

THE BUSINESS OWNER'S GUIDE TO CONTINGENCY PLANNING





As an entrepreneur and a business owner, you want to maintain a positive attitude and focus on success. The powerful belief that your venture will succeed is a hallmark of the entrepreneurial mindset. However, it is likely that your business will hit some bumps on the road to success. Effectively dealing with these setbacks is essential to achieving your eventual success. That is why risk management and contingency planning are necessary tasks for an entrepreneur and a small business owner.

No one wants to focus on what could go wrong, but taking some time to engage in contingency planning is just smart business. Your business plan should not only lay out why you think that your business will be successful, but you should also examine any potential weaknesses or obstacles so that you can develop a plan to cope with these variables.

- The first step is to take a comprehensive look at your business to identify any risks that you might encounter.
- Next, you need to develop a plan to deal with these risks.
- The most important part of this plan will be maintaining the continuity of your business in the face of unanticipated events.
- One significant area to look at is information technology. Your data and computer systems will need special attention in your contingency plan.
- Another important piece of contingency planning is properly insuring your business.
- Finally, you want to think about any opportunities that might arise unexpectedly. Planning for these will allow you to take better advantage of positive developments.



As the old adage goes: “If you fail to plan, you plan to fail.” Good contingency planning is an important part of running a successful business. This guide will help you get started.

The first step in contingency planning is to try to get a handle on the risks that you could be exposed to. If you can begin to spell out the kinds of bad things that might happen, then you can put a plan in place just in case. This is beneficial because if you have a plan that includes potential negative events, then you can be better prepared to handle them.

INTERNAL WEAKNESSES

The first area to think about is within your business. You can try to identify weaknesses and develop plans to strengthen these weak points. Here are a few areas to think about:

Staff: Think about what you would do if something happened to a significant employee. How would your business cover that person’s responsibilities? You also want to think about who would run your business if you were temporarily incapacitated.

Facilities and Equipment: What would you do if your facility became temporarily unusable? Are there things that you can do to prevent an event like this from happening? Your equipment is just as essential. If you rely on a few pieces of equipment to run your business, then you need to think about what you would do if this equipment failed.

Suppliers: If a key vendor were suddenly unable to meet your needs, what would you do? You want examine the sources of your essential supplies to make sure you have a diverse network of suppliers.

Technology: It is important to consider any technology that your business relies on to operate in your contingency planning. Think about what would happen if your computer system went down! How would you operate your business if you could not access your data or make any transactions?

EXTERNAL THREATS

Threats are events that originate outside your business but can significantly affect your business. For example, if you have a location on the Gulf Coast, you might be at risk for a hurricane. Here are some threats that you can try to anticipate with contingency planning.

Natural Disasters: You want to think about the kinds of natural events that happen in your region. It could be hurricanes, tornadoes or earthquakes. Have a plan for dealing with the potential effects of these kinds of events.

Competition: Your business does not operate in a vacuum. You have competitors, and you need to know what they are doing. If they are pricing their services below yours, you may need to make adjustments to stay competitive. Ultimately, you are going to want to identify the ways that you stand out from competition and present those ideas to your leads to win their business.

Crime: There are people out there who will do bad things when given the chance. You want to make sure that you have proper security measures in place to deter these people.

Laws, Regulations and Zoning: You want to make that you are aware of any changes in laws relevant to your business on the federal, state and local levels.



The first step to a good contingency plan is identifying where you may be at risk. Once you have a list of potential weaknesses and threats, then you can take steps to rectify these situations.

Your number one business priority when an unanticipated event affects your operations is to keep your business running. You want your business to be able to operate smoothly, even if everything behind the scenes is not. Here are some key areas that you should plan for:

STAFF CONTINUITY

Your employees are really the heart and soul of your business. You want to make sure that your business can function if any employee is absent. This goes for short-term absences like sick days or vacations. It also applies to long-term absences like pregnancy leave or recovery from a serious injury.

