplace risk.

Preventing Theft

One of the largest and most costly forms of human risk is theft by employees and customers. Internal theft by employees and external theft by customers in retail stores is high. The 2004 National Retail Security Survey estimated that inventory theft from retail stores costs the American public more than $33 billion every year.

Shoplifting is external theft that involves stealing merchandise from a business. Shoplifting is one of the fastest-growing crimes against property in the country. While shoplifting losses vary by store type, it is estimated that one-third of lost inventory is caused by shoplifting.

There are many ways to deter shoplifting. Businesses can educate store employees about shoplifting prevention guidelines. Adequately lighting store layouts, storing expensive items in locked display cases, or tagging products with electronic anti-theft devices can cut down on shoplifting. Many stores use security personnel and security devices such as high-zoom digital recorders, electronic gates, closed-circuit television, and wall or ceiling mirrors to cut down on the risk of theft.

Apprehending shoplifters is a significant risk. Merchants can be sued for allegations of false arrest, false imprisonment, malicious prosecution, excessive use of force, or physical assault. To limit their liability, retailers must know acceptable shoplifter detention policies and be sure that employees are trained in these practices.

Robbery is stealing of money or merchandise by violence or threat. Many local police departments provide instruction on how to prevent and handle robberies. Businesses can lower their risk by:

- Limiting the amount of money that is kept on hand
- Offering incentives such as prizes or bonuses for improved safety records
- Addressing workplace threats such as sexual harassment or violence

Handling bank deposits discreetly
- Installing video cameras to help identify robbers
- Hiring extra employees to assure double coverage
- Hiring security guards
- Installing bulletproof glass in cashier cubicles
- Opening back doors only for freight or trash
- Installing switches that allow employees to lock outside doors
- Increasing lighting inside and outside of the establishment
- Making sure doors are locked and alarms are set at night

Controlling Employee Theft

Employee theft represents 48 percent (compared to shoplifting's 31 percent) of all business losses due to theft. Most employee theft occurs at the point-of-sale (POS) terminal, or cash register. To protect against employee theft, many businesses have installed closed-circuit television systems and POS terminals that generate computerized reports.

POS computerized reports monitor void transfers, cash discrepancies, sales reports, refunds by employees, employees' discounts, and cash register transactions. By carefully analyzing these data, businesses improve the chances of apprehending dishonest employees.

Closed-circuit television systems used in conjunction with POS terminals also lower the risk of employee theft. Closed-circuit systems include cameras concealed in mannequins, ceilings, or walls. Usually operated by security personnel in a control room, they are backed up with a video recorder.

Internal business standards regarding policies to prosecute dishonest employees must be established. Open discussion about employee honesty and company policies keep all employees aware of expectations. Another prevention technique is pre-employment psychological testing to detect attitudes about honesty.

Stopping Shoplifting

Divide the class into three- to five-member teams to work on an anti-shoplifting campaign for your community and school. Suggest that they start by searching the Internet using such terms as anti-theft, anti-shoplifting and loss prevention. Have each team develop ideas and an action plan for the campaign. Suggest that they include an educational component to focus on the cost of shoplifting to all consumers, and the legal penalties associated with this crime. You might have students document the entire effort by following the guidelines of the Civic Consciousness Project provided by DECA.
Develop Concepts

Risk Transfer Ask students to discuss the business purpose of insurance. Point out that businesses often purchase insurance to transfer some of the risks of doing business. An insurance policy represents a contract between the business and the insurance company to cover certain business risks in the event of a loss. Explain that insurance companies not only sell insurance, but they also educate their clients about ways to reduce risk. They typically assist business owners in identifying potential risks by conducting a walk-through and recommending changes that can be made to warn customers and employees of potential hazards.

Extended Activity
Are There Uninsurable Risks?
Have students investigate why insurance companies might not cover a particular kind of risk. For example, some property policies may not protect against floods or earthquakes. Have students share their findings in a class discussion.

Risk Transfer
Some business risks can be handled by transferring the risk of loss to another business or to another party. Risk transfer methods include purchasing insurance, establishing product and service warranty periods, and contractual risk transfer.

