**Business
Continuity
Planing
Report**

The Importance of Business Continuity
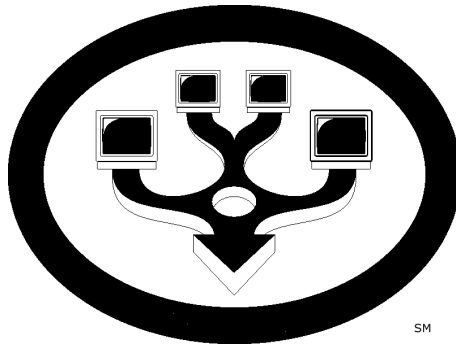
What You Need to Know and How to Get Started Today

Dynamic Network Technologies

The Importance of Business Continuity

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The U.S. Small Business Administration says:
Small business owners invest a tremendous amount of time, money and resources to make their ventures successful, and yet, while the importance of emergency planning may seem self-evident, it may get put on the backburner in the face of more immediate concerns. For small business owners, being prepared can mean staying in business following a disaster.[1]

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Foreword

What if…What if you arrived at your business this morning only to discover that during the night someone broke in and stole your computers, files, and other equipment?

Perhaps there was a fire in your office building, even a small one would cause smoke damage, not to mention the water damage caused by putting the fire out.

These are occurrences that happen to a business somewhere in the country everyday. Yet most of us think that this could never happen to us.

"To show how unforeseeable a disaster can be, for Tessco Technologies, located outside Baltimore, Maryland thought it had little to fear. It was not in a flood zone, not in an earthquake zone and devastating hurricanes were more than hundred year events. But in the case of Tessco, the culprit was a faulty fire hydrant.

One outside its Hunt Valley data center failed spectacularly on October 12, 2002 and several hundred thousand gallons of water blasted through a concrete wall leaving the company's primary data center under several feet of water and left some 1400 hard drives and 400 SAN disks soaking wet and caked with mud and debris."[2]

When I was working with the FDNY (Fire Department of New York) I responded to countless emergencies which were disasters for the business owners. Many of these businesses did not have insurance, never mind a business continuity plan. Of the lucky few that did have insurance, fewer still had properly documented what office equipment, supplies and other items they had, so the insurance coverage they did have would not cover everything.

So I ask you, are you prepared? If you are like most businesses you're not. In the rest of this report we will explore the reasons why you should have a plan, and how to get started in creating it because getting started can be as simple as asking the question; what if?

What is Business Continuity?

The first question most people ask, especially those who have never heard of it before is, what is business continuity? I often respond by saying it is emergency preparedness for business. Though this over simplifies what it is since it involves every aspect of your critical business functions.

Many businesses have disaster recovery plans, which most often is a simple data back up plan. Business continuity which includes disaster recovery as a single component also includes critical business processes, communications, facilities, IT, procedures for employees, and more that make up the business continuity plan.

Why should you have a business continuity plan?

Many businesses are required to have business continuity plans. These businesses are typically larger businesses that make up what is considered critical infrastructure. In addition to critical infrastructure, it is now a requirement to being listed on the major stock exchanges such as NSDAQ, and NYSE. Some suggest that Sarbanes-Oxley may be interpreted to include disclosure and business continuity planning responsibilities as well.[3]

Since the occurrence of 9/11 and the recommendations of the 9/11 Commission Report, business continuity is well on the way to being a requirement not just for the largest and most critical of businesses, but for all businesses. Currently in the works is a voluntary preparedness certification program in the United States. This will undoubtedly lead to mandatory preparedness as we move into the future.

In addition, several legal rulings have given way to increased liability and accountability for businesses of every type, for instance take the case of the September 11th litigation case, citing "a foreseeable risk"[4] many businesses can no longer rely on the unforeseeable nature of natural or man made catastrophes as a way of escaping litigation or damage to the business image, and reputation.

