

Business Survival Newsletter™

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BUSINESS SURVIVAL™:
A BUSINESS CONTINUITY NEWSLETTER FOR DECISION MAKERS
FROM ROTHSTEIN ASSOCIATES INC.

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THESE ARE A FEW OF OUR FAVORITE LINKS

Extreme Weather

According to The Extreme Weather Sourcebook 2001: Economic and Other Societal Impacts Related to Hurricanes, Floods, Tornadoes, Lightning, and Other U.S. Weather Phenomena, Florida leads the nation from 1995 - 1999 in Tornado, Hurricane, and Flood Damage - almost \$1.7 billion/year. That's a lot of dimpled chads!

<http://www.esig.ucar.edu/sourcebook/>

The Emergency Email Network(sm)

MISSION: "Provide notification to citizens of local, regional, national and international emergencies utilizing the Internet and electronic mail (email) in a secure and expedient manner."

The National Emergency Email Network serves over 3160 local areas in all 50 U.S. States. You can receive automatic email alert notification of natural disasters, severe weather, or other emergencies in your area.

<http://emergencyemailnetwork.com>

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Saving a shattered image By Jim Battey
Infoworld Magazine, November 17, 2000.
<http://www.infoworld.com/articles/ca/xml/00/11/20/001120cabadnews.xml/>

Tips for public crisis management

Information technology professionals can play an integral role in crisis management by following these steps:

1. Put IT on the crisis team
2. Develop emergency contacts
3. Use the corporate intranet
4. Assign a technical spokesperson
5. Develop Web page templates
6. Develop a contact list
7. Train key personnel
8. Monitor press and public reactions
9. Watch internal communications.

How Much Risk Is Too Much? By Brooke Paul
InformationWeek Magazine, November 6, 2000

Risk management helps companies balance risk of inaction vs. the cost of action to cut risks.

<http://www.informationweek.com/811/risk.htm>

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FEATURE ARTICLE:

BUSINESS IMPACT ANALYSIS: WHAT S YOUR DOWNSIDE?

By Andrew Hiles, FBCI

Business impact analysis (BIA) is the identification of the effect on the organization of the risks to it, should they occur. How much could a disaster cost you? If you know that, you can justify spend on Business Continuity and risk reduction.

We can use the BIA process to achieve a number of objectives at the same time:

- Identifying the financial and non-financial costs
- Establishing the time window in which recovery has to take place
- Identifying vital materials and records necessary for recovery or continuance
- Making a preliminary assessment of resources required for recovery or continuance
- Providing input to the Risk Assessment on business risks that may not otherwise be identified
- To raise awareness of Business Continuity and to begin to focus individuals on their potential responsibilities, possible solutions and costs.

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Grounds for Justification of Protection Spending

The BIA examines risks and assesses the impact of their occurrence. The creation of a Business Continuity Plan can typically be justified on one or more of the grounds of:

- Life and Safety
- Political / Marketing
- Financial
- Compliance / Legal Requirement
- Quality

The lines between these are far from clear cut (for instance marketing impact could involve loss of market share and hence loss of profit - a financial impact). Wherever possible the impact should be quantified in financial terms and care should be taken to avoid double counting.

How much is your annual advertising budget? What increased market share does it buy you? Typically an organization may spend three or more times its normal annual marketing budget in the aftermath of a disaster to retain customer confidence and to retain and regain market share.

The traditional Business Impact Analysis too frequently fails to quantify longer term costs (e.g. lifetime value of customers; cost to regain market share and image).

Brand value needs to be protected. Figure 1 shows the world's top ten brands and their value brand from a recent survey by Interbrand in association with Citibank. A recent report claimed that 80% of most companies' value was not reflected in their balance sheet.

