

Why Small Businesses Should Invest in Preparedness



This brief is based on a Zurich Flood Resilience Alliance Post Event Review Capability (PERC) study analyzing the 2017 flooding in Houston following Hurricane Harvey. This document, and companion brief *The Role of Businesses in Community Recovery*, have been produced as summary pieces with key lessons learned regarding the role of businesses and business preparedness in protecting livelihoods and supporting community recovery following disaster events.

Disasters can have profound impacts on businesses. 40% to 60% of small businesses¹ fail to reopen after a disaster². For many businesses, potential impacts from disasters include direct physical impacts from extreme events as well as more indirect impacts such as staffing issues, supply chain disruptions, and reduced foot traffic resulting from damage to the surrounding community. Both direct and indirect impacts can interrupt day to day business operations. When coupled with complicating factors such as lack of insurance,

¹ The definition of small business varies greatly depending on the industry. In this piece, 'small' business is used to refer to operations of less than 50 people at a given local location. Consequently, 'small' also implies 'local', and could refer equally well to a Mom-and-Pop storefront as a local branch of a larger organization. We recognize that the challenges faced by the range of 'small' and 'local' businesses defined this way will vary tremendously, as will the resources they can draw on in the event of a disaster.

² FEMA. "Make your Business Resilient." https://www.fema.gov/media-library-data/1441212988001-1aa7fa978c5f999ed088dcaa815cb8cd/3a_BusinessInfo-graphic-1.pdf

lack of financial reserves to replace destroyed equipment or stock, and/or the financial impact of multiple days or weeks of unplanned in-operability or slowdown in business, impacts can lead to permanent closures. This, in turn, impacts not just the business owners, but also employees and the communities within which these businesses are located. With this in mind, taking steps to plan and prepare for disasters can minimize business disruptions, contribute to a shorter recovery time, and protect local economies and livelihoods.

The Value of Disaster Preparedness

Disaster preparedness “refers to measures taken to prepare for and reduce the effects of disasters.”³ For small businesses, disaster preparedness includes identifying the risks to which the business is susceptible and taking steps to reduce and prepare for these risks. This should include reducing both direct and indirect impacts of disasters and associated losses.

Successful preparedness actions can contribute to a business staying open during or reopening quickly following a disaster. This, in turn, provides continued income and allows businesses to support and retain their employees. By retaining employees, businesses avoid losing skilled and/or experienced staff members and avoid having to put time and money into hiring new employees. Support from their employers and continued employment also boosts business moral as staff members, who themselves may be recovering from the disaster, are ensured that they have a financial base for dealing with disaster impacts.

Preparedness Actions Businesses Can Take

While preparedness actions differ depending on the nature and size of the business, there are several steps common to all businesses that support preparation for, and reduction of, the impacts of a disaster. Many of these preparedness actions are low cost and build on existing strengths and existing business continuity plans.

\$\$\$\$ denotes the relative expense to the business of each of the preparedness actions detailed here.

PREPAREDNESS ACTIONS

<p>Identify hazards and risks and their potential impact \$</p>	<p>Emergency planning \$</p>	<p>Long-term planning \$</p>
<p>Preparedness as Business-as-Usual \$\$</p>	<p>Identify measures for reducing risk \$-\$\$</p>	<p>Physical Solutions \$-\$\$\$\$</p>
<p>Utilize existing assets during flood events \$</p>	<p>Supporting employees \$-\$\$\$\$</p>	<p>Insurance \$-\$\$\$\$</p>

³ International Federation of Red Cross and Red Crescent Societies. 2018. <https://media.ifrc.org/ifrc/what-we-do/disaster-and-crisis-management/disaster-preparedness/>

Identify hazards and risks and their potential impact

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Identify the different types of hazards that place your business at risk⁴. These may include environmental hazards (e.g. floods, fires, hurricanes) and/or other risks (e.g. economic downturn, theft, power loss). For each hazard or risk, identify the associated impacts (loss of data, loss of supplies, business closure, etc.).

Resilinc⁵, a company focused on supply chain risk management, recommends conducting a “what if?” exercise to identify the aspects/assets of a business, that, if impacted, would threaten its operability.

⁴ Atlas: Ready for Business, the Global Disaster Preparedness Center’s Business Preparedness Initiative, the American Red Cross Ready Rating program, and Ready.Gov provide resources and tools for helping you to identify the hazards that place your business at risk.

