



PENNSYLVANIA LUMBERMENS MUTUAL  
INSURANCE COMPANY

## BUSINESS INTERRUPTION: TAKING A PROACTIVE APPROACH

Experiencing a serious loss is something that no businessperson wants or expects to be confronted with. The fact is that serious losses will happen and business owners will have to face the urgent issues associated with the loss.

The building and contents are gone, employees show up with nothing to do, customers are contacting you wondering about their order or shipment, walk-in customers go elsewhere, and your business operations have stopped! What now? Unfortunately, this is a situation that is experienced all too often.

The impact of seeing your business in this condition can be overwhelming. After all, it took years, maybe even generations to build. At a time like this, clear thinking might be difficult. The decisions made now will be the first steps in making your way back into business and time is of the essence! How long can your key employees be out of work? How long will your loyal customers wait before establishing a business relationship elsewhere? How long before your suppliers are no longer willing to give you that priority treatment again? How long will creditors wait for payments due now? If this seems like a lot of unknowns, it is. The future and continued success of the business depends on how quickly you resolve these issues and return to “business as usual”. Standing in the debris is not the place or time to make these decisions.

The most efficient way to be able to make these decisions and prepare for this day is to pre-plan! The purpose of the pre-plan is to provide your business with a blueprint for actions to be taken should a severe loss occur. All aspects of the business operation need to be considered, with the most critical operations considered first. Prepare a systematic approach to evaluate the situation and determine if any portion of the business property can be utilized. If so, can the more critical operations be accommodated? If not, the plan should include viable options. The plan can be divided into sections such as financial, operational, and communications. These sections should be determined based on the specific characteristics of the business. The various sections of the pre-plan would take into consideration the resources, contacts, and procedures to facilitate the quick resumption of business operations.

### Examples of financial considerations may include:

- Assuring that your company has adequate financial resources to meet immediate and ongoing expenses such as payroll, relocation expenses, replacement equipment, etc.
- Assuring that there is a current backup of accurate company financial records kept off premises.
- Maintaining an available line of credit, if needed.

### Examples of operational considerations may include:

- Set up of temporary office facility.
- Arrangement for moving operations to another location, either on your premises or to an off-site location.
- Designating employee reassignments.

- Assuring delivery or other special operations.

**Examples of communication considerations may include:**

- Contacting key customers and clients to advise them as to new procedures or location.
- Contact list of suppliers to assure obtaining new materials and supplies.
- Real Estate agents to facilitate obtaining a temporary location such as a yard or building.
- Advertising outlet to direct customers to the new location.

The pre-plan needs to serve as a comprehensive outline to restore business operations. Each business has specific needs and aspects of operations that need to be addressed within the plan. The more detail included addressing the particular needs of the business, the more effectively the business can restore operations.

Once a loss occurs and interrupts your normal business operations, time becomes very important. During the down time, customers, even your most loyal, will need to go elsewhere and other business relationships may be established. The longer the business goes without accommodating the customer base, the longer it may take for the company to re-establish pre-loss business volume. Hopefully, past customers will return as soon as the business is operational again. Pre-planning to eliminate or reduce the amount of down time can only help reduce the chance of long-term negative effects of the loss.

Review the pre-plan periodically. Over time, information contained in the plan may change such as customers, suppliers, financial institutions, and other important contacts. There should be more than one copy of the plan available. At least one copy needs to be secured at a remote location. Should a loss occur that interrupts your business, this plan may become your most important business document.

Periodically review your insurance program with your broker to make sure that it will provide the adequate financial resources necessary to fund the immediate and ongoing expenses mentioned above. Your broker will be familiar with the Business Income (which requires completion of a fairly complex worksheet by you and your broker) and Extra Expense Coverages that most insurance companies offer, but may not be aware of two additional ways to provide this kind of protection offered by PLM and ILM.

The first is called Profits Insurance and it allows retail and wholesale businesses (not available to manufacturers) to cover a percentage (usually between 25% and 33 1/3%) of the sound value of their stock representing the “mark up” on their merchandise held for sale.

The second approach is even simpler. It is called the Valued Use and Occupancy Form and it allows you to select whatever limit per week is appropriate, for the number of weeks you choose.

You may want to ask your broker to look into whether PLM and ILM’s Profits Insurance or Valued Use and Occupancy may be good options for protecting against your exposure to an unexpected interruption to your business due to a serious property loss.