

The Best Time for a Business Disaster Plan? Before the Disaster Happens

Before 9/11 and Hurricane Katrina, the concept of a business “disaster plan” was envisioned mainly in terms of weather- or fire-related disasters and heavy on the notion of evacuation.

The concept of business risk today is so much wider – legal threats from inside and outside the company, computer-related losses, regulatory threats, and of course, the potential of human and facility losses due to natural disasters or the possibility of terrorism. There really is no one-size-fits-all approach to dealing with business risk – variables like your business size and structure and personal issues like your age, health and your time to retirement also factor into what should be a very customized risk management plan.

If you are starting a business or already own or co-own a company, the first steps in creating a disaster plan should involve separate visits to tax, insurance and qualified financial advisers. A CERTIFIED FINANCIAL PLANNER™ professional with specific expertise in helping business owners plan their finances is a good place to start. Here are some general issues you should consider in developing an overall business disaster plan:

Your plan depends in large part on your industry and business structure. A three-person law partnership may have a completely different risk profile than a sole proprietor working out of his attic or the owner of a body shop. Whether you use expensive equipment in your business or if all you produce is valuable ideas on paper, you need to take specific steps to protect the value of your business assets in tandem with your personal finances. This process should start with a financial review to review how to protect your home, your income stream and your retirement savings if particular scenarios happen.

Develop a “what if” list. Be as imaginative and as negative as possible about this. Consider every possible event that could hurt you or your business – what hurts one automatically hurts the other. The first question – what if you died or became disabled tomorrow? Others might refer to some specific physical plant or computer risks as well as employee or customer risks that could affect your future operations. A good way to make the list is to draw a line down the middle. On the left side, list every possible risk, while writing every possible remedy for those risks on the right side. Prepare this list before you meet with experts.

Protect yourself first. If you’re a good boss, you care about your employees and your customers, and we’ll get to them in a moment. But the first step in a business disaster plan is to review your list of worst-case scenarios and review how you would protect your home, your health, your retirement, your kids’ education and your estate priorities first. If your business fails for any reason, all of those critical necessities could be jeopardized. Make sure you have appropriate life and disability insurance coverage in addition to a current estate plan.

Protect your employees second. In a natural or man-made disaster, lives can be lost. But if you're closed for weeks and months, key employees may leave and that might be a greater long-term danger to your company. Talk to your insurance company about every physical and employment risk your staff could face in a disaster and see what safety nets are available.

Protect your customers third. If you faced a lengthy business interruption, how would you serve the customers who are depending on you? Are there specific customer service and inventory procedures in place to keep them informed, supplied and most important, loyal once you're up and running again? Do you have options for alternate office and production space as well as resources for temporary workers?

Protect your information. You don't have to be some high-tech firm to understand the value of proprietary information that keeps your company running. From proprietary databases and research to customer credit information, this data is critical fuel for your business. What's to keep a burglar from stealing your computers and taking all your valuable financial, inventory and customer data with them? Better yet, what's to keep a computer hacker from stealing the information and leaving the machines behind? Data security and backup procedures are increasingly important as disaster-planning priorities. Get help finding the protective measures that fit your industry.

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This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Angel McCall, CFP, a local member of FPA. You will find additional informative articles at www.AngelMcCallCFP.com.