- Having an operations manual that spells out how to do all the required tasks is the first step. When another employee fills in for an absent one, they can at least refer to the established written procedures. Cross training your staff can be more effective in this regard.
- You want to actively identify key tasks that only one or two people are able to perform. Train other people to take on those tasks to protect yourself in the event that these key employees are absent for any period of time.
- These measures will also make it easy to train a new or temporary employee if this should be required.
- Don't forget to look at the responsibilities performed by you as the owner. Make sure operations can run smoothly if you are unable to come to work.

FACILITY CONTINUITY

What if you could not operate your business from your present facility? You need to develop a plan to completely move your operations elsewhere either temporarily or permanently.

- Plan a back up site that will work for your business.
- Think about each position in your business and what they would need to work at the back up site.
- You might even have test runs to make sure that you can move your business operations to a new location at the drop of a hat.
- In addition, you want to keep your facility in top shape. Complete proper maintenance and safety checks to make sure that it is always in good working condition.

EQUIPMENT

Whether your business relies on vehicles or a high-speed printer, you need to make sure you can continue operations if this equipment fails.

- Many businesses opt for a service plan that includes both regular maintenance and emergency repairs for important equipment.
- You should also plan for the replacement of important pieces of equipment. If it is vital to your business, you may also need to consider redundancy and back-up systems.

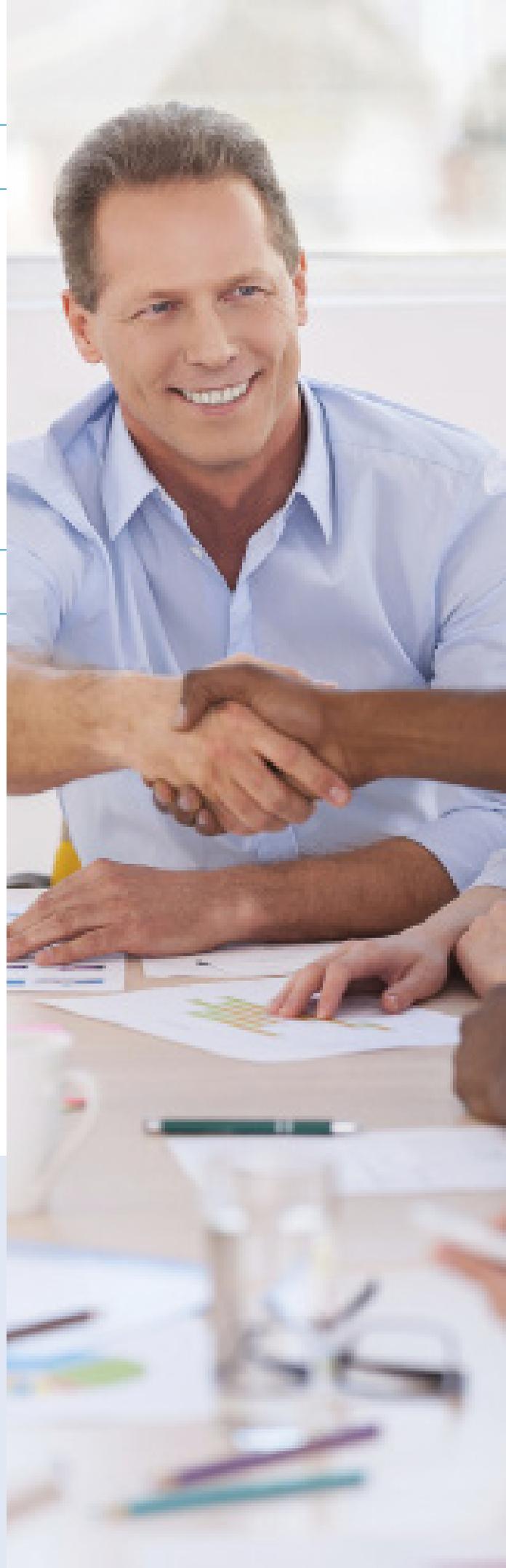
FINANCIAL STABILITY

The better your business' financial position, the easier it will be to deal with emergencies. Make sure your business is in good financial condition, and you will weather almost any storm.

