

Business Continuity Management

Preparing a Business Continuity Plan

Oz Saddlery (example)

Bill is 34 years old, married with two children. He is the Director and sole shareholder of *Oz Saddlery* which he has owned and operated since 2000. He has:

- two stores (Warwick and Beaudesert) plus online sales
- one factory (at home) making saddles and other accessories
- six staff (three full-time and three casual)
- revenue \$45 000 per month

Risk Management for Oz Saddlery

Let's look at identifying the risks to his business that would affect his ability to continue to operate and profit. Through the identification of these risks Bill will be able to develop a risk management plan that protects his business from potential harm.

The key assets of his businesses are:

- stock/Inventory
- intellectual property (saddle designs)
- factory premises.

The main sources of income for his business are:

- sale of saddles and accessories to the recreational horse industry customers
- sale of saddles to Queensland saddleries (wholesale).

His key resources are:

- factory equipment
- saddle materials.

Listed below are three risks to his business that can be prevented:

- loss of production
- loss of key supplier
- insufficient cash to meet expenses.

Listed below are three risks that cannot be prevented:

- loss of staff
- natural disaster
- loss of on-site records.

Looking at the identified risks to Bill's business, the consequence and likelihood of each risk would be:

Identified risk	Likelihood	Consequence
1. Loss of production	Low	Very High
2. Loss of key supplier	Medium	High
3. Insufficient cash to meet expenses	Low	High
4. Loss of staff	High	Medium
5. Natural disaster	Medium	Very High
6. Loss of on-site records	Medium	High

In Bill's case the risks identified above could be treated as follows:

1. Loss of production – purchase business interruption insurance and source alternative production site.
2. Loss of key supplier – identify alternate suppliers and build working relationship with them.
3. Insufficient cash to meet expenses – introduce weekly cash flow reviews and quarterly forecasts to identify when and how much cash is required. Make adjustments to spending to ensure there is sufficient cash to meet expenses when required.
4. Loss of staff – ensure all staff are properly trained and there is succession planning in place.
5. Crisis/disaster – ensure insurance is in place and the business has a plan on how to respond in the event of a disaster, such as fire, severe storm.
6. Loss of on-site records – ensure back ups of computer records and financial data exist and are stored at a different location.

Business Impact Analysis for Oz Saddlery

The Department of Primary Industries & Fisheries (DPIF) has declared an alert due to the suspicion of a series of Equine Influenza (EI) outbreaks in SE Queensland. DPIF had previously been in an investigation phase where it collected and collated disease data. DPIF has notified (via an Industry Alert) relevant stakeholders and key response staff have been placed on standby. No restrictions are currently in place.

In preparing for a possible outbreak of EI, Bill needs to identify the key information about his business.

Key stakeholders:

- bank
- landlord
- leather supplier
- equipment lessor
- staff
- customers.

Critical business activities:

- purchasing materials
- purchasing stock
- manufacturing
- distribution.

Description of critical business activities:

- purchasing of quality leather and materials for production of saddles
- purchasing of stock for the store at the lowest price from suppliers.
- manufacturing process of saddles
- distribution of saddles to own store and others for sale.

Possible impacts:

- Revenue and costs:
 - probable drop in sales by up to \$30 000 per month
 - inability to pay fixed costs and rent due to decreased income.
- Staffing:
 - may be necessary to let some staff go.
 - casuals would go first and a skeleton full time staff would be kept to operate the stores.
- Product/service:
 - popular products, such as saddles may not sell
 - apparel and clothing lines may continue to sell, but with a reduction in sales numbers.

Recovery Time Objectives:

- purchasing materials – 48 hrs
- purchasing stock – 1 week
- manufacturing – 2 weeks
- distribution – 2 weeks.

Priority of critical business activities (on a scale of 1 to 5 with 1 being the most important and 5 being the least important)

- purchasing materials - 2
- purchasing stock - 3
- manufacturing - 1
- distribution – 1.

Incident Response Management for Oz Saddlery

The Department of Primary Industries & Fisheries (DPIF) has now confirmed an outbreak of EI in South East Queensland.

- Several horses have already succumbed to the disease.
- Containment areas have been declared and all movement of horses in SE Qld has been suspended for a minimum of four weeks.
- In addition, a case of EI has also been confirmed in NSW, with authorities also implementing strict movement restrictions in that state.

This crisis could impact Bill's business in a number of ways.

- revenue for at least the next month would likely be down
- he would have a potential build up of stock
- he might also need to use his cash reserves to meet bill payments.

The top 5 things he could do immediately would be:

1. Obtain as much reliable information on the outbreak so informed decisions could be made.
2. Review and invoke his Business Continuity Plan, including his Incident Response and Recovery plans.
3. Assess cash reserves and determine the cash needs of the business.
4. Cancel or reduce orders of stock for the next month.
5. Inform staff of likely effect on business and possible reduction in work hours.

His stakeholders who would require management during the crisis period would be the bank, his staff, his suppliers and his landlord.

He should also consider the situation where his current cash reserves do not meet his current bills by:

- collecting all accounts receivable (debtors) as soon as possible
- identifying any assets that could be sold
- identifying any new markets where demand for product existed
- reducing costs where possible and consider reducing staff or staff hours
- making new arrangements with stakeholders for payment such as extended terms of trade, larger discount for early payment or accepting some stock lines on consignment

Recovery Planning for Oz Saddlery

It is now four weeks after the initial alert of EI. The Department of Primary Industries & Fisheries (DPIF) has moved to the stand-down phase of their response due to no additional reported cases of EI. Most DPIF investigative and operational activities have ceased and most restrictions on horse movements have been lifted.

Bill has assessed his financial position:

- he knows that his current cash reserves will only last three more weeks and therefore he must increase sales or find other sources of cash
- his inventory is still high and expenses have been reduced to a minimum
- he has missed one lease payment.

What practical recovery activities could he be doing?

- Hold sale of old stock to increase cash.
- Set new sales targets to increase cash reserves.
- Manage landlord and set up a repayment agreement.
- Advise staff of position and new sales targets.
- Engage in direct and cheap marketing.
- Identify where the business will sit in the market post the crisis.

What lessons can he learn and how can he incorporate these back into his business?

- Planning is essential as it gives him a framework to keep his business going should another crisis occur. He must continue to set goals and have a continuity plan for his business at all times and not just when a crisis exists.
- He also needs to test and review his plan on a regular basis to ensure that it continues to meet the needs of his business.
- He needs to ensure that he understands his business both financially and non-financially. To do this he must spend more time looking over the accounts and planning his cashflow.

He must relate the possible changes in the market and his customers to the financial effects on his business so he can proactively run his business.