Also a multitude of laws and regulations specify or imply requirements for business continuity and disaster recovery planning. These requirements vary among industry sectors affecting the development, focus, and execution of business continuity plans.[5]

Unfortunately these reasons alone are often not enough to convince business owners to prepare for disasters. Yet consider the following:

"An Estimated 25 percent of businesses do not reopen following a major disaster[6]
"A company that experiences a computer outage lasting more than 10 days will never fully recover financially. 50 percent will be out of business within five years."[7]
70 percent of small firms that experience a major data loss go out of business with a year.[8]
Of companies experiencing catastrophic data loss:

- **43% of companies never reopened**

● **51% of companies closed within 2 years**[9]
● **80% of companies that do not recover from a disaster within one month are likely to go out of business.**[10]
● **75% of companies without business continuity plans fail within three years of a disaster**[11]
● **Companies that aren't able to resume operations within ten days (of a disaster hit) are not likely to survive.**[12]
● **Of those businesses that experience a disaster and have no emergency plan, 43 percent never reopen; of those that do reopen, only 29 percent are still operating two years later.**[13]

'In the aftermath of Hurricanes Katrina and Rita, The storms impacted 125,000 small and medium-sized businesses Gulfwide [sic], and in Louisiana alone, more than 18,000 businesses were totally destroyed.'[14]

"Almost half of all businesses that shut down temporarily after a natural disaster never reopen their doors."[15]

Natural disasters are not the only devastating things that can happen to a business.

"For a small, growing or even medium sized business a disaster can be caused by a hurricane or a tornado, by a fire, or simply by a wrong keystroke. One study shows that 50 percent of data loss is caused by user error. But no matter how it is caused, a loss of data, or access to data for any kind of extended period, inevitably means a loss of revenue, a loss of productivity, a loss of reputation, and increased costs.

A frozen pipe that bursts on a weekend might not be detected until you open for business on Monday morning; long after the resulting flood has destroyed inventory, equipment, floors or walls.

Disasters that threaten a business can happen anywhere at any time. Some rather startling statistics that are generally accepted in the data recovery field and reported by the University of North Carolina's Information Technology Service:"

● **A hard drive crashes every 15 seconds**
● **2,000 laptops are stolen or lost every day**
● **31% of PC users have lost all of their PC files to events beyond their control.**

- **25% of lost data is due to the failure of a portable drive.**
- **44% of data loss caused by mechanical failures**
- **15% or more of laptops are stolen or suffer hard drive failures**
- **1 in 5 computers suffer a fatal hard drive crash during their lifetime.**
- **40% of Small and Medium Sized Businesses don't back up their data at all.**
- **60% of all data is held on PC Desktops and laptops**

Professor David M. Smith, PhD, of Pepperdine University's Graziadio School of Business and Management writes: "The cost of lost data from computers is substantial. Businesses must be proactive in protecting this important resource."[16] [17]

Preparedness Measures Mitigate Costs

The cost of downtime varies by industry, and of course most importantly, by overall revenue of the business. More consistent however is the cost of recouping lost data which can be extremely expensive as well:

- **It takes 19 days and costs $17,000 to retype 20 megabytes of sales data**
- **The same volume of accounting data takes 21 days and costs $19,000**
- **Recreating data from scratch is estimated to cost between $2000 and $8000 per MB**
- **Insurance of business data is expensive, and in certain countries, insurance companies will not insure data**
- **60% of companies that lose their data close down within 6 months of the disaster**
- **72% of businesses that suffer major data loss disappear within 24 months[18]**

The ROI (Return on Investment) of disaster recovery and business continuity is well documented in the insurance industry. Yet it business continuity is often overlooked or dismissed by companies as not cost effective because it frequently does not translate or contribute to the bottom line.

Consider how property insurance company FM Global which takes a proactive stance regarding business risks and threats faced by its corporate policyholders, helped clients to save on costs.

"The firm compared the loss history of those of its policyholders which implemented its loss prevention recommendations versus those which had recommendations yet to complete following several major hurricanes. They found that those policyholders that implemented the preparedness recommendations had on average 75% to 85% lower dollar losses than those policyholders which did not implement such measures.

