

Who is this Guide For?

This guide is for people wanting to know more about how to manage the business risks of being an artist

What does it cover?

It outlines a process that allows artists to (1) assess the relative importance of the different risks that they face and (2) work out how to improve the way they address, manage and reduce those risks

MANAGING BUSINESS RISKS – AN OVERVIEW

You and your art business experience risk all the time. The importance of a risk relates to whether it's likely to happen and how severe the impact would be on the success of your art business – in both creative and financial terms. Work out how to reduce your exposure to risk and loss by following the exercise outlined in this guide.

You can score the level of risk you are exposed to. It's the sum of two risk factors multiplied together:

- **Importance** - how significant an impact a risk may have (points out of 10 where 10 = maximum risk)
- **Probability** - the likelihood that the risk will occur (points out of 10 where 10 = maximum likelihood)

You can also work out the value of a risk. If you work out where you're most exposed to risk, you can then devise a plan to modify its impact and reduce or eliminate the likelihood that it will happen.

Here are a couple of examples of the whole process. In the first the artist responds in a positive way to the assessment. In the second the artist behaves as if the problem will go away if he does nothing at all.

EXAMPLE - a valuable piece of equipment

You are a fine artist who produces etchings. Your printing press is absolutely vital to your production. Risk of its failure is of critical importance to you and you rate the risk importance factor as a 10. However your printing press is very old and very simple in terms of moving parts. It's never failed before and has a good record of performance. So you rate the likelihood of it failing as 2. Therefore the combined risk rating of your printing press failing is 20 which is not very high.

However, because the press is so critical to your work you decide to source an alternative printing press so you know what you would do should it ever fail. You make a reciprocal agreement with another fine art printer that you'll help each other out if either of you should have problems with your press.

EXAMPLE – a rural artist lacks money management skills and becomes bankrupt

You are a painter who lives in a very rural area. You readily admit you have no aptitude for managing money. As a result, you've got into difficulties with paying your rent and your bills and your landlord is now threatening to make you bankrupt if you don't clear your debts in the next 14 days. You rate the risk importance of being made bankrupt as an 8 (you can't quite believe he'll really do it). However, despite the fact that you know the chances of being able to pay him are remote, you rate likelihood as 8 also (ever the optimist - you still hold out some hope that you can talk your landlord into giving you more time to pay). This combines to give a risk rating of 64.

Being optimistic that "things will work out" you continue paint and order supplies on your credit card and do nothing. Your landlord evicts you and takes you to court to get his money. You are declared bankrupt and your bank retrieves all the plastic it's given you. You now have to operate on a cash basis and have an allowance. Your favourite online art supplier will no longer supply you with materials as you're bankrupt and a bad credit risk. Your nearest decent art store is 60 miles away – and they don't allow credit.

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HOW TO MANAGE YOUR RISK BETTER

RISK ASSESSMENT

1. Identify all the risks you're running
2. Identify their relative level of importance
3. Analyse the probability of the risk actually occurring

RISK MANAGEMENT

1. Rank the likelihood and importance of different risks to determine priorities
2. Devise a plan to reduce the likelihood of all major risks occurring

WHAT ARE THE RISKS TO YOU AND YOUR BUSINESS?

You need to start by identifying risks. I find that if you can't work out what your risks are (and for some people this bit of the exercise just doesn't 'click' for some reason) try adopting a '*what's the worst thing that could happen?*' approach after which the ideas generally start to flow – and flow! Don't try to assess ideas while you're generating them – that comes later. Just get down on paper all the risks you can think of

Risks might fall into the following groups – here are some suggestions of things to think about.

- **Generated by you and/or the way you behave**
 - Your health
 - Your dexterity / strength / mobility – all the things which would make it difficult to make art
 - Your financial health / credit worthiness / ability to manage money
- **Within your control and/or intrinsic to the work you do**
 - Your supplies
 - Your studio
 - Your specialised art equipment
 - Your computer
 - Your desk printer
 - Your client list and mailing list
- **Located in the environment in which you work / subject to your influence**
 - Your galleries
 - Your online sites
 - People you meet
 - Clients
 - Gallery owners
- **Located in the wider environment / outside your control**
 - General economy
 - Regional economy
 - How happy/wealthy/good people feel – in general
 - How scared/depressed/negative people are – in general

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Now check back – have you come up with what are the worst things that could happen to you or your business?

WHAT'S THE RELATIVE IMPORTANCE OF DIFFERENT RISKS?

Once you're satisfied you've thought of all the risks you're running you need to sort them into groups.

First classify the identified risks according to importance – the potential level of impact on the running of your business. So, the more severe the impact on your business – the more important the risk

EXAMPLE: Sales in your galleries slow dramatically – and then they all begin to go bust and close down one after another. This has a very severe impact on your cashflow and business if you haven't developed any other way of selling your work.