Figure 1: The World's Top Ten Brands

No	Brand	Country	Industry	Brand Value \$m
1	Coca Cola	US	Beverages	83,845
2	Microsoft	US	Software	56,654
3	IBM	US	Computers	43,781
4	GE	US	Diversified	39,602
5	Ford	US	Automobiles	33,197
6	Disney	US	Entertainment	32,275
7	Intel	US	Computers	30,021
8	McDonald's	US	Food	28,231
9	AT&T	US	Telecomm	24,161
10	Marlboro	US	Tobacco	21,046

Another — and perhaps even more significant financial impact — can be the effect of a disaster on share values. Rory F Knight and Deborah J. Pretty recently produced a research report, sponsored by Sedgwick Group, *The Impact of Catastrophes on Shareholder Value*. The report examined fifteen catastrophes that had happened to publicly quoted companies since 1980, with total financial losses of around \$19 billion.

Typically the share price of a corporation suffering a disaster falls by around 5% to 8% within the first few days after a disaster. Recovery of the share price then depends on how well

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the recovery is effected. The "winners" regain the confidence of the financial analysts by demonstrating leadership and management ability by rapidly taking control and re-establishing their operational capability. Their share price not only recovers the initial loss, but may increase within around 100 days by between ten and fifteen per cent compared to the pre-disaster share price. The "losers" drift at the lower share price, possibly rallying a little around 75 days following the disaster before settling at a price around 15% below the pre-disaster share price

The cost of disaster, and the causes of cost, are summarized in Figure 2 below.

Figure 2: Cost of Disaster - Causes of Loss

- Brand image recovery
- Loss of share value
- Loss of interest on overnight balances; cost of interest on lost cash flow
- Delays in customer accounting, accounts receivable and billing/invoicing
- Loss of control over debtors
- Loss of credit control and increased bad debt.
- Delayed achievement of benefits of profits from new projects or products
- Loss of revenue for service contracts from failure to provide service or meet service levels
- Lost ability to respond to contract opportunities
- Penalties from failure to produce annual accounts or produce timely tax payments
- Where company share value underpins loan facilities, share prices could drop and loans be called in or be re-rated at higher interest levels.
- Cost of replacement of buildings and plant
- Cost of replacing equipment
- Cost of replacing software
- Salaries paid to staff unable to undertake billable work
- Salaries paid to staff to recover work backlog and maintain deadlines
- Cost of re-creation and recovery of lost data
- Loss of cash flow
- Interest value on deferred billings
- Penalty clauses invoked for late delivery and failure to meet Service Levels
- Loss of customers (lifetime value of each) and market share
- Loss of profits
- Additional cost of credit through reduced credit rating
- Recruitment costs for new staff on staff turnover
- Training / retraining costs for staff
- Fines and penalties for non-compliance
- Liability claims
- Additional cost of advertising, PR and marketing to reassure customers and prospects to retain market share
- Additional cost of working; administrative costs; travel and subsistence etc.

Some of these costs may be insured but experience shows that only around 40% of actual loss is covered by insurance.

Time Window for Recovery

An effective BIA will assess the impact of disaster over time. Typically, there is a breathing space before the impact begins to bite. The length of time depends in part on the process and in

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part on the industry. In real time financial operations, the time window may be minutes. For other organizations, it may be days — or even weeks. After all, many organizations close down for weekends and public holidays. The impact analysis has to identify what this time window is by which recovery has to be in place.

This time window is commonly known as the Maximum Acceptable Outage (MAO).

Resource Requirements

Most people underestimate resource requirements for recovery. It is usually assumed that less capacity is required following a disaster than for normal production operations. In reality, greater capacity may be required — in terms of operational equipment, computing capacity and telephony.

Summary

A BIA is invaluable for identifying what is at stake following a disaster and for justifying spend on protection and recovery capability. Nobody but you will mind your own business.

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Andrew Hiles, FBCI is chairman of Survive International, and author of several books and software tools on business continuity and service level agreements (available at www.DisasterRecoveryBooks.com or www.ServiceLevelBooks.com), including:

- The Complete Guide to Service Level Agreements: Matching Service Quality to Business Needs
- Business Continuity: Best Practices
- Creating the Customer-focused Help Desk
- Service Level Agreements: Winning a Competitive Edge for Support & Supply Services
- The Definitive Handbook of Business Continuity Management

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INDIAN BUSINESSES COUNT EARTHQUAKE COST

The appalling loss of human life during the recent earthquake in India has rightly taken the headlines, but the Indian economy is also counting the cost.