After Hurricane Georges in 1998, the policyholders that had taken FM Global's advice and made recommended physical improvements to their facilities experienced 75% less loss than those policyholders that had not. Hurricane Rita losses were mitigated by similar improvements at the same 75% rate.

During Hurricane Katrina, the differential between prepared versus unprepared increased to 85%.

As to cost of physical improvements and preparedness, the research indicated a remarkable return on investment. In the case of Hurricane Katrina, across 476 locations with a total of $42 billion in insured property exposed to the hurricane's impact, FM Global clients collectively spent $2.3 million to prevent a projected $480 million in loss, with cost of those improvements averaging only $7,400 per facility. That's a 208 to 1 payback or in other words for every $1 spent on targeted preparedness measures $208 in resources were saved, in one single event."[19]

Though disasters can not be predicted and often not prevented, the losses suffered by businesses can be mitigated. When the difference is between staying in business or shutting the business down, the ROI is generally immeasurable.

According to results from a 2003 survey done by Continuity Central Conducting ROI calculation is only performed by 16.3 percent of respondents. Of the respondents who do not conduct an ROI further questions were asked as to why they did not do the calculation. Cited below are some of the following reasons given for not doing so:

"It's extremely difficult to calculate empirically."
"The impacts are mainly intangible and therefore extremely difficult to quantify."
"It's not possible to quantify the benefits of business continuity activities."
"Lack of knowledge"
"I don't know how to calculate it."
"We don't have tools for the calculation."
"Not considered."
"Not considered to be a factor, considering plans would only be invoked in a crisis.
"Wasn't considered critical."
"Not required by the executive."
"No time.... we would need more staffing to do any more than we're already doing and there are no funds for that right now. Good idea, though!"[20]

This is just a portion of the responses given, as to why ROI was not being done by many business continuity managers, and it is still

one of the least utilized tools for showing value in creating a BCP (Business Continuity Plan).

There are several ways to show and add value to business continuity planning. The following is one method based on viewing business continuity as an asset in the same way as prepaid insurance. The following is a brief example showing how to calculate this.

$$\text{``} TotalBenefit \times \Pr obability = EconomicMonetaryValue(EMV) \text{''}[1]$$

"Using this equation, one can determine if the cost of insurance equals or exceeds its benefit to the company. If the insurance cost is less than its EMV benefit, it is a good buy. If the cost is higher than the EMV, then the company is wasting resources buying the insurance."

"In the past inability to measure the annual ROI of BCM has put it at a disadvantage when competing for enterprise resources. However, it is quite possible to fashion a meaningful ROI calculation as a replicable algorithm across enterprises of all types."

"The basic ROI formula is as follows:"[21]

$$\text{``} ROI\% = \frac{Benefits - Costs}{Costs} \times 100 \text{''}[2]$$

Using these as well as other methods show that calculating ROI need not be daunting and that it is both possible and plausible to determine the business case of BCM utilizing ROI.

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[1] Protiviti, inc., "From Expense to Asset: A Reexamination of BCM Plans and Their Value", By Aaron Miller, see:
http://www.knowledgeleader.com/KnowledgeLeader/Content.nsf/Web+Content/HIFromExpensetoAssetA ReexamofBCMPlansandTheirValue!OpenDocument

[2] Protiviti, inc., "From Expense to Asset: A Reexamination of BCM Plans and Their Value", By Aaron Miller, see:
http://www.knowledgeleader.com/KnowledgeLeader/Content.nsf/Web+Content/HIFromExpensetoAssetA ReexamofBCMPlansandTheirValue!OpenDocument

How to Get Started Creating Your Continuity Plan

For any business, whether it is a large enterprise or small business, the best place to get started is with your insurance provider. First you will want to make sure you have enough insurance to cover your business in the event of a calamity. I would start by calling your insurance company directly or reviewing your policy.