- Pay down your debt aggressively. This will free up more resources to cover risks.
- There are some emergencies that will shut your business down temporarily. A devastating hurricane might shut you down for a week. Having cash reserves will help you survive the financial ramifications of having to close shop for a few days.

With careful planning, you can make sure that your business stays operational during emergency situations.

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TECHNOLOGY CONTINUITY

Data is at the heart of your business. Without computers to store and process your data, your business would most likely grind to a halt. You could mow lawns, or sell merchandise, or do whatever it is that you do, but you could not record transactions, maintain accurate inventory or access sales history without computers. You want to make sure that your information systems are secure and functioning efficiently. Here are some ideas:

- **Plan for down time:** Make sure your staff knows how to conduct business on paper just in case the computers go down. You don't want to lose business just because the computers are not operational.
- **Update your software and hardware:** Software and hardware upgrades can be expensive so you want to be wise about how often you upgrade. There are, however, significant costs if your system gets too far out of date. Eventually, your old system will become inefficient, cumbersome and obsolete. Then you will have to pay the piper for an expensive system overhaul.
- **Make sure your data room is secure:** A door that is accidentally left unlocked can provide an opening for a security breach.
- **User security:** Make sure that your users have strong login passwords and that they understand basic security protocols like not sharing personal login information. You may also limit the access of each user to specific functions that he needs for his job. You don't want everyone to be able to access every aspect of your computer system.
- **System protection:** Have proper security measures in place to protect your system from external attacks. These include firewalls and anti-virus software. Keeping these protections up to date may cost a bit of money, but having your system hacked or infected with a virus can shut you down for a significant amount of time and compromise the integrity of your data.
- **Good reporting and auditing practices:** Reviewing system reports as well as having scheduled and surprise audits can make sure that everything is in order. These reports and audits will help you spot irregularities and help you to find vulnerabilities.
- **Consider cloud computing:** Downsizing your in-house computer system and moving your software and data to the cloud is a way to regularize your IT budget and protect your data. When you move your data to the cloud, you entrust it to a third-party vendor who maintains remote data servers that house your data. Your cloud vendor will be responsible for the security and safety of your data. They have experts in data security dedicated to this task. Your IT team may not have this kind of expertise. Moving your data to the cloud may make sense for a lot of reasons, not the least of which is contingency planning.

The security and safety of your business data is too important to leave to chance. You need to have plans in place to protect your information technology system from ever-increasing threats.

THE RIGHT INSURANCE POLICIES

Insurance is an important tool in planning for contingencies and mitigating risks. Determining the right insurance to get the best protection for the lowest rates is an important part of contingency planning. Here are few types of insurance that you will need to protect your business:

- **General Liability Insurance:** This insurance is necessary for every business. If you, your staff, your products or your services cause injury or property damage to a third-party, this insurance will protect you. It provides for your defense in court and will pay any damages up to your coverage limits.
- **Professional Liability Insurance:** This insurance protects you if you make an error of professional judgment. These kinds of damages are not covered by general liability insurance. Any business that renders professional services, from law firms and hair salons, will need this protection.
- **Business Interruption Insurance:** This insurance covers any loss from interruptions of business due to a disaster. It covers lost profits and fixed costs that must be paid even though the business is not operational. It may even cover a move to a temporary location.
- **Property Insurance:** This protects your property and equipment if it gets damaged. The damage might come from a fire or a natural disaster. It may also come from human influence like vandalism or theft.
- **Workman's Compensation Insurance:** This insurance provides wage replacement and medical benefits to your employees who are injured while working. In exchange for these benefits, your employees agree to give up their right to sue over the incident. This not only protects your employees, but it protects your business from being sued over every incident. Many states require businesses to have this insurance.
- **Commercial Auto Insurance:** If your company owns vehicles, you will want to have them insured. If your employees use their personal vehicles for work purposes, you will want to carry auto liability just in case your employees do not have enough personal coverage.
- **Data Breach:** You have a responsibility to protect information about your customers and clients. For example, if you store credit card or bank information for your customers, you are liable if your system is breached and this data is stolen. This applies to paper files and computer data. Data breach insurance protects associated with the theft of private information about your customers.
- **Directors and Officers Insurance:** If you are a corporation, you are most likely already required defend and reimburse your corporate officers and board members if they are taken to court over actions directly related to their role in your business. This insurance covers your losses when this happens.
- **Business Owner's Policies:** Many insurance companies bundle some of these products together in a single policy for convenience.