According to the Financial Times, only 20 percent of businesses in Gujarat are operational at present, especially significant since the area is one of the most industrialised in India. Disruption is being caused by the destruction of the communications systems, power and water supplies, the loss of buildings, and the loss of employees.

The physical cost of the disaster has been estimated at 250 billion Rs (£3.7 billion / \$5.4 billion). (courtesy of www.globalcontinuity.com).

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ON A LIGHTER NOTE...

According to TIME Magazine, January 15, 2001:

10,000: Number of tests the convenience-store chain 7-Eleven said it performed on its computer systems to make sure they were Y2K compliant.

1901: Year shown on 7-Eleven s registers last week.

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RECOMMENDED READING

These and hundreds of other books, software tools, videos and research reports are available from The Rothstein Catalog On Disaster Recovery at www.DisasterRecoveryBooks.com.

Information Security Management Handbook (4th Edition) - Volume 2
Harold F. Tipton & Micki Krause, Editors

"INFORMATION SECURITY MANAGEMENT HANDBOOK, FOURTH EDITION, Volume 2 is an essential reference for anyone involved in the security of information systems. This new volume of the all-important handbook addresses emerging trends and new concepts in information security, along with security methodologies for evolving technologies. It is one of the most important study aids used by candidates preparing for the CISSP certification examinations. In fact, as in the previous editions of the handbook, the material in this fourth edition is aligned with the Information Security Common Body of Knowledge (CBK). This format provides information security professionals with enabling material with which to conduct the rigorous review required for success in the CISSP certification examination. In addition, the practical information presented in the book makes Information Security Management Handbook, Fourth Edition, Volume 2 an indispensable weapon in the arsenal of professionals and practitioners." 2000, 626 pages. Order #DR519, \$60.00.

A Guide to Business Continuity Management
by Brian Doswell

"A GUIDE TO BUSINESS CONTINUITY MANAGEMENT is aimed at those who are new to the subject and those who need to learn more about the scope and definitions of business continuity planning.

"Topics covered include: evaluation criteria for business continuity plans; project initiation and management; risk evaluation and control; impact analysis; developing business continuity strategies; emergency response and operations; design and implementing business continuity plans; awareness and training programmes; public relations and crisis communication; co-ordination with public authorities; the role of insurance in business continuity management. 2000, 64 pages. Order #DR495, \$40.00.

Media Relations Strategies During Emergencies (2000 Edition)

By James E. Lukaszewski, APR, Fellow PRSA

This volume is a guide to media relations strategy that provides insight, tools, techniques, tips, tactics, and suggested language for conducting media relations during emergencies, crises, and disasters.

Chapter topics include: Managing the media, understanding journalists, preparing spokespersons, question identification, attributes of good answers, special circumstances (such as being a news source), the crisis news conference, managing the massive event/response, and managing media relations strategies. 2000, 212 pages. Order #DR504, \$295.00.

Target U.S.A.: The Inside Story of the New Terrorist War

by Louis R. Mizell, Jr.

Many Americans still believe that terrorism plagues only other nations, places such as Jerusalem and Beirut, Belfast and London, Tokyo and Paris, Berlin and Bogota. Not here, not in the United States, they think. Their perception is dead wrong. from the Introduction. 1998, 210 pages. \$20.00.

Surviving 60 Minutes and the Other News Magazine Shows

Executive Action(r) Crisis Communication Management System

by James E. Lukaszewski, APR, Fellow PRSA

"Television news magazines have become the principal new force in television news. The reasons for their success and the prediction that their power will continue for some time are supported by the three most crucial aspects of any successful commercial broadcast venture - audience acceptance, advertising acceptance, and profitability. But the story of the power of these programs goes even farther and the news magazine format is here for the foreseeable future.

"Jim Lukaszewski shares lessons, insights, and response/preparation strategies for the organization approached by investigative news magazine producers along with two unique flowcharts, Preparing for the Crucial Interview and Dealing With the Impact of the Broadcast, which describe the steps the program producer follows as production proceeds and offer appropriate target responses to each." 2000, 16 pages with two flowcharts. Order #DR511, \$40.00.

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