



AN ENTREPRENEUR ACADEMY WORKBOOK

# CRISIS MANAGEMENT

## **Lesson 9: Crisis Management**

**“A crisis is an opportunity riding a dangerous wind.”  
- Chinese Proverb**

**A disaster isn't a matter of if but when, and being prepared for one – from employee theft to “the big one” – will protect your business and livelihood. We'll take you through the simple steps you can take to ensure that your business will survive just about anything thrown at you.**

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As you think about starting a business, the last thing that probably comes to mind is planning for a crisis. This is especially true if you're a one-person operation working out of your spare bedroom. Why on earth would you need to do all this extra work in the unlikely event of a disaster?

The bigger question is, why would you go through all the trouble of starting a business without having a plan to protect it from internal and external threats?

As we've learned from the COVID-19 pandemic, an unlikely event can ruin even the best laid plans of businesses large and small. A crisis isn't a matter of if, but when. It doesn't have to be a global pandemic either. It can be a greasy fryer that catches fire or an employee taking a little extra out of the till each day. A slow bleed can be just as dangerous and just as deadly as a mortal wound.

A crisis plan doesn't have to be a big undertaking either. Think of a crisis plan like you would a fire extinguisher. In the unlikely event of a fire, you want to know only have a fire extinguisher handy, but know how to use it. In a crisis, your plan will tell you where your fire extinguishers are, such as having copies of important documents stored off site or having access to account numbers for bank accounts and passwords.

There are also steps you can take in your planning to reduce the likelihood of a disaster happening in the first place or if it does happen, reducing its impact. By understanding the process of crisis planning, you can put proven processes in place that will work for nearly any crisis you could possibly experience.

Yes, you can roll the dice and hope that a crisis won't strike for years or even decades to come. Some small businesses have evaded one for decades. Others have gotten caught in a wildfire that spread so quickly they were barely able to save themselves, let alone their business' key records.

In planning for a crisis, there are two distinct levels of impact. There are the hard dollars, which is property and inventory loss, lost revenue, insurance deductibles, etc. These are fairly easy to calculate. And then there are the soft dollars: increased absenteeism and turnover, decreased productivity, etc. This is the slow bleed of a business that will creep up on you, eating into profits.

### **The four stages of a crisis**

Every crisis has four distinct phases. In each of the first three phases, there are things you can do as a business owner to 1) decrease the chance a crisis will occur in the first place or 2) reduce the impact it will have on your business. We'll visit these briefly below. You can take a much deeper dive into how to create a disaster plan yourself in our online planning guide - [When Trouble Strike: A Small Business Crisis Planner](#).

#### **Stage 1: Pre-Crisis**

This is the warning stage. Nothing has happened yet and you may not have even thought it could happen. This is the time to assess the likelihood and impact of various crises to see how each will affect your company, employees, customers, suppliers, operations and bottom line.

#### **Stage 2: The Crisis**

You're in the middle of it now. There's no turning back. The crisis will affect your business in one respect or another. Ignoring it

is not an option. The only thing you can do is control as much as you can so you can move to the next stage. The acute stage, the actual crisis, is often the shortest of the four phases.

### **Stage 3: Clean-Up**

This is the stage where you finally get to either breathe a sigh of relief if you did some crisis planning in the pre-crisis stage, or sift through the wreckage that follows a crisis – financial stress, loss of customers, loss of revenue or even bankruptcy. This period can last indefinitely if you failed to do proper planning beforehand or failed to respond properly in the midst of the crisis to minimize its impact on the back side.

### **Stage 4: Post-Crisis**

This is where you can turn a challenge into an opportunity. No matter what the crisis is, the goal is to move from Stage 1 to Stage 4 as quickly as you can. If the crisis required something that you could control, you may never have had to go through Stages 2 & 3. If the crisis was completely out of your sphere of influence or control, then how you worked your way through it will determine how quickly you reach Stage 4 and begin to see what opportunities lie before you now that the crisis has passed.

## **Plan Essentials**

As noted earlier, a crisis plan doesn't have to be as thick as the Seattle Yellow Pages (remember those?). The length and amount of detail will vary greatly by business. That said, the larger a business becomes, the more complex its crisis plan will become. A crisis plan is not something you "set and forget." It is meant to be updated regularly to reflect changes in your operations.

### **A solid crisis plan should:**

- Identify every potential crisis that could effect you, no matter how remote it may seem.
- Determine what you can do to minimize the risk of it happening in the first place, or if it

happens, how you can minimize its impact on your business.

- Create a business continuity plan you can follow in times of crisis to guide you through the four stages.
- Test the plan at annually and make changes based on your drills, remember to keep the response flexible since no two crises, even if they are similar, are the same.

## **A fire extinguisher for all occasions**

Let's return to our fire extinguisher analogy. If a fire is a potential crisis for your business, you can take several proactive steps to prevent it from occurring in the first place. In a restaurant, you can clean the grease traps, install smoke detectors, train staff on how to fight a fire and update the sprinkler system. If a fire does occur, then you have a fire extinguisher nearby and your staff is trained in its use, you have the fire department on speed dial and your insurance policy has is up to date and can cover any losses.

