



جامعة الجميع الذكية
EVERYONE'S SMART UNIVERSITY

Everyone's Smart University

Project (Spring 2021)

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Section

Master

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Project Risk Management

Barista's Coffee Business: Risk Identification and Analysis

Risk Identification

Regardless of the magnitude, extent, or team involved, every project faces risks that may inhibit its completion. A visionary project team should acknowledge the importance of contingency planning to ensure its continuity and conclusion. A risk is an uncertain event that may affect the objectives of a project if it occurs. Project managers or teams use risk identification to establish and characterize risks that may affect a project's completion. The partners expect different kinds of risks to occur in the Barista's Coffee project.

a. Write a Comprehensive Business Plan

A comprehensive business plan is necessary to persuade financiers to invest money in the Barista's Coffee project. It provides funders with details on the nature of the business, competition, customers, financing requirements, roadmap, and the projected returns. This milestone faces the uncertainty of not establishing workable project goals. The team must prepare a plan with realistic and measurable goals. The probability of this risk low.

b. Seeking Funding

The goal of a business plan is to attract potential investors and secure funding. The risk identified at this level is the denial of funding by the financiers. As stated earlier, the project intends to acquire funds through debt financing from a financial institution. Funders may reject our application due to insufficient collateral, inadequate evidence of strong cash flows, and poor credit scores. The likelihood of this risk is medium.

c. Securing a Location

The potential risk in this phase is not finding a space with desirable features. The team is looking for a spacious shop near the university to provide students and households residing near

the campus with a trendy, relaxing atmosphere where they can dine, socialize, work, and read. The risk of not finding a desirable space is low.

d. Obtain Licenses and Permits

Every startup in the United States must obtain a business license to operate legally. In addition to this permit, Barista's Coffee must acquire a foodservice license from the city's health department to operate. The risk in this stage is the failure to file proper documentation with the relevant licensing authorities. The prospect of this risk is low.

e. Purchase Equipment

Furniture and food and drink equipment are central to the coffee house business. The uncertainty in this step is the failure to find quality equipment within the organization's budget range. Since the probability of acquiring equipment depends on obtaining funding, this risk is also medium.

f. Recruiting Staff

The organization intends to hire employees who understand the coffee business to compete with rivals. The risk involved in this milestone is the failure to attract professionals who will accept the wages offered by Barista's Coffee. The possibility of this uncertainty is high.

g. Connect With Suppliers

The partners will connect with suppliers who will provide the business with inventory, equipment, and ingredients needed on the menu. The risk involved in this stage is failing to get suppliers who can deliver quality equipment and items within Barista's Coffee's price range. This uncertainty is high.

h. Embark on Marketing Tasks

The probable risk in this milestone is that of not reaching out to an extensive pool of potential customers. The business targets students and households that live near the university. The likelihood of the risk is low.

i. Prepare for a Grand Opening

The uncertainty involved in this stage is not inaugurating the coffee house on the set date. Since this risk depends on all the other eight milestones, its prospect is high.

Risk Probability-Impact Matrices for the Identified Risks

A risk matrix is a visual portrayal of how an uncertainty may affect the project. The probability is the likelihood of a risk occurring, while the impacts are the consequences an event may cause if it happens. This assignment will rank the impact in five categories: minor, moderate, major, severe, and catastrophic, and probability in three classes: low, medium, and high. The impact scores are uniquely assigned to individual risks depending on their effects on the overall project status.

a. Risk #1 (R1) – Failure to Establish Realistic Project Goals

PROBABILITY	IMPACT					
		Minor	Moderate	Major	Severe	Catastrophic
		(0.2)	(0.5)	(0.7)	(0.85)	(1)
	High (85%)	0.17	0.425	0.595	0.723	0.85
	Medium (50%)	0.1	0.25	0.35	0.425	0.5
	Low (15%)	0.03	0.0075	0.105	0.128	0.15

b. Risk #2 (R2) – Denial of Funding by Financiers

PROBABILITY	IMPACT					
		Minor (0.2)	Moderate (0.6)	Major (0.75)	Severe (0.9)	Catastrophic (1)
	High (85%)	0.17	0.51	0.64	0.765	0.85
	Medium (50%)	0.1	0.3	0.375	0.45	0.5
	Low (15%)	0.03	0.09	0.1125	0.135	0.15

