

Prepare Your Business for a Disaster

As a small business owner, you're always juggling a million tasks. Preparing for a hypothetical disaster that may never come feels like an easy one to stick on the backburner.

Ask yourself this: If your business ceased to exist for a week, a month, or even a year, could it survive the financial fallout? If the answer is "no," you need to make planning for the worst a priority.

So what, exactly, is a disaster? There are two kinds: natural and man-made.

Natural disasters include hurricanes, floods, tornadoes, earthquakes, landslides, wildfires, drought, blizzards, volcanic eruptions, tsunamis, and pandemics. Man-made disasters encompass acts of terrorism and war, political unrest, arson, chemical spills, nuclear attacks, cyberattacks, and blackouts (the last of which could be triggered by a natural disaster). Depending on your location and the severity, any one of these could devastate your business.

The stats are sobering. According to the Federal Emergency Management Agency (FEMA) and the U.S. Small Business Administration (SBA), 96 percent of small businesses will face revenue loss after a large-scale disaster—and 40 to 60 percent may never reopen. Yet 74 percent of small businesses do not have a disaster recovery plan in place, and 84 percent lack adequate insurance. Scary, isn't it?

In part one of this two-part guide, we'll explain how to:

- Assess your disaster risks and choose the best insurance policy for your business
- Take a detailed inventory of your assets
- Make an emergency kit
- Backup critical business data
- Create, implement, and test a disaster response plan

Now let's get to it—before something disastrous happens.

Assess Your Risk

Every business is at risk for something. What, exactly, depends on your geographic location and line of work. A restaurant, for example, is at greater risk for fire than a yoga studio. If you happen to run a taqueria in the Bay Area, you're at more risk for an earthquake than the owner of a po'boy shop in New Orleans. That po'boy purveyor, however, has to worry about hurricanes and floods.

The first step to assessing your risk is to list out the most likely disasters in your region, weighing your business' proximity to flood plains, seismic fault lines, and potentially hazardous neighbors like gas stations, nuclear power plants, and transportation hubs (airports, railroads, etc.).

Next, take your business' physical attributes into account. A sushi restaurant on the 56th floor of a skyscraper will have different concerns than a beachside crab shack. A coffeeshop in an earthquake zone might be mindful of internal hazards like unbraced shelving, while a gelateria in a tropical climate will fret moreover power outages.

And remember: Natural disasters aren't the only risks. If your business is located in a high-crime area, you may want to invest in roll gates or a security alarm system. If your business collects customers' credit card details, cybercrime prevention and liability should be a top priority. Janice Jucker, co-owner of Three Brothers Bakery in Houston, calls herself the "Queen of Survival" because her business has weathered four floods, two hurricanes, a fire, a deep freeze, multiple power outages, and a pandemic. First came Tropical Storm Allison in 2001, which cost her \$100,000 in damages. (The business didn't have flood insurance at the time.) This was followed by Hurricane Ike in 2008—a \$1.2 million dollar event that closed the bakery for nine months "That was when we really started the learning process," says Janice, who is on a mission to educate other small business owners on the importance of disaster preparedness—and how to recover when things go awry.

Read Your Insurance Policy

Seems like a no-brainer, right? Except how many of us have actually sat down and read the fine print? (Yes, all of it.)

It wasn't until Janice's bakery was pummeled by Hurricane Ike that she pulled out her insurance policy and read it line for line. Big mistake. "There are things that are missing that you're going to need," says Janice, "but you won't know until it's too late."

The time to learn how insurance works is never in the aftermath of a disaster. Once you've made a list of the risks most likely to interrupt your business, ask yourself these questions when reviewing your policy:

- Do you have sufficient coverage to pay for building repairs and commercial property damage as well as the indirect costs of the disaster? You'll pay more for business interruption coverage, for instance, but it offsets a potential loss of income based on historically documented profits.
- Do you understand your plan's deductible and limitations? Is the addition of new equipment or construction improvements reflected in the policy's language?
- If you have general liability coverage (as opposed to a named-peril policy), have you reviewed the itemized exclusions? Few all-risks policies, for example, cover damage caused by floods. For that, you would need to purchase a supplemental plan through the National Flood Insurance Program (NFIP). You might also consider additional property coverage for items such as fencing, landscaping, awnings, and signs.
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After you've combed through the policy, contact your insurance agent to discuss any gaps in coverage—then put it on your calendar and do it again next year. Just as you might tweak a menu seasonally, your insurance coverage should evolve with the needs of your business.

Understand Your Coverage Options

Buying insurance may be the least glamorous aspect of running a food business. Who wouldn't prefer to spend their precious time tinkering with new dishes or ginning up inventive marketing campaigns? But figuring out the boring stuff now protects you in the long run.

If you determine that your business is underinsured after auditing your existing policy, you can buy additional coverage direct from an insurer or reach out to an independent agent who represents multiple companies. Janice recommends the latter because they are experts in their field and know the exact provisions you need for your specific line of work.