To get going on this task, **first try sorting your risks into the following categories**

- Major importance – severe creative and/or financial impact (assess value in £/\$)
- Important – significant impact on creativity and/or finances (assess value in £/\$)
- Quite important – impact is noticeable but creativity/finances can absorb most of it
- No risk – little or no impact on either creativity or finances

Now look at each group in turn. You should have a smaller number of risks to consider. Work out how you'd rank them in relative terms. Once you've worked the relative order of importance, give each risk a number using the following range where 10 = the most important risk and 0 is minimal or no risk at all

- Major Importance (8-10) – impacts in a critical way on being an artist/doing business (value £/\$)
- Important (5-7) – a major setback for the business (value £/\$)
- Quite Important (2 – 4) – causes disruption/failure to achieve an objective but not very significant
- No or minimal risk (0-1) – very little impact

WHAT'S THE LIKELIHOOD THAT A RISK OF SOMETHING HAPPENING ACTUALLY HAPPENS?

Now think about how likely it is that a risky event might actually happen.

EXAMPLE Will an economic bubble burst and ordinary people spend much less on art? The answer is generally 'Yes – highly likely'. People who have lost value on paper tend to feel less wealthy and spend less on discretionary items. The critical issue is 'when' and how to minimise exposure to the fallout when it does.

You now need to adopt the same approach for each identified risk – but this time you are making an assessment about the likelihood of it happening. Use the same approach, sort risks initially into groups and then rank them in order of the likelihood they may happen and then award a rating number as follows

- Highly likely to happen (8-10) e.g. 50+% chance in the next 3 years
- More likely (5-7)
- Less likely (2 – 4)
- Unlikely to happen (0-1)

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DETERMINE PRIORITIES - ANALYSE AND RANK DIFFERENT RISKS

To work out your priorities it's helpful to have a summary overview of your risk assessment.

Create a table which lists and ranks (in terms of risk assessment scores)

- the risk and its cause
- a brief summary of its likely impact on your art business (practical and financial)
- a brief summary of how likely it is to happen
- score for impact of risk
- score for probability of risk
- Overall risk assessment score when scores for impact and probability are multiplied together

Do you see any surprises? While some risks are considered predictable, most people are often really surprised by the way in which they have exposed themselves to significant risks without taking any actions to minimise impact or probability.

Do make sure you try and give a realistic assessment of the monetary value of the impact of individual risks.

This often sways how people determine priorities. That might be because this is the first time ever that the real financial loss associated with a particular risk has been calculated! Looking at the financial value often causes people to review again whether they have assigned the right sort of score to the impact of the risk.

DEVISE A PLAN TO ADDRESS THE RISK

Now you need a plan to address the risks. It's good business practice to make this part of your normal annual review and business planning process. It can be very influential in determining business objectives.

Start by deciding the point where you want to make plans to reduce or mitigate the risk. It's sensible to start with all those which have the most severe impact (scoring 8+) and all those which are more likely to happen (scoring 5+). These are the risks where it would be very prudent to think through how it might be possible to:

- **reduce the likelihood that it will happen** – reduce or remove the risk
- **reduce the impact of the risk on your or your business** – mitigate the risk

EXAMPLE: The risk is that the studio burns down, destroying equipment, art supplies and all stock kept in the studio. If this happens the artist has nowhere to make art and has lost all stock for upcoming exhibitions which will impact on income. It's not very likely to happen but catastrophic if it does in both creative and financial terms.

The time (days/weeks) required to deal with an insurance claim, find a replacement studio and replenish supplies and equipment is all time which cannot be used for generating or marketing artwork (or income).

Actions to Reduce Risk – keep a fire extinguisher in the studio and practice safe habits in relation to any inflammable materials.

Actions to Mitigate Impact of Risk – have an insurance policy for the studio building, its contents and the financial impact on your business if it is destroyed or severely damaged

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PLAN to address risk: Use various methods to address risk but make sure these are cost-effective.

- Generate as many ideas as possible for removing or reducing the likelihood of each risky event occurring and/or mitigating its impact should it happen.
- Assess the practicality, effectiveness and cost of each idea.

WRITE DOWN what you intend to do: Large organisations now tend to keep a risk register to help with risk management – and you can too!

The following are useful things to record so you don't have to scratch your head next time you think about risk management or want to review what you decided you should be doing.

- Describe the risk and its cause
- Describe what would happen - the immediate impact of the risk on you/your business
- Indicate the probability of the risk occurring - *before risk reduction*
- Define the impact on achievement of business goals (and quantify £/\$) - *before risk mitigation*
- Describe risk reduction and risk mitigation measures – and who does what

Writing things out in this way is also very beneficial for some people as it often affects the way they subsequently behave. Remember, the process is of no use at all unless you follow through and act on your decisions.

REVIEW: Don't create a plan and then just file it. Add the actions into your 'to do' list.

You also need to check back from time to time to see whether new risks have arisen and whether the actions you're taking are still appropriate and cost-effective – or whether they now need to be changed.

AND FINALLY.....

The real value of this process comes in actually systematically sitting down and thinking about risks and what you can do about them for yourself.

If you hand this exercise over to somebody else to do for you, you won't realise the major benefits.

The BENEFITS of engaging with and working through the process are:

- It really **affects the way you think** – because you can begin to assess and rate risks
- It helps you to **identify and analyse options for the future** – but you only get out what you put in
- It **helps you to assess the risks worth taking** – and how to minimise the impact of those risks
- It will **help you make better choices** in relation to a risky business and influence new directions for your art.

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