

Six Tips For Contingency Planning Preparing Your Business For Disaster

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By their nature, pandemics, natural disasters, and sudden economic meltdowns give little to no notice that they are on their way. When they hit, even well-run businesses can quickly find themselves financially damaged.

Focused on the daily running of their companies, few business owners engage in contingency planning even though it is the kind of planning that may make the difference between survival and going out of business when a disaster does hit.

A **contingency plan** differs from a buy-sell agreement in that it addresses the strategies and tactics a business could put in place to survive a broad range of unexpected negative events.

While the sudden death of a business partner may fit that description, it more properly belongs in a buy-sell agreement. At the same time, if the partner is critical to the daily operation of a business – say, an architect in an architectural firm – a section on how the partner's clients would be transitioned to other partners could be part of a contingency plan. Every business is different.

Perhaps one reason few business owners put together a contingency plan is the belief that a disaster will never affect them. However, in just the last two decades, three major national or world events have significantly impacted most businesses in the U.S. – the terrorist attacks of Sept. 11, 2001, the economic meltdown of 2008, and the COVID-19 pandemic of 2020.

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It's Time To Plan

While the specifics of a contingency plan shift significantly from one industry to another, there are some constants:

1. Think about what could go wrong.

Global events could dry up your entire customer base in a matter of weeks. A natural disaster could destroy your supply chain. A major recession could throw your marketplace into turmoil.

You can't write a realistic contingency plan without a realistic assessment of what could go wrong. Do some research – learn how similar events in the past 20 years have impacted your industry, and how they could impact your business today.

2. Bring your trusted advisors into the conversation.

Bankers, attorneys, and accountants have seen it all and can share a lot of wisdom about which companies survive serious downturns, and why.

Don't overlook your longtime employees and managers. Their perspective is valuable as well.

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3. Run a catastrophic loss scenario. Or two.

Once you have determined what could go wrong and you have some insight as to how other companies have survived disasters, turn inward. Analyze what would happen if you lost 30 percent of your revenues over a six-month period. Or 50 percent in a three-month span.

Would you have enough cash reserves to continue operations? Would you be able to pay all your staff for six months? Would you be able to cover your COGS expenses? Where could you cut expenses? Could you get additional bank financing? Consider what would happen if this were a short-term disruption in your industry, and if it were long term.

Work out a plan for workforce reduction and operational reduction that would happen in phases if needed. Phasing these moves can help soften the impact and keep you going longer.

4. Consider special circumstances that impact your industry.

Climate change will undoubtedly affect many businesses and entire industries in the coming years. Is your industry vulnerable? If so, what is the likely timeline for you to start feeling the effects – five years, 10 years or beyond?

Create a plan that addresses both short-term and long-term impacts on your industry.

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5. Clean up your balance sheet.

Get personal loans, car leases, and other costs that are not related to your core business off it. Reduce your debt and keep it as low as possible.

Talk to your advisors about how to make the investments necessary to grow your business without overspending or incurring more debt than is necessary. These are steps you might take if you were planning to sell your business. They work well for contingency planning, too.

6. Plan for obsolescence – and guard against it.

Take the long view with regard to your industry and your products or services.

How viable will your products or services be five years or 10 years from now? What changes can you make now to guard against a devastating impact if a new technology makes your goods or services obsolete?

Not all business disasters make the evening news. Sometimes minor events create major problems for certain industries. Or the competitive landscape changes overnight. Be prepared.



At Barnes Wendling CPAs, we are driven by our client service objective of building and maintaining your net worth. Whether you're a multi-business owner or a high net worth individual, we offer you valuable insights, resources, and advice to make smart financial decisions to grow your personal wealth.

If you would like an analysis of your business and what a contingency plan might look like for you, please contact our advisors.