Purchasing Insurance
A business can insure property and people against potential loss by purchasing insurance policies. An insurance policy is a contract between a business and an insurance company to cover a specific business risk. A business can buy an insurance package that combines two or more types of insurable risks of loss.

Insurance companies estimate the probability of loss due to natural risks such as fire, lightning, and wind damage, and human risks such as theft and vandalism. The insurance company then looks at the business’s location, past experience, limits, and type of business to determine an insurance rate.

One of the most common forms of business insurance is property insurance. Property insurance covers the loss of or damage to buildings, equipment, machinery, merchandise, furniture, and fixtures. Coverage can be

AD GUIDE

Discussion Have students discuss how insurance policies work and then to relate their own experience with car and health insurance.

Caption Answer An insurer can help a business evaluate risk and determine needs by investigating the business and relating it to those areas for which they offer coverage to similar businesses and by estimating the probability of loss due to natural and human risks, as well the probability of loss for that type of business.

Follow Up Invite an insurance broker to class to speak about the different types of business insurance available.
Develop Concepts
Guided Practice
Purchasing Insurance
After students have read the material about transferring risk, divide the class into four groups and assign each group one or two types of insurance: (1) property insurance, (2) personal liability and product liability insurance, (3) life insurance and credit insurance, and (4) workers’ compensation insurance. Give each group several magazines, a large sheet of poster board, several large sheets of paper, colored markers, and tape. Have each group use its materials to create a poster on the types of insurance assigned to them. If students cannot find appropriate pictures in magazines, they may draw them. Have each group write a definition for each type of insurance on the poster board, tape the relevant pictures on the board, and write words or phrases that illustrate the types of insurance. Ask each group to share their posters in class.

Extended Activity
Small Business Crime Prevention
The Small Business Association offers numerous publications on crime prevention in small business. Have each student acquire one of these publications or have several copies of each publication available. Ask students to read and summarize information and present a brief oral report to the class.

MANAGING RISKS
There are different kinds of insurance for different kinds of risks.

Why might a business have different providers for property insurance and life insurance?

AD GUIDE • MANAGING RISKS

Discussion
Lead a discussion about the different types of insurance companies. Explain that insurance companies specialize in managing risk in different areas.

Caption Answer
Students should understand that companies can specialize in insuring for different types of risk. For example, certain companies specialize in health insurance, others in life insurance. In addition, specific industries may be targeted by a particular insurance company.

Follow Up
Ask interested students to research different insurance companies, such as the Ace Group, Blue Cross, and Metropolitan Life, to determine the types of insurance they offer. Have students share their findings with the class.
Liability Insurance

Business liability insurance protects a business against damages for which it may be held legally liable, such as an injury to a customer or damage to property of others. Primary business liability insurance is usually provided for claims up to $1 million. This type of insurance may be extended to cover business premises, company operations, customer medical expenses, and product and advertising liability claims.

Product liability insurance protects against business losses resulting from personal injury or property damage caused by products manufactured or sold by a business. Many businesses purchase product liability insurance to protect against potential customer claims even though private laboratories and government agencies may have tested the products extensively.

Fidelity bonds protect a business from employee dishonesty. Businesses usually require employees who handle money, such as bank tellers and cashiers, to be bonded. If a bonded employee steals money or merchandise, the bonding company pays the loss. Individuals who are to be bonded are subject to background checks before a bond is issued.

Performance bonds, also called surety bonds, provide financial protection for losses that might occur when a construction project is not finished due to the contractor’s impaired financial condition.

Life insurance is often purchased to protect the owners or managers of a business. A sole proprietor (individual business owner) is usually required to have life insurance in order to borrow money. The policy will guarantee that there will be money to pay off the sole proprietor’s debts and obligations if he or she dies.

Power Paper

Have you ever opened up a greeting card and heard it play Happy Birthday to You? Ultrathin silicon technology makes the generation of music possible, but where does it get its power? Power Paper is an Israeli company that makes batteries as thin as a piece of paper to power such cards, among hundreds of other uses.

