

Disaster Recovery Decision Making for Small Business

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Small business is ill equipped for disaster recovery following a major catastrophe. Without the resources of a large corporation, small business owners face tough decisions to close, sell off, or reopen the business.

Each form of disaster, whether man-made or natural, has varying degrees of impact on a small business operation. According to a recent NFIB National Small Business Poll, man-made disasters affect 10 percent of small businesses, whereas natural disasters have impacted more than 30 percent of all small business in the USA.

Hurricanes are by far the most destructive force causing power failure, flooding, customer loss, and the closure of many businesses. Following the devastation of a disaster, a small business has several challenging decisions to make once essential services are restored, and health and safety issues are addressed

Small Business Options for Disaster Recovery

The survival decision a small business must make for disaster recovery is choosing between moving on, reopening, or selling off the business. The effects of this decision can have long-term results in the future.

When a major disaster strikes a community, it often will forever change the area, leaving small business owners with few choices but to walk away from the business being grateful human life was preserved. The U.S. Department of Labor estimates over 40 percent of businesses never reopen following a disaster. Of the remaining companies, at least 25 percent will close within two years. Over 60 percent of businesses confronted by a major disaster close by two years, according to the Association of Records Managers and Administrators.

These are very sobering statistics. If you decide to walk away from you business, understand you aren't alone; it just might be the best option available.

Preceding a major disaster the rebuilding process can start after human health and safety are restored along with electric-

ity and transportation. Everyone wants life to return to normal following the wake of destruction. It's key to understand your business will no longer be operating in the same market. Conditions have changed and your business must change to succeed in disaster recovery.

Business Decision Making Crippled in Disaster Recovery

Often disasters result in business disorientation and environmental detachment as revealed by the work of Thomas Powell, *Shaken, But Alive: Organizational Behavior in the Wake of Catastrophic Events*. This psychological trauma of key decision-makers leads to company inflexibility to deal with the change required to move forward.

Post-traumatic stress disorder can cripple your decision-making ability. But putting off the decision to reopen or close your business can be disabling. A small business has limited cash and resources; starting up the business quickly once the decision is made can help your survival rate. So how can you best decide in a state of disorientation? Reach outside.

It's vital for small business owners involved in disaster recovery to get outside views and help to accurately assess the situation and provide clarity. Take advantage of available small business assistance such as SCORE. SCORE, Counselors to America's Small Business, is a non-profit volunteer small business counseling association. SCORE's 1,200 e-mail counselors can aid in the recovery process.

Don't assume your business will qualify for disaster loan assistance or that insurance will cover all the costs. Small business may have to depend on other forms of financial help such as savings or friends and family. With no guarantee of success following a disaster, the decision to rebuild the business requires answering some tough questions.

Nine Factors to Consider in Disaster Recovery

Disaster Preparedness: Small businesses who have taken the time to establish a business continuity or disaster recovery

plan will be better prepared to rebuild than a business that was ill-prepared. If your business wasn't ready for the disaster, all is not lost. Documents and important business data can be restored in time by working with your accountant, the tax department, and any other public records department.

Damage Assessment: Before you can decide what to do with your company, you'll have to take an assessment of the damage done to your business. Look at the costs of the damages and what it will take to rebuild. Estimate the replacement or market value costs to replace damaged aspects of your business operation. Disaster recovery will be more challenging for small businesses with large inventory losses. Contact your insurance agent to calculate what and how much will be covered.

Get a picture of how much you will have to reinvest in the business as well as factoring in the interruption to cash flow. Determine what you'll receive for business interruption insurance from your agent.

Market Reach: After a disaster, the market will take time to reestablish itself. With no need for certain goods and services for some time, you must consider what alternatives exist. International, national, and regional business will have a much easier time rebuilding following a major disaster than local businesses. Businesses reliant on heavy foot traffic will have greater challenges in rebuilding. Can your business reach out to new markets unaffected by the disaster or provide goods or services to help in disaster recovery for the community?

Customer Spending: Rebuilding efforts following a disaster can be an economic gain for certain businesses participating in the rebuilding. Certain industries and sectors will have an easier time gaining new business. Essential businesses in a disaster zone such as grocery, medical, and construction will be in high demand. If customers are greatly impacted by the disaster, they may have very little need or

money for your service or product. Think of how the disaster will affect your customers' spending habits.

Business Age: An important predictor of business success after a disaster is dependent on the age of a business. Well-established companies will have a faster road to disaster recovery than start-ups who were just beginning to grow a customer base and develop a viable business model.

Financial Position: Vital to any critical decision to reopen your business is determining your financial position. What is your current financial picture? What amount of money will you need to make your business operational? Are you eligible for SBA disaster loans and other forms of assistance? If you have insurance, what will be covered, and how much? These questions must be answered before moving forward. Disaster recovery will be more difficult for businesses experiencing financial difficulty prior to the disaster.

Tax Relief: Small business impacted by a disaster might be eligible for tax breaks from the IRS to offset losses, especially if you live in a presidential-declared disaster area. Options include claim casualty losses, deferred gains for qualified replacement property, and tax extensions. Contact the IRS for current and full information as well as your accounting professional.

Franchise Businesses: Recovering from a disaster for small business is in part dependant on the level of support and financing available. Franchise businesses and chains have a better chance of disaster recovery given the level of support and financing available from the franchisor as reported in *Survival Chances of Newly Founded Business Organizations* by Josef Bruderl.

Network Communication: To make the best decision to move your business forward, you must have a grasp of how the disaster has impacted those connected to

your business. Call suppliers, employees, and customers to inform them of your situation. Many will offer support or alternatives for you to consider. Manufacturers might be able to ship directly to your customers or suppliers can assist in payment schedules. Knowing these options exist for your small business can help in making the final decision.

There are many considerations in deciding what to do with your small business pending a disaster. In the end, the small business owner who carefully considers their options, enlists the support of available resources, and makes new business operating plans will be closer to ensuring the survivability of their business after a devastating disaster. ▽

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