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Creating a comprehensive business disaster plan

By: Todd Martin

Most business owners — those who want to stay in business — work hard at being prepared for unforeseen problems.

They realize, as you probably do, that no matter how simple and straightforward their business is, they could someday feel the financial squeeze that follows any number of disasters.

And while most business owners have considered accidents and natural disasters such as hurricanes, fires and explosions, that doesn't mean they're prepared for other unseen and uncontrollable disasters such as equipment breakage, driver accidents, economic shifts, regulatory changes and industry-wide slowdowns. One way business owners prep themselves for the worst is by creating a disaster plan — not just a strategy for how they'll store data and fulfill orders during a natural disaster but a comprehensive blueprint that helps them handle anything thrown at them.

There are four main elements to a comprehensive disaster plan:

Risk assessment

It's impossible to create a comprehensive, useful disaster plan if you don't fully analyze your risks. These will vary depending on the type of business you own, so you can't necessarily model your plan on that of another company. As an example, when I work with a business that sells a product, we have to consider product recalls, distribution problems, cash flow issues and lost clients. But when I work with clients in manufacturing, their concerns include training, regulations and environmental risks.

Responsive management steps

As a business owner, you're also a manager and you need to think about all the ways you can respond to disasters when they occur. Responsive management steps include cutting costs, reducing employee hours and quickly adapting to regulatory changes.

Business owners must also consider how they will handle the death of a co-owner or key employee. They need to have a plan in place for absorbing costs of lost business, buyouts, recruiting and training, all of which can hit after losing an owner or key employee.

Insurance planning

A business can only do so much to protect itself. Insurance is the fail-safe that provides large-scale protection that might otherwise be out of reach. A business owner can obtain liability, property and business continuation coverage, but they also need to consider the added liability they take on with deductibles and limits because those must be paid out of pocket.

For businesses with sufficient capital, it may be more efficient to set up a captive insurance company. This will allow the business owner to underwrite risks a conventional insurer won't while also gaining certain tax advantages.

Creating a savings cushion

With a sturdy savings cushion, a business can ensure that it has fewer potential risks since incidents like cash flow shortages and late-paying clients can't hold them hostage. Setting aside three to six months of operating costs will go a long way in helping you through any disaster.

This should include enough to cover payroll, rent, marketing and other business continuation expenses. When you combine this with responsive management steps, such as cutting costs and reducing employee hours, you can stretch your savings even further. Savings should be kept liquid, which means business owners need to consider vehicles that allow for a small return without impacting liquidity.

Enacting the plan

A disaster plan isn't something that's only implemented after a catastrophic event. Many disaster plans list certain red flags that trigger business owners to enact specified aspects of the plan before disaster hits.

By being proactive and implementing aspects of the plan once these red flags appear, business owners can improve their chances of avoiding the disaster altogether. Employee training, debt minimization and cost cutting are all ways you can be proactive about preventing disaster.

When it comes to debt minimization, business owners should prioritize the debt they pay off by considering whether the debt helps create revenue that exceeds interest expenses. For example, if you invest in equipment that drives your costs down and creates more profit than it costs in interest, you can put this debt lower down on your priority list for payment.

When it's time to create a disaster plan, one of your most important tools can be an independent third party. Often, those who work outside your industry have a clearer view of some of the perils you face and can help you create a plan that truly helps your business have a successful recovery.

Todd Martin is a principal with M3 Advisors. M3 Advisors is a business consulting firm in Savannah. He can be reached at Todd@M3Advisors.net or 912-352-9644.