An agent will walk you through the minutiae of a general liability policy, including coverage for bodily injury and damages resulting from fire and wind, and flag notable exclusions that require supplemental insurance.

Be proactive and ask lots of questions: Do you need liquor liability insurance? Coverage for food spoilage? Sign protection in the event that, say, your iconic marquee is destroyed in a hurricane, as happened to Three Brothers Bakery? An agent is your advocate, not just a salesperson. The best ones explain in plain English how premiums, deductibles, coverage, and exceptions work—and won't upsell you for commission's sake.

Janice also recommends ultra coverage—which, in her policy, was a “catch-all for everything that wasn't a fire or hurricane.” It covered a computer damaged by the storm, a professional organizer to help her business move back in, and advertising funds for announcing a grand reopening.

When margins are razor-thin and budgets are tight, you may be tempted to skimp out when it comes to insurance. “Don't,” warns Janice, “Buy the best coverage you can afford with the absolute lowest deductibles because you will always have a cash crunch after disasters—and you need cash to pay your team.”

Detail Your Inventory

Now that you've got the insurance piece of the puzzle figured out, you'll need to take a detailed inventory of every material asset in your business. After all, you can't file a claim on a damaged good if you can't prove you own it.

How do you document inventory? Most small business owners use automated POS software or manual spreadsheets to track purchasing. Depending on the type of business you run, the data entry points might include:

- Name of a product or item
- Department, category, and/or sub-category
- SKU/UPC
- Supplier details
- Unit of measure, quantity, and cost per item (noting discounts)
- Sales price and tax rate
- Kitchen and bar equipment/tools

Wherever possible, shoot digital photos or film video of big-ticket assets (valued at \$200 or higher). If you're running a food services business, this would include refrigerators, freezers, ovens, mixers, indoor and outdoor furniture, computers, and delivery vans.

Important note: An inventory is a living document. Your POS or spreadsheet should be updated regularly—entering new items as they are acquired, along with manufacturer details, service contact info, and maintenance schedules.

Make an Emergency Kit

Thanks to the Occupational Safety & Health Administration (OSHA), plus various state regulations, most businesses are required to provide first aid kits in the workplace. These can handle everyday emergencies like a cut finger but to ride out a real disaster, your business needs more than bandages and gauze.

What should be in your emergency kit besides medical supplies? According to Ready.gov, an official website of the U.S. Department of Homeland Security, disaster-readiness kits should include:

- At least one gallon of water per person, per day for drinking and sanitation
- Enough canned, packaged, and ready-to-eat food to last three-plus days
- Portable stove and manual can opener
- Battery-powered or hand-cranked radio
- Flashlights with extra batteries, solar-powered lanterns, or light sticks
- PPE including hard hats, gloves, and dust masks for filtering contaminated air
- Toilet paper, moist towelettes, and garbage bags for personal sanitation
- Basic hand tools including a hammer, screwdriver, wrench, or pliers
- Cell phone, charger, and a backup battery pack or solar-charging station
- Plastic sheeting and duct tape
- A whistle to signal for help

Store these items in airtight plastic bins and make their location known to every member of your team.

It's also wise to designate a first-aid crew. The American Red Cross recommends that 10 to 15 percent of your workforce be trained in first-aid and CPR so they can assist in an emergency. Make sure employees know how to use defibrillators, fire extinguishers, and other items in the emergency kit.

Backup Critical Data

Pretend for a moment that a tornado flattened your workplace. Poof! Gone. How would you put your business back together? If you had backed up your critical business data on an external hard drive stashed in a safe location, you could start there. But if you hadn't?

This worrisome scenario underscores the importance of creating a digital emergency kit. Think of it as a Plan B for essential records in case your original copies are damaged, lost, or destroyed. It includes everything you need to run your business as well as documentation required for insurance claims and loan applications:

- Business licenses, lease documents, and other legal paperwork
- Login and password details
- Financial records (payroll, bank account and credit card info, tax filings)
- Customer information and a detailed log of orders in progress
- Employee and vendor contact info, including utility companies
- Your insurance policy and the best contacts for claims
- Comprehensive equipment inventories with serial numbers
- Digital images or video of your building and commercial assets

Important note: Large-scale disasters can knock out entire regions, which is why experts suggest backing up your data to servers with nationwide coverage such as Google Drive or DropBox. Short of a nationwide attack, the files should be accessible no matter what's happening on the ground.

Create a Disaster Response Plan

A disaster response plan is a step-by-step guide to recovery. By mapping out your business' response before, during, and after a crisis, you're taking active measures to protect both your people and property.