Some of the policies you will want to consider for your business are the following:

- Business interruption insurance
- Hazard insurance
- Flood insurance
- Earthquake insurance
- Additional coverage for special equipment
- Other coverage as need depending on risk and business needs

Some important questions to ask your insurance company or representative would be, do they reduce premiums or offer incentives if you develop a business continuity plan, and if they will work with your business to help mitigate your risks and exposure to risks? Ask them directly if your business needs any additional coverage.

One thing that you should do is clearly document the equipment, supplies, computers, and software that your business owns. You will want to include photographs, serial numbers, and for software copies of the documents and keys needed as proof of ownership. In certain cases you may be able to make a copy of the software to serve as a back up, though check your EULA (End User License Agreement) to see if you can do so under the policy.

After you have everything documented, make copies and keep them in a separate location away from your main place of business. Though be sure to keep the original or a copy easily accessible at your office.

Next consider what you would do if your office was not accessible due to a disaster. Be it a fire, earthquake, flood, snowstorm or even the possibility that you cannot get to your office due to the area being closed to pedestrians, which is what happened in lower Manhattan after September 11th 2001.

You should be prepared to work from a separate location if you can. Certain small businesses are restricted locally, but at the very least you should be able to run the business from a safe location, outside of the disaster area.

Depending on your business, there are many options for this out there, like working from a home office, shared hot/cold site or even a hotel room.

Communicating to your employees, clients, customers and stakeholders after a disaster is extremely important. Employees will need to know where to report and how they will work, they will also need to know how they will be taken care of. Clients need to be assured that they can still depend on you to stay committed to their needs and issues.

Figure out several methods for how you will communicate these messages to your employees, and clients. There are many options and businesses that offer emergency notifications.

If you don't have the funds currently to purchase an emergency notification system there are still options you can use, try calling in to your local radio station asking them to get a message out, you can try sending text based SMS messages, through a computer or cell phone, and you can even set up a Twitter account for your business and ask that all your employees and clients follow you there. These suggestions are dependant of course on working communications systems which may not always be working after a disaster.

For larger businesses that can afford several options, the best route is to use multiple resources and you will want to include hand held radios, as well as other options that may be out of reach for small businesses.

One thing that should be included as part of communications for any business, is ensuring that your employees know what to do once a disaster happens. Where they should go, who they should call for information and any other instructions they may need.

Data backup is something everyone should do. From the largest enterprise, to the small home office based business backing up your data is one of the most important things you can do to ensure the survival of your business. Not only should you back up often, but you

should also be storing copies of your back up data in an offsite location.

One of the best solutions is to use an off site data backup, that is encrypted, and that also provides storage of your data across multiple locations. Even the smallest of businesses can find suitable options that are cost effective.

Resources for Small Business

The SBA (Small Business Administration) offers free advice for small business:

http://www.sba.gov/services/disasterassistance/disasterprepare dness/index.html

SCORE is also a great resource for small businesses:

http://www.score.org/disaster_preparedness.html

You can find free information and templates to use for this purpose located at:

http://www.Disastersafety.org

Large Business and Business continuity

Larger businesses typically hire either consultants or full time business continuity managers to assist with their planning. They also are the businesses subject to various regulations and laws requiring business continuity.

For businesses inside the United States and doing business only within the United States typically, though not always follow the NPFA 1600 Standard, which was also endorsed by the 9/11 commission[22] along with other guidelines and regulations they must follow.

Businesses that are multinational corporations or those that do business out side of the United States are also subject to the above, but may also find that they have to implement BS25999, if required to do so by other businesses outside the United States.

These larger businesses have many requirements that they must satisfy through laws, standards and regulations and as such I will not touch upon large businesses more than just this brief overview. This is because each industry also has its own regulations that they must meet. For instance Heath Care facilities are also regulated by the Joint Commission, and banks are regulated by the Treasury, each of which imposes its own rules and regulations in areas of business continuity.

Additional Resources

http://www.ready.gov/business/index.html

http://www.fema.gov/business/index.shtm

http://www.nfpa.org/assets/files/PDF/NFPA1600.pdf

http://www.pandemictoolkit.com/

http://www.pandemicflu.gov/

http://www.disastersafety.org/text.asp?id=continuity_PDF

Would you like to see how we can help your business or organization develop a business continuity plan? Contact us today.