Work and Play

One powerful application of Power Paper technology is PowerID, which integrates radio frequency identification (RFID) with the company’s power source. Merchandise tagged with PowerID can be tracked from manufacturer to retailer, even if stored in boxes or around materials that interfere with radio transmission. The labels can be read from as far as 40 feet away. This helps all members of a supply chain manage the risks of theft and other losses, as well as keep better track of the level of inventory on hand.

For the retail market, Power Paper has created products that incorporate printed clocks, simple games, or calculators into the covers of notebooks. Hasbro, the toy company, has incorporated Power Paper batteries into products such as thin LCD watches and touch-activated musical-instrument-shaped stickers that play tunes.

Universal Access

Logical/Mathematical Learning

Tell students that they have a life insurance premium of $412 due every three months. Ask them to calculate this premium as a monthly expense. The monthly amount is $137.33 ($412 ÷ 3). Tell students that a few months from now, the premium will increase by $27. Ask them to recalculate the premium as a monthly expense. The recalculated monthly amount is $146.33 ($412 + $27 = $439; $439 ÷ 3).

Extended Activity

Orientation and Risk

Have students who are or have been employed and have gone through an orientation program write a 100- to 250-word report on the orientation program used at their place of employment. Tell them to discuss the strengths and weaknesses of the program, what types of risks it explained, and how the program could be improved. Have students express what they learned from the program and what they would like to know or find out more about.

Writing Support

Becoming Bonded Some students may one day have to be bonded. Have students research this process. Ask: What happens when you become bonded? How does the bonding company determine how much money will be reimbursed to a person who makes a claim against a bonded employee? Who is not eligible to become bonded? Under what circumstances is bonding revoked? Have students present their findings in a 250-word report.
CONCEPTS

• Ask students to list the various types of business risks. economic, natural, and human
• Have students explain the concept of insurance.
Answer suggestion: an insurance policy is a contract between a business and an insurance company to cover a specific business risk.

KEY TERMS

In small groups, have students review key terms, spellings, and definitions.

INDEPENDENT REVIEW

L1 Assign and review Chapter 34 activities in the Student Activity Workbook.
L2 Assign and review Chapter 34 activities in the Marketing Math Workbook.
L3 Assign and review Chapter 34 activities in the BusinessWeek Reader with Case Studies.

Purchasing life insurance on a partner can provide the money needed for other partners to continue the business when the partners are named as beneficiaries and receive the money from the policy.

Credit insurance protects a business from losses on credit extended to customers. Credit life insurance pays off the balance due for loans granted by banks, credit unions, and other financial institutions in the event the borrower dies.

Workers’ compensation insurance covers employees who suffer job-related injuries and illness and protects employers from lawsuits filed by an employee injured on the job. All states require employers that regularly employ a predetermined minimum number of employees for prescribed time periods to purchase workers’ compensation insurance coverage.

Product and Service Warranties

Warranties are promises made by the manufacturer or distributor with respect to the performance and quality of a product.

Transferring Risks Through Business Ownership

In a sole proprietorship, the individual owner assumes all risks. Partnerships enable the partners to share in the business risks.

• AVOIDING RISK

Many companies that provide businesses with insurance are also involved in helping them create effective risk management plans.

Why might an insurance company want its clients to minimize risks?

Follow Up

Have interested students talk with people in the insurance field to find out how they minimize and manage their own risk.
Corporations allow the stockholders, as owners, to share the business risks. The corporate form of ownership offers the most protection from losses.

**Risk Retention**
In some cases, it is impossible for businesses to prevent or transfer certain types of risks, so they retain or assume financial responsibility for the consequences of loss. This process is called risk retention. A business has to assume the loss—or retain the risk—if customer trends change and merchandise remains unsold. Most retail shops assume the loss of a certain percentage of goods due to damage or theft. It is possible to underestimate the risk, such as when merchandise is purchased in anticipation of high demand but weather, fashion trends, or customers’ purchasing habits change. A business may attempt to generate a profit by taking a risk, such as purchasing land for future development or sale through subdivision.

