



Contingency & Emergency Plan

Prepare and prevent,

don't repair and repent.

~ Anonymous

Contingency and emergency planning is not a new concept. Every business needs an emergency and contingency plan to reduce the risk and lessen the potential impact on your employees, customers, and the financial health of your business in the case of an emergency.

What is the Purpose of a Contingency & Emergency Plan?

The purpose of your Contingency & Emergency Plan is to think ahead about the potential risks and plan how you will respond, manage, and act when specific events occur. Taking the time to conduct a risk assessment in advance allows you and your management teams to think through possible scenarios, define the implications, and plan a response.

What is an Emergency Plan?

An emergency plan is a specific response to a natural or man-made disaster:

- It defines what you will do when it (the event) happens.



- It details a specific tactical and practical response to deal with the problems, issues, and confusion after a major emergency. Your emergency plan can focus on just the business or it can also include employees, customers, and suppliers.
- It involves the creation of specific strategies, organizational issues, and a structured response to provide an opportunity for members of your team to discuss the issues, train, and prepare.

What is a Contingency Plan?

A contingency plan is the portion of your business plan that examines the underlying assumptions in your business plan. Every business plan is based upon specific assumptions - such as certain facts, projections and market trends - that you believe are true. The process of writing your contingency plan will help you examine the viability of the business when assumptions change.

TIP: Review the assumptions you have made in your business plan. Then select those that have NOT been verified for accuracy and write a plan for what you will do to compensate for the changes to minimize the impact on business viability. Take a notebook and walk around your business to identify potential threats to the business.

Example of Assumptions that May Require Attention In Your Contingency Plan

When writing your business plan, it is VERY important to examine all your major assumptions and seek to get them confirmed through some trusted third party for accuracy. Your contingency plan should answer the following questions:



1. **Drop in revenue:** What would you do if you do not reach your sales and revenue targets?
How much of a difference would need to occur before you reexamine your marketing and strategies?
2. **Borrowing costs increase:** If you are borrowing heavily and interest rates suddenly increase, what would you do to compensate for the increased costs? How much of an increase in interest rates would the business be able to absorb before it starts to impact the viability of the business.
3. **Customer Bankruptcy:** What is your contingency plan if your business suffers a sustained interruption to cash flow due to a major customer going out of business?
4. **Disaster:** In case of a major accident, event or disaster what would happen you're your business based on your current level of preparedness? How is your business at a lower/higher risk than others?
5. **Loss of a Key Staff member:** What will you do if a key staff member suddenly becomes ill, quits or dies? How would that affect you? How easy would it be to replace the person? How much would it cost?
6. **Regulatory Restrictions:** What is your plan if the health board closes your business? Are there any real estate or development caveats that could negatively affect the business? Are you compliant with all health, safety, and employer laws?



7. **Increase in costs:** What is your plan if utility, fuel or raw materials suddenly increase in cost? Are any of your products dependent on energy? If so, how can you mitigate the impact of a steep increase in energy costs?
8. **Loose a major supplier:** What is your plan if a supplier goes out of business? What would happen to your business if your supplier fails to secure the right to continue to sell or distribute your products?
9. **Accident or Illness on Premises:** How will you respond if a customer gets injured, ill or creates a disturbance? What would need to change to ensure an appropriate response from you, your staff, and the business?
10. **Robbery or Violent Act:** How vulnerable is your business to theft from employees, customers, and third parties? What is your data backup routine? What would be the impact of an act of vandalism or theft on your computer systems? Would you be able to restore operations on another system? How long would it take? How much would it cost? Does insurance cover the costs?

Business Planning Evolves

The field of business planning continues to evolve. Crisis and contingency planning are the survival tools of the new millennium. For example, in the early 1970's few people thought to create a contingency plan to deal with the impact of skyrocketing gas and diesel prices and all of them felt it in lower profit margins.



In the 1980's few would have thought that interest rates would climb above 20 per cent. But they did. Due to changes in the energy, business and political climate, it is now standard practice to include a contingency to compensate for fluctuations in fuel, energy and interest rates.

No one could have predicted the disaster inflicted by terrorists on the World Trade Center. You can bet that business plans for office buildings and towers in New York now contain contingency plans to help them deal with the crisis, damage, and business interruption should another act of terrorism, or a natural or man-made disaster occur.

Few companies anticipated the major recession of the mid-late 2000s. National and international issues – tariffs, trade, workforce, and general health – continue to impact your own local, small, mid-size or large company. Can you afford NOT to plan for change?

Examine and Verify All Assumptions

Key Performance Indicators

Key Performance Indicators (KPI) are well known management and accounting measurement tools used to monitor the performance of the business. KPI's are expressed as ratios when two or more totals from your financial statements are calculated. For example one of the KPI's that many entrepreneurs are familiar with is called Current Ratio. It is one way of expressing liquidity in your business by calculating the ratio between all current assets and all current liabilities. The actual calculation $\text{Current Assets} \div \text{Current Liabilities} = \text{Current Ratio}$. Talk with your business coach or accountant to learn more about these ratios.



