



Recovery Priorities for Cost-Effective Business Continuity Planning

Unpredictable weather, man-made or natural disasters or site-specific events can disrupt small business operations, reduce profits and all too often cause businesses to fail. The Insurance Institute for Business & Home Safety (IBHS) developed the [Open for Business®](#) program to help business owners reduce their potential for loss and facilitate a quicker recover should a disaster strike, no matter what the cause.

The business resiliency experts at IBHS recognize that some business functions are more essential than others and should be given first priority in planning. How does an entrepreneur determine which functions are highest in priority? The first step is asking, what will go wrong if your business is not able to conduct essential business functions? Setting these recovery priorities helps a business owner to first rank the importance of each function, then to develop a continuity plan focused on the most important operations and work processes.

Identifying Important Business Functions

The starting point for disaster planning is completing a [risk and vulnerability assessment](#). The next step is identifying your most important business functions that will become recovery priorities. These priorities should be the main focus when planning how to minimize damage to your facility and operations.

CONSIDER THE FOLLOWING QUESTIONS:

- What are my most critical and time-sensitive functions in order to stay in business?
- Which functions should be classified as highest priorities, medium priorities and lowest priorities?
- How much downtime can my business tolerate for each business function?
- Which business functions are necessary to fulfill legal and financial obligations and maintain cash flow?
- Which business functions are essential to maintain market share and reputation, or to strategically adjust to changed circumstances?

The best way to answer these questions is to think through your business processes and meet with key employees to document their business functions. One of the advantages of using [Open for Business®](#) is the guidance it provides to help identify critical functions that might not appear obvious because they are completed daily without much thought. [Open for Business®](#) provides worksheets and training tools

to help complete this recovery priority analysis, and step-by-step instruction is available in the online training session "[Developing Continuity Plans](#)."

Once essential business functions have been identified, rank them in order of importance. How do you determine your recovery priorities? First, determine the maximum amount of time allowable to restore each business function after a disaster or disruption, in order to avoid unacceptable consequences or adversely affect overall business operations. These timeframes can be a few hours or as much as 30 days or longer.

Also consider times of the week, month, year, or part of business cycle when volumes are exceptionally high or when operations are particularly critical. If a business function cannot be processed, what is the impact on cash flow? Could there be any extraordinary expenses incurred? Estimate dollar amounts for contractual or regulatory financial costs, including fees, fines, penalties, and missed payments.

There also are many quantitative and qualitative impacts that must be considered. The following chart will help you to think through financial, operational, reputational, or legal/regulatory consequences, as they relate to your specific operations. Note that some events might affect only one of the categories, while others may affect several or all of them. This leads to a simple conclusion: when you plan, plan for the worst-case scenario.

POSSIBLE BUSINESS IMPACTS

FINANCIAL IMPACTS

- Loss and potential loss of sales and revenue
- Penalties or contractual fines
- Extra or extraordinary expenses
- Cancelled orders due to late delivery
- Penalties for late payments or lost discounts
- Loss of credit worthiness

REPUTATION IMPACTS

- Loss of reputation
- Lower level of customer service
- Loss of public confidence or credibility
- Loss of competitive advantage or market share
- Brand impairment
- Loss of employee morale

OPERATIONAL IMPACTS

- Loss of facility
- Loss of personnel/staff
- Loss of equipment

REGULATORY IMPACTS

- Regulatory violations
- Legislative violations
- Environmental violations
- Health and safety violations
- Breach of contract

Remember in every situation, the negative consequences are likely to become greater as time passes unless you can take specific steps to manage the situation. Therefore, the objective of your planning should be to restore critical business functions fully within the time frames identified, or to identify steps ahead of time that will keep potential problems from overwhelming your ability to recover once critical functions are restored. For example, in a worst case scenario, you might have to work with your lender to avoid a loan default situation that could result in loss of your business.

CLASSIFYING BUSINESS FUNCTIONS

After documenting and considering all business functions, their impacts and recovery time objectives, assign a recovery priority classification to each — high, medium, or low (or any set of rankings you choose as long as each level is clearly defined). The classification should be based on how quickly the function needs to be restored and the long-term problems that could arise. Keep in mind, as the interruption time increases, a business function that was categorized as a low priority rating may eventually become a higher priority.

Before the decision is real, identify and review achievable recovery strategies. Identify and implement measures to protect and/or duplicate these functions beginning with the highest priorities. This process will enable you to optimize your recovery operations. Consider whether a business function could be transferred to a designated alternate location. Decide in advance which staff member could complete these functions if the key employee is unavailable. Could employees work from home to complete the business function? If a vital supplier is unavailable, arrange to utilize an alternate source. If technology is not functioning, plan for alternative communication capabilities. Is it cost effective to increase production or outsource? By deciding and implementing these recovery strategies before disaster strikes, you will reduce the need for decision making during a crisis.

RECOVERING FROM DISASTER

Business continuity planning is important, but it can be a time-consuming process. By prioritizing your recovery needs, you can focus on what matters most following an interruption or disaster, leading to increased operational stability and better enabling your business to survive and ultimately thrive.

This guidance is a part of a 12-part monthly commercial series produced by IBHS. A summary of the year's topics is available in the article, "[12 New Year's Resolutions for Protecting Businesses in 2012.](#)"