⁵ Resilinc. <https://www.resilinc.com/>

Identify measures for reducing risk

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Starting with the potential impacts that pose the greatest risk to your business, identify measures to reduce that risk. For example, if certain supplies or materials critical to business functioning are sourced from only one location and that location is disaster prone, build a relationship with an alternative supplier from a different location that can provide supplies during disruptions.

Atlas: Ready for Business⁶, the Global Disaster Preparedness Center’s Business Preparedness Initiative and the American Red Cross Ready Rating⁷ program are tools and resources that can help you identify the hazards and risks you need to consider, what impacts those hazards and risks could have, and specific actions your business can take to reduce risks or avoid impacts.

⁶ <https://www.preparecenter.org/toolkit/atlas-ready-business-toolkit>

⁷ American Red Cross Ready Rating. <https://www.readyrating.org/The-Red-Cross-Ready-Rating-Program>

Utilize existing assets during flood events

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Consider how existing assets can be used to address risk and mitigate impacts.

During Hurricane Harvey several companies used security cameras to monitor conditions at their business locations though they were unable to physically access their facilities. This helped them identify damages and losses and begin recovery and reconstruction actions such as lining up contractors before they had even returned to the premises post-flood. Planning for such use and developing ways to assure assets continue to function and can be remotely accessed could provide significant co-benefits from an existing system primarily used for other purposes.

Preparedness as Business-as-Usual

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Integrate preparedness into your daily operations by incorporating “disaster” days into your daily routine so that preparedness becomes business as usual. By doing so employees will already be accustomed to proactively taking steps to maintain key business operations regardless of what happens.

IronEdge Group, an IT services company based in Houston and San Antonio, Texas, does this on a regular basis. On “disaster” days, staff are expected to be ready to work from anywhere and to have brought home the necessary equipment including headphones, laptops and have the key software loaded onto their computers. As a result, IronEdge Group employees seamlessly shifted to working remotely despite access to their office being cut off during Harvey, avoiding downtime and continuing to serve their customers without disruption.

Long-term planning

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Consider not just short-term disruption, but also the types of events that could result in long-term disruption and how the impacts of such a disruption can be mitigated. For example, extended closure or impacts to your client community can result in limited or no revenue in the weeks and months following a disaster; depending on the severity of such risk, purchasing business interruption insurance might be recommended. The exception is companies that work in restoration or provide disaster recovery services or building materials, who should plan ahead for the potential surge in business following a disaster.

One of the disruptions that proved most unexpected and expensive for many businesses in Houston was flooded elevators. Five months after Harvey there were still numerous businesses that were closed, were only partially functional, or had to relocate because elevators had failed and repairing them was complicated and slow. In multi-story buildings or for businesses with clientele with reduced mobility (medical services or those who serve the elderly, handicapped, mothers with strollers, etc.), one flight of stairs can be highly problematic and multiple flights of stairs catastrophic.

Insurance

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For businesses badly impacted by hazards or risks, insurance is often critical to successful business recovery. At the very least, it speeds recovery and limits losses due to inoperability. Businesses have many different insurance options. Multi-hazard policies can be particularly effective, providing coverage for a wide range of events such as flooding, fire, wind, hail, sewage backup and other hazards. Your business should critically explore your insurance options and talk with a range of experts, if needed, to really understand your risk and the options to financially transfer that risk.

The experience of businesses in the strip mall operated by Vista Management Company demonstrates the vital role that insurance plays in helping businesses rebuild and reopen. Vista Management had purchased flood insurance that covered the individual units occupied by their strip mall tenants. As soon as Vista Management realized the extent of the Hurricane Harvey flood impacts to the strip mall, they called every tenant to check in. Vista met with tenants even before floodwaters cleared to assure them of plans to rebuild, help them understand what Vista's flood insurance policy would and wouldn't cover, and develop plans for working together in recovery. Vista Management's decision to purchase flood insurance was, in part, to ensure that they could help their tenants come back after a flood. This foresight, coupled with a close-knit, collaborative recovery effort, is probably the key element in the recovery rather than failure of many of these businesses.

Physical Solutions

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For certain risks, such as flooding or fire, your businesses may want to go beyond planning and insurance to physically address risks. This could include installing sprinkler systems for fire, flood barriers on doors to prevent flooding, purchasing equipment designed to withstand flooding, acquiring back-up generators to allow operation during power outages or to prevent the loss of perishable frozen or refrigerated stock, etc.