**Risk Avoidance**
Certain risks may be anticipated in advance. Risk avoidance means that a business refuses to engage in a particularly hazardous activity. Market research can lead businesses to conclude that investment in a product or service is not worth the risk. All business decisions should be made with the consideration of both potential benefits and potential risks. Avoiding unacceptable business risks should be a key consideration in any marketing decision.

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**34.2 AFTER YOU READ**

### Key Terms and Concepts
1. What are the four basic ways to handle business risks?
2. What strategies can be used by businesses for risk prevention and control?
3. Identify three different ways that a business can transfer risks.

### Academic Skills
**Math**

4. The total cost of theft from retail stores in 2004 was estimated at $33 billion. Calculate the individual costs of internal and external theft if internal theft represented 48 percent and shoplifting represented 31 percent.

**English Language Arts**

5. Perform library research on the topic of shoplifting. Write a 100-word article abstract on the topic of shoplifting. In your article abstract identify the name of the article, its publication date and name of publication, and summarize the article.

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**ASSESS**

**AFTER YOU READ**
Have students complete the Section 34.2 After You Read section review.

**ONLINE STUDY TOOLS**
Have students go to the Marketing Essentials OLC through glencoe.com for the Section 34.2 practice test.

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**CLOSE**

Have students answer the following questions.

- **What is risk retention?**
  Risk retention means that a business elects to retain or assume responsibility for some business risks.

- **What is risk avoidance?**
  Risk avoidance means that a business refuses to engage in a particular activity. Each method is similar, since both are ways of handling risk.

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**Extended Activity**
Ask students how a SWOT analysis or a PEST scan can help a company assess its risks.

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**NCLB**
Activity correlated to Mathematics and English Language Arts Standards

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**Find answers at the Marketing Essentials OLC through glencoe.com.**
Billy Hardison
Independent Talent Buyer and Concert Promoter

What do you do at work?
As an independent talent buyer in a secondary market, marketing is just one of the necessary skills for survival. At the micro level every concert promoter negotiates as fiscally responsible a deal as possible with every artist on a case-by-case basis.

Advertising the upcoming event is an obvious next step. Marketing, however, exists at the macro level. Marketing not only influences advertising decisions, it also affects the buying of the talent itself. Branding must be consistent. Shows that are bought, choice of sponsors (if any), use of mass media and to what degree, visibility to the common public, ideology, religion and eating habits are all factors that must be addressed when defining the brand.

What skills are most important to you?
The intangibles are the ability to communicate to the audience, even if it is not your audience, humility, diplomacy, foresight, street smarts, blue-collar skills and work ethic. The tangibles are the ability to communicate through all mediums, computer skills, an appreciation of the arts, a college degree.

What is your key to success?
This is a hard nut to crack. Drive is the most important quality, regardless of the formal training. We have a saying in the “biz”: “This is the hardest business to get into and the hardest business to get out of.”

Lifelong Learning

Career Information
Have students go to the Marketing Essentials OLC through glencoe.com find the Chapter 34 Careers page, and click on the link for the American Marketing Association’s Careers Strategies and Tips. Ask students to select one article and summarize it.

Risk Management
Risk management is a profession that can be applied to a variety of departments within business operations. For example, workplace safety can be managed by many different departments. Students interested in the field of risk management may benefit from taking courses in human resources, labor relations, and industrial or technological risk management specific to their industry of choice.

Primary Source
Ask students to go to the Marketing Essentials OLC through glencoe.com and find Chapter 34 Resources. Ask them to click on the link for the American Marketing Association’s marketing dictionary and read the definitions of the terms that are related to risk management and assessment.

Test-Taking Strategies
Have students choose one or two concepts in the chapter for which they need clarification, and write a 50-word summary of each concept in their own words. The summarizing practice will help reinforce key chapter ideas and concepts.
CHAPTER 34 REVIEW

FOCUS on KEY POINTS

SECTION 34.1
- Business risks are situations that can lead to financial gain, loss, or failure. Risk management is the process of managing risk in an ethical way.
- Business risks fall into three categories: economic, natural, and human. Economic risks such as recession or population changes result from changes in overall business conditions. Natural risks such as floods or arson result from natural or sometimes human occurrences. Human risks are caused by human mistakes or things that can be controlled by humans, such as the working environment.

