

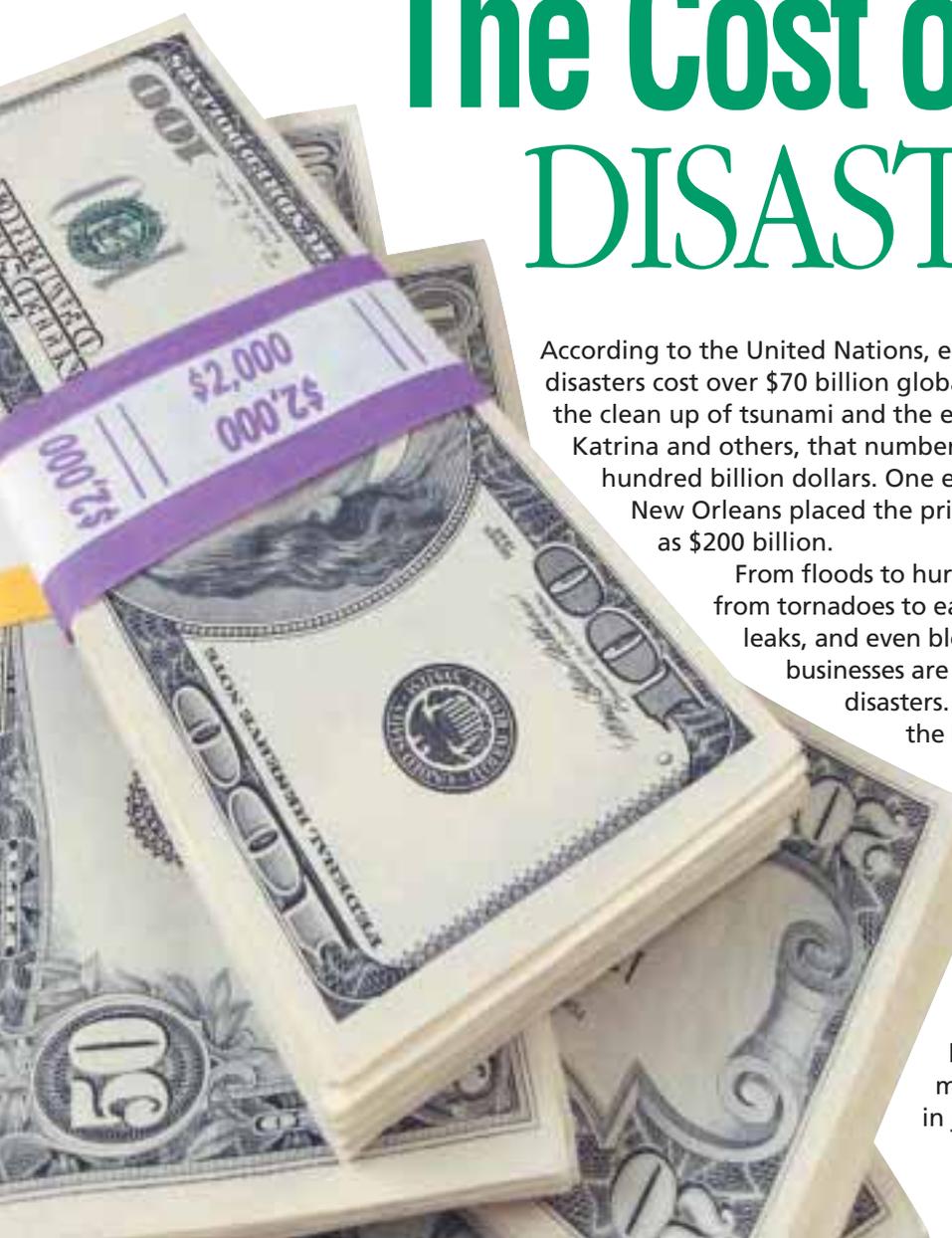
Update

NPMA LIBRARY UPDATE

SEPT/OCT
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Insert this update into the NPMA Pest Management Library, which can be purchased from the Resource Center. Phone: 703-352-6762 fax: 703-352-3031

The Cost of DISASTERS



According to the United Nations, each year natural disasters cost over \$70 billion globally. This year with the clean up of tsunami and the effects of Hurricane Katrina and others, that number could become several hundred billion dollars. One estimate to revitalize New Orleans placed the price tag just on that city as \$200 billion.

From floods to hurricanes and aftereffects, from tornadoes to earthquakes, gas leaks, and even block fires, pest control businesses are affected by these disasters. Our industry has the burden of not just direct damage, but future income is jeopardized when customers are affected. As a result of disasters, only some customers are affected but in others, the pest control business, customers, and many accounts are in jeopardy.

Developing a Plan

The Small Business Administration (SBA) offers the following planning tools (excerpted):

A DISASTER PLANNING TOOLKIT

- Identify the hazards you may face
- Plan for and reduce the impact of disasters
- Keep your doors open after a disaster hits
- Advise you on insurance, disaster supplies and the things you can do to make your business more disaster resistant

FACILITIES-BUILDINGS & EQUIPMENT

- What would we do if our facility were closed for several days, damaged or even totally destroyed?
- What could we absolutely not survive without? Machinery? Computers? Custom-made parts? The buildings? What can I do to assure I never have to live without them?