c. Risk #3 (R3) – Failure to Find a Space With Desirable Features

PROBABILITY	IMPACT					
		Minor (0.1)	Moderate (0.2)	Major (0.5)	Severe (0.7)	Catastrophic (0.9)
	High (85%)	0.0085	0.17	0.425	0.595	0.765
	Medium (50%)	0.05	0.1	0.25	0.35	0.45
	Low (10%)	0.01	0.02	0.05	0.07	0.09

d. Risk #4 (R4) – Failure to File Proper Documentation

PROBABILITY	IMPACT					
		Minor (0.2)	Moderate (0.3)	Major (0.4)	Severe (0.7)	Catastrophic (0.85)
	High (85%)	0.17	0.255	0.34	0.595	0.7225
	Medium (50%)	0.1	0.15	0.02	0.35	0.425
	Low (10%)	0.02	0.03	0.04	0.07	0.085

e. Risk #5 (R5) – Failure to Find Quality Equipment Within the Budget

PROBABILITY	IMPACT					
		Minor (0.2)	Moderate (0.4)	Major (0.5)	Severe (0.6)	Catastrophic (0.8)
	High (85%)	0.17	0.34	0.425	0.51	0.68
	Medium (50%)	0.1	0.2	0.25	0.3	0.4
	Low (10%)	0.02	0.04	0.05	0.06	0.08

f. Risk #6 (R6) – Failure to Attract Staff who Will Accept the Organization's Wages

PROBABILITY	IMPACT					
		Minor (0.2)	Moderate (0.4)	Major (0.5)	Severe (0.6)	Catastrophic (0.8)
	High (85%)	0.17	0.34	0.425	0.51	0.68
	Medium (50%)	0.1	0.2	0.25	0.3	0.4
	Low (10%)	0.02	0.04	0.05	0.06	0.08

g. Risk #7 (R7) – Failure to Persuade Suppliers to Deliver Within the Budget

PROBABILITY	IMPACT					
		Minor (0.2)	Moderate (0.3)	Major (0.5)	Severe (0.75)	Catastrophic (0.85)
	High (85%)	0.17	0.255	0.425	0.6375	0.7225
	Medium (50%)	0.1	0.15	0.25	0.375	0.425
	Low (10%)	0.02	0.03	0.05	0.075	0.085

h. Risk #8 (R8) Failure to Reach Out to an Extensive Pool of Clients

PROBABILITY	IMPACT					
		Minor (0.2)	Moderate (0.3)	Major (0.5)	Severe (0.6)	Catastrophic (0.75)
	High (85%)	0.17	0.255	0.425	0.51	0.6375
	Medium (50%)	0.1	0.15	0.25	0.3	0.375
	Low (10%)	0.02	0.03	0.05	0.06	0.075

i. Risk #9 (R9) – Failure to Open the Coffee Shop on the Scheduled Date

PROBABILITY	IMPACT					
		Minor (0.2)	Moderate (0.3)	Major (0.4)	Severe (0.5)	Catastrophic (0.7)
	High (85%)	0.17	0.255	0.34	0.425	0.595
	Medium (50%)	0.1	0.15	0.2	0.25	0.35
	Low (10%)	0.02	0.03	0.04	0.05	0.07

Risk Analysis of the Selected Risks

a. Risk #1 (R1) – Failure to Establish Realistic Project Goals

This risk implies that the eight partners have collectively failed to prepare a business plan that outlines realistic project goals. Funders will only finance a project they trust will achieve its goals and objectives within a specified time frame. This uncertainty will affect the schedule of the project as the team will go back to the drawing board to prepare a tangible document. The indicator to help identify this risk is the delay in receiving feedback from financiers after submission. The response strategy to prevent this uncertainty is to ensure the goals outlined in the business plan are specific, measurable, achievable, realistic, and time-bound (SMART). An expected monetary value (EMV) is a risk management technique used to measure and compare risks in different project aspects. It is calculated by multiplying risk probability by impact ($EMV = Probability \times Impact$). Since the budget for this milestone (Milestone #1) is \$0, the EMV (in any circumstance) will be \$0. The only impact of this risk will be the delay in the start and completion of the project.