The owner of Bean's Café, a coffee shop in Houston, wished she had purchased commercial refrigerators with top-motors as the two commercial refrigerators she used for storing food and milk were damaged beyond repair during Hurricane Harvey. Had the motors been situated on top of the refrigerators, rather than on the bottom, they more than likely would have been fine, saving her about USD 20,000 in equipment losses.

Similarly, as a result of Hurricane Harvey, Vista Management Company, a property management company, realized the importance of locating elevator control boards and operating systems above ground level and installing float switches in the elevator pits which, if triggered, automatically move the elevator to an upper floor, thereby protecting the cabs and internal controls. Vista Management considers the extra expense to be worth it as the impacts of the floods on their elevator has been their largest repair expense and resulted in a large loss of rent.

Supporting employees

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Supporting employees to continue working through a disaster, or to return to work more quickly following a disaster, is a key part of business continuity. Your business can recommend, or at least ask, whether employees have stockpiled food and water, have access to backup power or alternate lodging, and have secured key documents prior to an event. You can also provide impacted employees and/or communities with response and recovery support. These supportive actions can go a long way towards creating a community and culture of assistance. Ideally, you consider and plan for this type of support as part of your business continuity and preparedness so that plans and leadership commitment are in place and implementation can begin immediately.

In the immediate aftermath of Hurricane Harvey, Data Foundry, a data center colocation provider, sent out boats, gas and other materials to impacted staff homes, and started reserving hotel rooms for displaced employees and their families. They gave impacted staff members time off, brought in needed materials and tools from their Austin office to support staff members in mucking out their homes, and covered the costs of hotel rooms. Families organized clothing donations, and staff members collected USD 20,000 in donations which the company matched. As situations for impacted staff stabilized, company employees expanded their support to help friends and family of staff.

Emergency planning

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Have emergency plans in place, including evacuation routes, the names and contact information of all employees, designated meeting places for employees and their families, etc. This should also include protection of assets immediately before a forecasted disaster: e.g. boarding up windows before hurricanes; moving paperwork, computers and furniture onto desks or upper floors in advance of possible flooding; backing up computer data on the cloud or in a data co-location center; making sure you can remotely access information such as employee contact info, supplier data, and similar relevant documents so that you can quickly and easily shift operational headquarters if needed; etc. Beyond this, additional steps can include coordinating with local authorities, business associations etc., to participate in local disaster response preparedness and planning. Taking these steps can help your business to stay open and continue to operate during a disaster. In addition, businesses can encourage employees to have family emergency and preparedness plans in place.

Hurricane Harvey resulted in catastrophic flooding of the communities in which Knife River's (a construction materials and contracting services company) staff live. Flood impacts to company facilities were limited, but for days employees were unable to get to work, or even leave their homes. Management created a communication plan and tracking system on the spot that allowed them to contact every employee, know whether they were flooded and/or evacuated, track who needed what kind of help, and mobilize to support those in need. They are now writing down what they did so that they are prepared for the next disaster. Their recommendations include:

- **Have contact information for each employee**, including home addresses, so employees can be tracked down in an emergency.
- **Make laminated cards for all employees** to keep in their wallets that include key company emergency contact information.
- **Communicate the expectation** that in an emergency when people are not at work, they will check in within 24 to 48 hours.



Photo: Harris County Flood Control District

Conclusion

Preparedness does not have to be expensive or time consuming. There are many simple things that businesses can do in advance that can save significant time, effort, and loss in the event of a hazard or risk. The key here, however, is ‘in

advance.’ Do not assume things will be fine – instead consider what might happen if things are not fine, and what you can do today to reduce or avoid that impact. A small investment of time and money now could make all the difference in the world to your business, to your staff, and to the community you are part of and serve.

For further information on business disaster preparedness, please visit:
Global Disaster Preparedness Center’s Business Preparedness Initiative
<https://www.preparecenter.org/activities/business-preparedness-initiative>
American Red Cross Ready Rating Program
<https://www.readyrating.org/The-Red-Cross-Ready-Rating-Program>

The Zurich Flood Resilience Alliance PERC provides research and independent reviews of large flood events. It seeks to answer questions related to aspects of flood resilience, flood risk management and catastrophe intervention. It looks at what has worked well (identifying best practice) and opportunities for further improvements. Prepared by ISET-International, the Zurich Insurance Group, and the American Red Cross Global Disaster Preparedness Center (GDPC), this publication is intended solely for informational purposes. All information has been compiled from reliable and credible sources; however, the opinions expressed are those of the Zurich Insurance Group, the GDPC and ISET-International. — December 2018