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Endnotes

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[2] Baltimore Business Journal (June 23, 2003). Computer World (November 17, 2003) See also Nth Generation Computing (August, 2007) See: http://www.nth.com/Data-Recovery-Clients/profile.asp?id=9. Also http://baltimore.bizjournals.com/baltimore/stories/2003/06/23/daily28. html, and http://www.disasterhelp.com/images/Computerworld_Article.pdf

[3] InterCEP, International Center for Enterprise Preparedness, *"The Legal Obligation for Corporate Preparedness*," (October 16, 2006) note: document states, subject to ongoing revision.

[4] U.S. District Court Judge Hellerstein, 2003. *In Re: September 11 Litigation, Opinion and Order Dennying Defendents' Motions to Dismiss,* Southern District New York, September 6, 2003; and D. Henriques and S. Saulny, "Two Years Later: Lawsuits; Judge's Ruling Opens Door For More Families to Sue Airlines and Port Authority," *New York Times*, 16A

[5] Gartner, Kristen Noakes-Fry, Christopher H. Baum, and Barry Runyon, Laws Influence Business Continuity and Disaster Recovery Planning Among Industries, ID Number: G00128123 (July 11, 2005)

[6] "Open For Business" a publication of The Institute for Business & Home Safety (IBHS), www.ibhs.org/docs/OpenForBusiness.pdf

[7] Jon Toiga, *Disaster Recovery Planning: Managing Risk and Catastrophe in Information Systems*, (Yourdon Press, 1989)

[8] Contingency Planning, Strategic Research Corp and DTI/Price Waterhouse Coopers (2004) and is widely quoted in places such as: Diana Shepstone, National data awareness project launched to help businesses prevent data disasters (Data Centre Solutions, Jan. 8, 2007) see:http://www.datacentresols.com/news/articles-full.php?newsid=5455

[9] University of Texas Center for Research on Information Systems, as cited in Datamation, June 14, 1994

[10] Jonathan Bernstein, president, Bernstein Crisis Management, LLC in Director, June 1998, v51n11, p44

[11] Bruce Blythe, CEO, Crisis Management International in Blindsided: A Manager's Guide to Catastrophic Incidents in the Workplace By Bruce T. Blythe (Portfolio Hardcover, August 22, 2002)

[12] http://www.techworld.com/cmsdata/whitepapers/833/How%20Secure%20is%20your%20Storage_Symantec.pdf

[13] The Hartford's Guide to Emergency Preparedness Planning, created by The Hartford Financial Services Group and now published by J.J. Keller &Associates

[14] U.S. Senate Committee on Small Business & Entrepreneurship; Press Release: Landrieu Introduces Gulf Coast Small Business Recovery Package (February 8, 2007) See: http://sbc.senate.gov/press/record.cfm?id=269054

[15] Senator Lieberman, U.S. Senate Committee on Small Business & Entrepreneurship; Press Release: Landrieu Introduces Gulf Coast Small Business Recovery Package (February 8, 2007) See: http://sbc.senate.gov/press/record.cfm?id=269054

[16] Impact on U.S. Small Business of Natural & Man-Made Disasters; A compilation of public and private sector intelligence, Presented by HP and SCORE: Counselors to America's Small Business; See: http://www.score.org/pdf/HP_Download_ImpactofDisaster.pdf

[17] Smith, David M., "The Cost of Lost Data," Graziadio Business Report, a publication of Pepperdine University's Graziadio School of Business and Management, Vol. 6, Issue 3, 2003). See http://gbr.pepperdine.edu/033/dataloss.html (Note: This is also a reference in the above endnote [12])

[18] IDC analyst Cynthia Doyle, (2001) Cost of Downtime Survey Results

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[22] The 9/11 Commission Report, Recommendation for Private Sector Preparedness pages 397-398