OPERATIONS

- What if there was a prolonged power outage?
- What if my key suppliers or shippers were shut down even though I am not?
- What if my customer base suffered a disaster and no longer needed or could not afford our product?

CRITICAL INFORMATION AND COMMUNICATIONS

- What if my payroll, tax, accounting, or production records were destroyed?
- What if my computer or computerized machinery was destroyed?
- What if the local phone service were disabled?
- Forewarned is forearmed, they say. How can I be forewarned?

INSURANCE

- Is my insurance adequate to get us back in operation?
- Do I understand what is covered and what is not?
- Can I pay creditors, employees, and my own needs during a prolonged shutdown?
- How long can I survive if we are shut down?
- Review your current insurance coverage. Is it enough to get your business back in operation? Will it cover the replacement cost of vital facilities? Make it a regular annual procedure to review and update insurance. Also remember that insurance on mortgaged property probably only covers the lender with nothing left over for you.
- Be aware of your contents insurance. Does it cover the replacement cost of critical equipment?
- Know what your insurance does not cover. Most general casualty policies do not cover flood damage. Many require additional riders for windstorm, sewer backup, or earth movement. Consider adding coverage for likely perils, especially flood insurance.
- Consider business interruption insurance that assists you with operating needs during a period of shutdown. It may help you meet payrolls, pay vendors, and purchase inventory until you are in full operation again. Also be prepared for the extraordinary costs of a disaster such as leasing temporary equipment, restoring lost data, and hiring temporary workers.
- Don't assume that, just because it never happened before, it never will. Flooding patterns are changed by development: water, which runs off new streets and parking lots, may overwhelm nearby streams and surrounding land. Landslides and sinkholes may develop because of distant earth movement, natural or man-made. The creek by your building may be a tiny, placid stream that has never flooded, but a downpour may change it into a destructive torrent that destroys your building foundation. Plan for the worst.

Business Interruption Insurance

III (an insurance analysis group) has published some business interruption and extra expense insurance details for owners:

A business that has to close down completely while the premises are being repaired may lose out to competitors. A quick resumption of business after a disaster is essential.

1. Business interruption insurance compensates you for lost income if your company has to vacate the premises due to disaster-related damage that is covered under your property insurance policy, such as a fire. Business interruption insurance covers the profits you would have earned, based on your financial records, had the disaster not occurred. The policy also covers operating expenses, like electricity, that continue even though business activities have come to a temporary halt.
2. Make sure the policy limits are sufficient to cover your company for more than a few days. After a major disaster, it can take more time than many people anticipate to get the business back on track. There is generally a 48-hour waiting period before business interruption coverage kicks in.

3. The price of the policy is related to the risk of a fire or other disaster damaging your premises. All other things being equal, the price would probably be higher for a restaurant than a real estate agency, for example, because of the greater risk of fire. Also, a real estate agency can more easily operate out of another location.

Extra Expense Insurance

Extra expense insurance reimburses your company for a reasonable sum of money that it spends, over and above normal operating expenses, to avoid having to shut down during the restoration period. Usually, extra expenses will be paid if they help to decrease business interruption costs. In some instances, extra expense insurance alone may provide sufficient coverage, without the purchase of business interruption insurance.

Employee Communications and Record Safety

There are two additional areas that need to be addressed as well. Each company should have a plan in place so that all employees can “check-in” if there is a disaster. This is vital to make sure that there is communication and the employees know the condition of the business and





their jobs. Planning should include proper storage and security of products and equipment and who is responsible for that task. Depending on the type of the disaster, there are many ways for the employees to check in whether it be by phone, radio, meeting spot, or other means. The company should also have a method to communicate with the customers as to reopening, steps, etc.

Recordkeeping is also going to play a role in a recovery. Surviving a disaster is much more than dealing with an eroded customer base. There are business issues that must be addressed.

The physical location itself may be out of service for some time. There are a few steps that can prepare the business for a crisis and may also permit a much speedier recovery or operations from a remote location. These steps include:

- Keeping a copy of customer records in a secure vault (electronic or paper) away from the office
- Keeping a copy of any computer files in a secure area away from the

office. While most companies perform weekly backups that are stored off site, companies should make sure that the business is not neglecting to backup and store off site:

- Keeping a copy of all insurance papers away from the insured area
- Filing all employee records in a fireproof locked cabinet
- Keeping a copy of all insurance contact information in a separate location so that if there is a building loss, the insurer may be contacted per the instructions on the policy to file a claim.

Contracts and Recovery

Recovery from a disaster can be a painful and slow process. For a typical pest control firm, accounts may be flooded or simply gone. There may be a major infestation of rodents. Soil may have shifted which will mean a loss of termite bait stations or treated soil.

Provisions may be put into the pest control and termite contracts that stipulate terms of continuance in case of a disaster. For example, if the soil is gone, is the company responsible for retreating the soil at no charge or is a disaster excluded? If it is not excluded, typically attorneys will tell you that it is implied that the company is responsible. Companies should have attorneys examine all contracts to take into account the natural disasters.

Peace of Mind

Building back a customer base may take years, but by considering the above steps, companies may ease the burden of the crisis. ●