Here are just a few events that can interrupt your operations or jeopardize your business:

**Natural Disasters** – We'll start with the easy one, including earthquakes, landslides and wildfires. But there are also secondary disasters within each of these, such as a partial collapse of a roof caused by a heavy rainstorm or a broken water main.

**Theft or Vandalism** – The theft could be in the form of physical loss, such as inventory or cash or the theft of data or intellectual property.

**Fire** – The causes could be arson or a tool or appliance left on, but it can also be arson or a powerline knocked down in a heavy windstorm that arcs and starts a fire.

**Technology** – This can include computer viruses, hacking, randomware, system failures or the fact that your 10 year old computer's hard drive seized up and you don't have a

backup. According to the U.S. Bureau of Labor Statistics, 93% of businesses that suffer a significant loss of data go out of business within five years.

**Loss or Illness of Key Staff** – The temporary or permanent loss of the owner or a key manager can be a disaster for a small business. Perhaps just as important – as we have seen in the pandemic – a lengthy hospital stay because of illness can seriously affect a business' operations.

**Terrorism** – Domestic or foreign terrorism is a possibility, even in a small town. We all remember the Oklahoma City bombing and 9/11, but even rural communities can be affected by an act of terrorism, especially by domestic organizations. Even if you're not the target of a terrorist act, lack of access to your facility or collateral damage can seriously affect your operations.

**Supplier or Customer Crisis** – Many businesses are only as strong as their supply chain. What would happen if your deliveries were suddenly interrupted? What if a customer is hurt or killed by a product you sell? What about a product recall where there is obvious liability?

**Bad Press** – Social media has changed the playing field. What if a disgruntled employee or customer turned loose on Twitter? What if the media picked up on a story that put you in a bad light? What would be your response.

To the uninitiated, this may seem pretty daunting, but you don't have to do everything at once. You want to build your crisis plan over time and keep it updated. Plus, we've put together all the tools you need, including templates, examples and resources you can use. It's all online in your handy guide - *When Trouble Strike: A Small Business Crisis Planner*.

## Protecting yourself and your business

When you start your business, it's easy to think that insurance is a luxury rather than a necessity. After all, there are so many other startup costs to factor in. But like car insurance, business insurance protects you from the unthinkable, whether it's a customer tripping over an extension cord in your shop to the loss of a business partner.

In Washington, you're required to carry workers' compensation insurance and unemployment insurance for your employees. If you use your car for business, you either need a rider on your personal insurance coverage or separate business coverage. You also many need specific forms of liability insurance to cover specific aspects of your business.

Here are some of the more common types of insurance you may want to consider:

**General Liability Insurance** – This covers accidents, injuries, negligence, property damage, medical expenses, libel, slander, legal costs, settlements and judgments.

**Product Liability Insurance** – If you manufacture, distribute, wholesale or sell a product, this insurance covers you against financial losses due to a defect that causes injury or bodily harm to the end user.

**Professional Liability Insurance** - This is often referred to as an errors and omission policy and it protects you against things like negligence in the provision of a service, printing mistakes and other errors. This type of insurance can be purchased by specific professions, such as healthcare providers who purchase malpractice insurance or performing artists who buy event/venue specific insurance to cover their appearance.

**Commercial Property Insurance** – This covers everything related to the loss or

damage to your business due to fire, smoke, wind, hailstorms, civil disobedience, vandalism, theft, etc. It can include compensation for lost income, business interruptions, the physical structure, computers, company papers and currency. There are two types of policies: All-risk policies which cover a wide range of eventualities, except those specifically excluded in the policy, and peril-specific policies which protect you against a specific event such as a fire, flood or criminal activity.

**Home-Based Business Insurance** -- Your homeowner's policy places limits on liability caused by a home-based business. If you are running a business out of your home, you need a separate policy to protect you and your home.

To find out which policies best fit your needs, you'll want to contact a business insurance agent to go over the various policies, what's covered or not covered in each, the maximum payout, premiums, etc. Always get a few quotes so you can compare policies.



# Assignments

1. **Read the guidebook.** Think about some of the more common disruptions your business could face. Think about what you could do right now to reduce the chance they will happen or impact your business.
2. **Plot and chart.** Do a single plot for a potential crisis. Take one of the crises you identified above and use the plotting tools to determine the likelihood it will happen and the level of impact it could have on your business. See where it plots on the colored grid. If the likelihood of it happening is high, is there anything you can do to reduce the chance it will happen. If it will impact your business substantially, what can you do to reduce that impact? Don't forget to think about the hard and soft dollar costs of the crisis.
3. **Become resilient.** As you plan out your business, think about how you can make it more resilient from the very start. This could include how you maintain records and perform backups for files, how you manage your cashflow to ensure you have the necessary reserves to weather an economic downturn or a business disruption, and how you onboard new employees to ensure that the sustainability of your business and safety of its workers and customer remain top of mind.
4. **Start work on a full crisis plan.** Integrating your crisis plan into your other business planning can actually save you some work, since the two will be closely tied together and you will automatically begin to build in safeguards and identify potential events that can impact your operations, short- and long-term.
5. **Talk to other businesses about their insurance.** If you have friends who are in business, talk to them about what type of insurance policies they have, including

policy limits, deductibles and exclusions. Make sure they are in a similar line of business. For example, a lawyer may have a professional liability policy in addition to the general liability policy a store owner may carry.