In addition to insuring your business, it is also important to protect yourself with personal insurance. You will want to make sure that you have adequate life, auto and homeowner insurance to protect your personal property. You may even want to carry an additional umbrella policy just to be safe. The more secure your personal property is, the more you can focus on making your business a profitable venture.

Looking at your insurance is a necessary part of contingency management. You hope that serious problems never arise in these areas, but if they do, you will be grateful that you have the right coverage to protect your business. Consult with your financial adviser and insurance agents from multiple companies to find out the right coverage for your business.

Contingency planning is not all about risk, weaknesses and threats. It can also be about opportunities. If you do not plan for how you might take advantage of future opportunities in your business, then it is likely that they will pass you by. If you are going to take advantage of an unanticipated opportunity, then you have to be in a strong position to do so. Here are some things you may want to think about for opportunity planning:

- **Your competition's struggles:** You don't want to wish failure on anyone – even your competitors. That does not mean you will not take advantage of a competitor's weakness. If your competitors are struggling, you might try to buy that business so that you can consolidate your market share and grow your own business. You want to be aware of how your competitors are doing and be ready to take advantage by maintaining a strong financial position.
- **Expand to a new region:** One way to grow your business is to expand your area of service. You want to identify regions where there might be opportunities for growth. You could look to purchase a related business in this region or acquire a property there as a base of operations. For example, if you run a landscaping company, you might try to identify nearby regions that are under served. You could start advertising in these regions to attract business. You could also look into buying a landscaping company that already has business in this region.
- **Expand to a new niche:** You want to be aware of what is happening in your region. A new niche may open up that is related to your business. By expanding your services in this new area, you will be able to grow your business. You want to be aware of business development in your area so that you can exploit these opportunities for growth.
- **Create a new business structure:** Sometimes, you may reach a point that you have outgrown your business model. You may want to look at other ways of organizing your business that present more opportunities for growth. If you run a few restaurants or retail stores, then you may want to look at franchising as a way to continue to grow your business. If you are a successful sole proprietor, forming a corporation is a way to protect your success.
- **Selling the business:** The worst time to sell your business is when you want to get out. You should not wait until you are desperate to start thinking about selling your business. You should regularly consider the value of your business and how you would go about selling it. This protects your business' value should you decide to sell. It also protects your employees and customers because there will be an orderly transition to a new owner. You have spent years building the value of your business. A good exit strategy will help you to protect that value when you are ready to sell.



“THINKING ABOUT HOW YOU WOULD HANDLE OPPORTUNITIES IS ESSENTIAL FOR THE GROWTH OF YOUR BUSINESS. YOU NEVER KNOW WHEN YOU MIGHT BE ABLE TO TAKE ADVANTAGE OF AN UNANTICIPATED OPPORTUNITY. MAKE SURE YOU HAVE A PLAN THAT ENABLES YOU TO DO THIS.”

CONCLUSION

Contingency planning often comes in secondary to the day-to-day tasks of running a business. You have to take a break from managing the urgent operations and set aside some time to prepare for future possibilities. If you do not take precautions, then you may not be prepared when disaster strikes or when an opportunity arises. If you don't take positive actions to prepare for threats and shore up weaknesses, you may find yourself in a bad position down the line. Florida Capital Advisors can help you through the contingency planning process.

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We recommend you consult a qualified professional to discuss your specific needs.



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