To draft the plan, organize an employee task force to help you identify your business' most important operations, pinpoint potential hazards, and draw up a communications strategy. The core components should include:

- Emergency contacts. 911 may be the first call placed, but who else needs to be alerted in an emergency? Set up a hotline or phone tree with designated employees handling the outreach. If phone lines go down, use social media or email to communicate with your team and the local authorities.
- Evacuation routes. How do employees safely exit your facility and where they should go? What considerations should be made for workers with disabilities, medical conditions, or other special needs?
- Critical assets. What do you need to run your business on a daily basis? These could be physical assets such as cooking equipment, digital data like logins and passwords, or even key employees. Make a list of your absolutes and propose workarounds in case something (or someone) is suddenly indisposed.

- Employee responsibilities. What does each staffer do during an emergency? Lay out the exact actions you want them to take, from rescuing financial records or petty cash to boarding up windows in a hurricane.
- Emergency funds. Though you can put many bills on a business card, payroll and employment taxes must be paid in cash. Try to keep enough money in the bank to cover your business expenses' for up to three months.
- Business continuity plan. Your game plan for moving forward post-disaster should outline temporary relocation ideas, goals for communicating with customers while recovery is underway, and lists of vendors to contact if you need to repair or replace inventory. For extra credit, build a good relationship with local contractors and restoration teams before disaster strikes. Waitlists are long following large-scale disasters and you don't want to be scrambling for suppliers at the same time as everyone else.

Test Your Plan

Don't just write a disaster response plan and then forget about it. Run through it with your team to see how a potential conflict might play out—and where there's room for improvement.

The best way to do this is to simulate an emergency as realistically as possible, without endangering your facility or crew. Mimic a blackout, for example, by shutting off the power in your business for 24 to 48 hours. Does your team know what to do when and who is responsible for what? Is the generator working as anticipated? How long does it last? The point of an exercise like this is to identify holes in your disaster response plan. Iron those kinks out now and things will run smoother during an actual emergency.

At a minimum, response plans should be tested annually. If you onboard new employees with any frequency, do a run-through quarterly or monthly. Every employee should know how to exit your building during an emergency, who to notify once they've reached safety, and what their logistical role is during an evacuation and recovery. Establishing a clear chain of command eliminates confusion and defining each person's responsibilities in advance of an emergency ensures they have everything they need to execute their marching orders.

De-Risk Your Business with a Disaster Recovery Plan

While you can't prevent a catastrophe, you can prepare for it. Creating a disaster response plan is the best way to minimize disruptions in your day-to-day business operations should a worst-case scenario come to pass.

Let's review what we've covered so far:

- By researching disasters that have struck your region in the past, you can get a decent sense of which calamities pose the biggest potential threat to your business.
- After analyzing your existing insurance policy, contact an independent insurance agent to address any gaps in coverage or purchase supplemental insurance.
- Make sure your emergency kit is up to snuff and that everyone on your staff knows how to access it. It should include anything your team would need if forced to shelter-in-place for several days.
- Backup critical business data (licensing, lease agreements, insurance policies, banking info, etc.) to the cloud or on an external hard drive in a safe and separate location.
- Outline a detailed disaster response plan that addresses emergency contacts, evacuation routes, critical assets, employee responsibilities, emergency funds, and business continuity.
- Building a good relationship with local suppliers and restoration teams before catastrophe strikes means they're more likely to prioritize your business amid a widespread recovery effort.
- Train employees on emergency preparedness. Practice makes perfect!

Getting your business up and running after a disaster is no easy feat. But having a plan in place at least gives you a fighting chance.

Additional Resources

- The Emergency Preparedness guide from the U.S. Small Business Administration (SBA) teaches business owners how to identify their most critical systems, create a preparedness program, and enact an emergency communications plan. It also links to preparedness checklists and safety tips for specific types of disasters, including hurricanes, earthquakes, tornadoes, wildfires, floods, cyber security, winter weather, and workplace hazards.
- The detailed index on Natural Disasters and Severe Weather from the Centers for Disease Control and Prevention (CDC) covers the aforementioned calamities as well as landslides and mudslides, volcanoes, extreme heat, lightning, and tsunamis. Fact sheets break down risks and recommend protective measures.
- Ready.gov, produced by the Federal Emergency Management Agency (FEMA), covers preparedness planning for businesses and risk mitigation and provides handy toolkits for hurricanes, floods, power outages, tornadoes, and earthquakes.
- The Service Corp of Retired Executives (SCORE), meanwhile, has collated helpful preparedness checklists for tornadoes, floods, and earthquakes.
- The American Red Cross' Ready Rating program is a free tool designed to help business owners better prepare for emergencies. Take a 123-point self-assessment of your preparedness and gain access to resources for improving your practices.
- Check out the Internal Revenue Service (IRS) guide to Preparing for a Disaster, oriented toward taxpayers and businesses.

You've Prepared Your Business for Disasters!

The best way for your business to cope with a natural disaster is to have a plan before it strikes. You've learned that time and clear thinking are luxuries in an emergency situation, which is why it's essential to be prepared.