SECTION 34.2
- There are various ways that businesses can manage risks of financial loss, including loss prevention, control, transfer, retention, and avoidance. Establishing and maintaining safe conditions and controlling external and internal theft can reduce financial loss.
- Insurance is a common way to transfer risks. You can also transfer risk through warranties or business ownership changes.

REVIEW VOCABULARY
1. On a sheet of paper, use each of these key terms and academic vocabulary words in a written sentence.

Key Terms
- business risk (p. 718)
- risk management (p. 718)
- economic risks (p. 719)
- natural risks (p. 719)
- human risks (p. 721)
- insurance policy (p. 727)
- extended coverage (p. 729)
- fidelity bonds (p. 729)
- performance bonds (p. 729)

Academic Vocabulary
- stress (p. 721)
- internal (p. 722)
- undergo (p. 724)
- device (p. 726)

2. Risk management is the systematic process of managing an organization's risks to achieve objectives in a manner consistent with public interest, human safety, environmental needs, and the law. Risk management is an important marketing function because it is necessary for effective financial, marketing, production, and human resource management decisions. Risk management also reduces the adverse effects of risk on business resources, cash flow, and profits.

3. Economic, natural, and human risks are among the types of risks that a business may experience.

4. Safety and security policies reduce risk because they help communicate to all employees specific ways to minimize risk in these areas.

5. Answers may include: Insurance is a common way to manage risks. You can also transfer risk through warranties or business ownership changes.

6. The main purpose of an insurance policy is to transfer risk from one company or party to another.

7. Fidelity bonds protect a business from employee dishonesty. Performance bonds provide financial protection for losses that might occur when a construction project is not finished due to a contractor's impaired financial condition.

8. Screening employees helps control and minimize business risk and prevent employee carelessness and incompetence.

9. Businesses can educate employees about shoplifting prevention guidelines, adequately lighting store layouts, storing expensive items in locked display cases, or tagging products with electronic anti-theft devices to cut down the risk of shoplifting.

10. To protect against employee theft, many businesses have installed closed-circuit television systems and POS terminals that generate computerized reports.

II. property insurance
12. Workplace Skills
Answers should outline the importance of hygiene and other good practices in the workplace and mention the risks that could result from failing to follow appropriate cleanliness guidelines.

13. Technology Applications
Answers should list the top five most costly natural disasters in your state.

14. Math Practice
$29,616; \$1,234,000 \times .024 = \$29,616$

15. English Language Arts
Examples could include damage caused by fire, natural disasters, terrorism, and other threats.

16. Extended Warranties
Responses may include that companies offer extended product warranties as a means to increase their profitability. The warranty is supposed to make the consumer feel that he or she has an extra layer of protection should the product malfunction.

17. Improving Workplace Safety
Presentations should reflect an understanding of the workplace safety.

Formative Assessment
Formative assessment is an essential component of classroom work. This type of assessment provides information that is then used as feedback to modify teaching and meet student needs.

L1 Review key terms for this chapter. Ask students to write one sentence for each key term.
L2 Provide examples of risks that affect different types of businesses. After each story, have students connect the risks with the businesses.
L3 Have students develop scenarios that illustrate a specific type of risk.

If the results of this formative assessment seem low, consider the following activity:
Read each of the key terms aloud. Have students define the key terms and use them in a sentence. Clarify any issues students may have.
18. Business and the Environment

The students should be evaluated on the performance indicators noted in the role play. For another DECA role play, go to the Competitive Events Workbook or the Student Activity Workbook, or go to the Marketing Essentials OLC through glencoe.com.

@ Online Action!

For more information and DECA Prep practice, go to the Marketing Essentials OLC through glencoe.com.

DECA Advisors Corner

Hold an employer appreciation breakfast. Invite your business supporters, key teachers, school administrators, etc. A student presentation about DECA should be the main component of the agenda. Many advisors utilize this time to recognize those who helped make the DECA year a success.