An example of a common KPI is sales per employee. In 1996 Toyota Motor Corporation had \$604,346 sales per employee and \$14,489 after tax earnings per employee. In 2005 sales per employee was \$578,005 but after-tax income rose to \$36,493 per employee. Compare that performance to \$650,000 sales per employee for Microsoft whereas Google has \$1,500,000 sales per employee. For perspective, consider the “sales per employee” for some other businesses (US NAICS 2002):

- Software Publishers: \$293, 635, per employee/per year.
- Crude Oil & Natural Gas Extraction: \$905,632, per employee/per year.
- Natural Gas Liquid Extraction: \$3,016,321, per employee/per year.
- Motion Picture & Video Production: \$408,347, per employee/per year.
- Video Tape & Disc Rental: \$62,439, per employee/per year.
- Internet service providers, web search portals: \$152,427, per employee/per year.
- Web Search Portals: \$274,711, per employee/per year.

KPI values can vary widely from industry to industry. Sales per employee is just one example of a KPI measure.

TIP: Compare your operation to that of your competition to see how you are doing. When there is a difference you can ask yourself some questions to begin to investigate if a problem exists and what you need to do about it.

From a contingency planning viewpoint Google (comparing 2005 results to 2002 industry stats) is doing almost 6-fold above industry averages. Even in 2004 they were doing 4 times the industry average. So, in that situation Google’s main strategy is to focus on what to do to maximize revenues. Whereas, a smaller web search portal that was averaging less than \$274,711 per employee that needed to get more funding to reinvent themselves would need to develop a



turnaround plan and develop a set of KPI's to keep an eye and an appropriate contingency plan to deal with shifts and changes in the company's KPI's.

Identify and Define Your Own KPI

There are numerous assumptions made in every business plan. Take time to sit down and make a list of all the key assumptions that underlie and support your business plan. What are the changes, trends or events that could cause a significant negative impact on the business and disrupt revenues, profits, and viability of your operation? Look to identify the underlying trend(s) that would have to change in order for it to negatively affect your business. For example, consider the following suggestions for a wholesale distributor:

- Number of phone calls taken per day per employee.
- Number of orders/number of calls.
- Number of new customers or accounts opened each month.
- Amount of returns per customer. Average dollar amount per invoice.
- Percentage of customers ordering a new product.

Create your own list of Key Performance Indicators that you will track on a regular basis. It is just a matter of establishing a relationship between two known values and then calculating the value or ratio. As you track them over an extended period you will get a feel for what is a normal level of activity and when activity levels drop you can investigate and take corrective action.

Other examples of the most common financial KPI's you can also use to monitor the health of your business:



- Liquidity Ratios: Current Ratio, Quick Ratio.
- Safety: Debt to Equity, Debt coverage ratio.
- Profitability: sales growth, COGS to Sales, Gross Profit Margin, Net Profit Margin, Return on Equity, Return on Assets, Owner's Discretionary Profit Dollars,
- Efficiency: Accounts Receivable Turnover, Accounts Payable Turnover, Days in Inventory, Inventory Turnover, Sales to Total Assets, and Sales Per Employee.

Talk with your business coach to learn more about these and other KPI's.

Write a Six-Step Disaster Plan

Step 1 - Assessment and Mitigation

To reduce the impact and cost of a natural or man-made disaster advance planning will help you to determine the level of risk and allow you to think through the impact disasters common to your area could have on the business. Creating a written disaster plan will not only reduce the cost and impact of a disaster but it can be used as a guide to direct the preparations, and training of management and staff. Your disaster recovery plan should anticipate how to deal with these possible events:

- Power: an energy disruption is short-term loss of power that can damage equipment when power resumes. Especially to hospital equipment, data centers, and manufacturing facilities. Describe the procedures that will be followed to protect your equipment when power resumes.
- Computer Software or Hardware Failures: damage to this equipment can also damage, delete or corrupt your information. Describe the measures that will be followed when



computer software or hardware fails.

- **Network and Computer:** Network security is an ongoing concern. When hackers and viruses are able to gain access to your network and/or computer the damage can range from a serious interruption to outright loss or theft of data. Describe your plan to protect your data and make back up copies of all data in a secure offsite location.
- **Labor Strife:** While a labor dispute (walkout, shutdown) might be considered a disaster, they certainly are disruptive to business operations. Create a written list of procedures for equipment shutdown and storage.
- **Natural Disasters:** These events include earthquakes, fire, flood, and storms. Depending on where your business is located the type of natural disaster common to your area could differ greatly. Find out what type of disasters should be anticipated and create your plan based on guidelines provided by your city, county, and state.
- **Terrorist Acts:** Include the use of violence for the purpose of creating fear in order to achieve a political, religious, or ideological goals that can include weapons of mass destruction or smaller threats. Follow similar preparations as for other disasters and check with local, state and federal authorities for suggestions on preparation.