b. Risk #2 (R2) – Denial of Funding by Financiers

Financiers may refuse the business funding for several reasons, including having inadequate evidence of strong cash flows, bad credit scores, and insufficient collateral. Its occurrence will hinder the technical performance of the project and cause delays. The members can assess their creditworthiness and availability of collaterals to detect whether financial institutions will deny them funds. They can respond to this risk by amassing their personal and business assets to increase the collateral or pursue other funding options, such as equity financing. Assuming Barista's Coffee entirely depends on financiers, a "moderate" impact will have an EMV of $0.3 \times \$435,000 = \$130,500$.

c. Risk #3 (R3) – Failure to Find a Space With Desirable Features

This risk implies that the project team fails to secure a location with a trendy, relaxing atmosphere where customers can enjoy coffee and other meals, socialize, work, and read. The impacts of this uncertainty are unhappy clients and business failure. Customers will be dissatisfied with the organization if it cannot exceed the value offered in other premises and leave it for competitors. The sign of this risk is securing shops that have similar floor and interior designs as regular coffee houses. The strategy to mitigate this uncertainty is to acquire a location that meets some of the attributes and renovate and customize it to match the desired aspects. Assuming a location budget of \$250,000 (the midpoint of \$200,000 - \$300,000), a “major” impact of this risk will have an EMV of $0.05 \times \$250,000 = \$12,500$.

d. Risk #4 (R4) – Failure to File Proper Documentation

This uncertainty means that the organization fails to acquire the licenses needed to start operations and demonstrate compliance with relevant food safety regulations stipulated by health authorities. The effect of this event is the delay in starting operations. The team can prevent this risk by hiring a licensing advocate to file the right documents. A “severe” incident of this event will have an EMV value of $0.085 \times \$800 = \68 .

e. Risk #5 (R5) – Failure to Find Quality Equipment Within the Budget

Since the startup intends to acquire equipment and furniture needed to operate a coffee business, this risk implies its failure to obtain quality machines and fittings within the stipulated budget. It will cause delays and budget increments to the project. Indicators for this uncertainty include vendors refusing to sell at the given prices and offering inferior quality substitutes. The solution to prevent this event is to purchase the equipment and furniture directly from manufacturers because it will be cheaper. A “catastrophic” effect of this risk will have an EMV value of $0.4 \times 2,000 = \$800$.

f. Risk #6 (R6) – Failure to Attract Staff who Will Accept the Organization’s Wages

Since the business looks forward to having a competitive edge over other coffee houses, this risk means that it will fail to attract experienced and accomplished employees to work in its premises at the proposed wage rates. Its occurrence will cause delays, budget increments, and customer dissatisfaction. Indicators for this event are potential staff refusing to join the company or pledging to join only if wages are raised. The strategy to avert this uncertainty is to hire specialists in areas central to the coffee business, such as baristas and pastry chefs. This approach will allow the organization to balance the wages of professionals and regular employees. A “catastrophic” impact of this uncertainty will have an EMV of $0.68 \times \$132,000 = \$89,760$ in the first eight weeks.

g. Risk #7 (R7) – Failure to Persuade Suppliers to Deliver Within the Budget

This uncertainty suggests that the organization fails to convince its suppliers to deliver equipment, inventory, and ingredients within the proposed budget range. The impacts of the risk are budget increments, delays, and potential business failure. Indicators include refusal to provide these goods or delivering inferior products. The team can prevent this risk by persuading suppliers that the relationship will be long-lasting. Since this milestone does not have a budget, an occurrence of this event will have an EMV of \$0.

h. Risk #8 (R8) Failure to Reach Out to an Extensive Pool of Clients

The risk implies that the startup fails to attract an extensive pool of students and households residing in the area. Its impacts include reduced sales and revenue and business failure. A notable indicator is few customers coming to the restaurant. The business can mitigate this risk by increasing its online presence and marketing through external agencies. The EMV of the risk is \$0.

i. Risk #9 (R9) – Failure to Open the Coffee Shop on the Scheduled Date

This risk implies that the coffee house does not start operations as scheduled because of contingencies in the other milestones. Its impacts are delays in project completion and possible budget increments. The indicators for this event are delays and rescheduling of tasks in the other milestones. The team can mitigate it by completing the other stages on time. The EMV value is \$0.