Make sure you take the time to examine all of the potential events and scenarios. Think through the impact each would have on the business and prepare a plan to recover and restore business operations. By taking the time to identify the most likely scenarios you will be better equipped to



cope with the recovery and restoration of the business.

Step 2 - Response and Recovery Plans

Once you have identified the potential treats by natural and man-made disasters it is time to focus on writing your plan for responding to the emergency and then the recovery plan. Stop and think about the components that make your business run and then these are the areas that you will want to concentrate your planning efforts around, for example:

- **Financial:** Depending on the severity and type of disaster access to financial institutions would range from being restricted to total shutdown. Areas to concentrate on include preserving records (paper and digital), a supply of alternative invoices, purchase orders, checks and banking documents.
- **Facility and Equipment:** Accurate records of equipment, serials numbers, make, model and manufacturer including the suppliers contact information will be important when it comes time to making a claim. Include an overview of your procedures to secure and shut down equipment. Then create a subset of documents for specific instructions and procedures for specific pieces of equipment. Describe your training process. If damage to the building or plant is severe you will need to find an alternate location and your plan should include a list of options and alternatives that can be used as a guideline when needed.
- **Insurance:** Make an appointment with your commercial insurance broker. Make sure you



understand your policy and what is covered by the policy and what your options will be at claim time. Record contact information for your broker, the companies head office, and a copy of your policy with your plan.

- **Customers:** Create a procedure for contacting your customers to let them know about what happened to the business. I recommend creating a sample agenda that outlines what the customer needs to know about the companies plans for recovery, resumption of operations and what can be done to meet the customers interim needs.
- **Employees:** Every employee will be dealing with their own family's situations when a widespread disaster hits an area. In the case of a fire limited to your building you may have to write paychecks to bring their pay up-to-date and if the rebuilding downtime is extended you will need to temporarily layoff your staff until the building gets to a point where you can give them their jobs back. Call the local Unemployment Office to find out more about how you should handle the layoffs to make sure the employees get their benefits.
- **Government:** Documentation to include in your plan should be names and contact information of all local, state and national offices and officials. This should include police, ambulance, and hospitals. Make sure to include a directory of government departments and assistance programs.
- **Communication:** Service disruptions can range from periodic to total shut down of regular communications systems. Create a communication plan to get the word out about the status



of the business. Make sure to include alternative communication devices including handheld radios, CB, and cell phones. Another option is to locate a local ham radio operator in your area.

Step 3 - Damage Assessment Process

Your plan should include preformatted worksheets to help document the amount of damage so that you can get a handle on the damage and make an appropriate and accurate claim to the insurance company. Worksheets should include inventory, equipment, and assets.

Step 4 - Salvage Procedures

Part of coming to a settlement with your insurance company will be documenting your efforts to salvage as much inventory, equipment, components, and building. Describe your plan, which should include a camera, inventory or equipment control sheets to record the type of damage. In some cases, the insurance company will want to repair instead of replace items when possible.

Step 5 - Rehabilitation Plans

Depending on the breadth of damage from the disaster there will be certain restrictions that could prevent you from getting started with the rebuilding and rehabilitation process. You will need to wait for local authorities, utilities (water, power, gas, phone), and other infrastructure to get back up and running before you can really get started rebuilding your business. Your plan should describe what level of support for physical, emotional, and psychological needs.



Step 6 - Disaster Recovery Plan

The biggest issue at this point is to be able to resume business operations to ensure continuity of the business. This will include the information, facility, and supply infrastructure of the business. From computer systems, equipment, furniture, and buildings.

It is pretty difficult to write a lot about your disaster recovery plan when you are writing the plan because you have no idea what the level of damage actually is. What you can do is assign responsibilities to various management and staff members to help organize the disaster recovery plan.

TIP: Assign areas of responsibility for the rebuilding process based upon how the business was organized prior to the event. These employees and managers are likely most familiar with their department and able to bring that perspective to the recovery and rebuilding process.

Archive of Business Data

Be sure to include the following information in your contingency plan:

- **Contact Sheet:** This includes a list of people and the actions to be taken to contact customers, staff, suppliers, and staff family members in case of an emergency.
- **Plan Members and Organization:** The plan should include a list of the members of the planning team, their roles and responsibilities. It should also include specific instructions for maintaining the plan and keeping it accurate and current.



- **Responsibilities:** Clear description of the responsibilities of managers, staff, and department heads. Make sure to include human resources, administration, facilities, and information technology.

TRAP: Don't forget to routinely update the various notification lists and other items such as the names and numbers of employees and suppliers that will need to be contacted, office and home numbers, family members to contact, and a list of local authorities and recovery teams.

TIP: Make sure to include drawings of your building as well as a list of inventories, emergency supplies, and third parties that can provide support.

Conclusion

If this is new to you, don't stress. Any task in business can seem daunting at the beginning of the process. Use the attached checklist to chart your road map to success. Reach out to our team at Infinite Ping if you have questions or need support.



Be safe.

Be well.

Be Ready.

For more information or support, please contact:

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