

CONTINGENCY PLANNING

IMPORTANCE

Contingency planning is important to every business owner. However, it is even more important for a business owner who has begun to develop an exit strategy to think about minimizing any risks that currently exist and to develop strategies to address. Early in the exit planning process, the business owner is provided an estimate of business value. This value is a good estimate for risk of loss, should something happen to the company, its owners, employees and/or property. This could include fire damage, loss or disability of the business owner, and loss or disability of key employees.

ELEMENTS OF CONTINGENCY PLANNING

Key elements in contingency planning include:

1. Having a written contingency plan is critical to document all potential risks and the actions that will be taken to address each issue. Some actions will be preventative, some actions will be those triggered by a contingency event.
2. What happens if one of the 5 D's (Death, Disability, Divorce, Distress, and Disagreement) should occur? What protection is needed? What actions should be taken to minimize risks.
3. Who would run the company if the principal owner or critical key employee could no longer perform their jobs? Are there outside advisors that should be brought in to advise the company?
4. What current advisors should be included in developing the contingency plan? What advisors should be contacted when a contingency event occurs.
5. What should happen in the case of a natural disaster that would make it very difficult for the company to operate? This could be extended power outages or a disaster with much-longer term impact, including the loss of a facility.
6. What should happen if your computer systems are taken ransom or hacked and inaccessible.

INSURANCE PLANNING

There are several types of insurance that need to be evaluated as part of contingency planning, including the following:

1. Life Insurance

There are a variety of ways that life insurance can protect the assets that have been created as the result of the owner having built up the company over the years.

Life insurance can be used for the following purposes:

- a. Fund a buy-sell agreement between multiple owners.
 - b. Funding stay bonuses for employees.
 - c. Key man insurance for mission critical employees.
 - d. Funding the total or partial value of the company.
 - e. Funding estimated estate tax liabilities.
 - f. Paying off bank debt.
 - g. To create long-term incentives for key employees to stay.
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Disability Insurance is more cost-effective than life insurance and can be used to provide temporary funds. Disability policies can be issued either as short-term or long-term policies.

Disability insurance can be used for the following reasons:

- a. Business overhead protection, to pay for the ongoing cost of running the business in the absence of the owner.
 - b. Personal disability coverage to provide cash flow to the owner and/or their family.
 - c. Coverage on key employees which would be paid to the business during the inability of the employee to work. Note that group disability plans can be discriminatory in favor of the owner.
3. Business Liability Insurance
A review should be conducted to determine if adequate business liability insurance is currently in place.
 4. Property and Casualty Insurance
A review should be conducted to determine if adequate property and casualty insurance is currently in place.

An insurance professional should be used to review these and other potential uses of insurance during the period prior to exiting the business.

COMMUNICATION PLANNING

Written instructions should be created that identifies who would run the business, who would own the business, whether the business should be sold and who the new owner should consult on how to run or exit the business. A communication plan should be developed to outline actions that should be taken with employees, banks & other lenders, advisors and other stakeholders.

ADVISOR ROLES IN CONTINGENCY PLANNING

Please complete the following table with any advisors that you are currently using or would be needed in case of a major contingency event.

ROLE	NAME OF ADVISOR OR COMPANY	CURRENT	CONTINGENT EVENT
Accountant/CPA			
Business Attorney			
Close Friend/Family Member			
Peer Group /Advisory Board			
Exit Planner			
Business Coach			
Real Estate Attorney			
Estate Planning Attorney			
Wealth Manager/Financial Planner			
Banker			
Insurance Broker			
Business Broker/Investment Banker			
Family Advisor/Therapist			
HR Firm			
Marketing Firm			

EMPLOYEE RETENTION

Key employees should be identified in advance and a detailed plan developed on the role that each employee will have after a major contingency event. Advanced consideration should be made for offering stay bonuses for key employees. As stated above insurance may be used as a way to retain employees.

FACILITY RISK

In addition to having adequate insurance, the facility should be evaluated for possible loss risks. Fire is probably the most obvious factor, but what about flood or land contamination risks. Are there others?

DATA PROTECTION

More and more, data protection from hackers who gain access to your company's digital information for pleasure or ransom is becoming an increasing risk. Are information systems onsite or offsite? Are there information backups stored outside of the company's facilities? What would be the impact if the company's information system and data were no longer available? How would the company process orders, fulfill its commitments to its customers, or pay its employees? In most of these cases, affordable solutions exist that can minimize these risks.

BUSINESS AND INDUSTRY SPECIFIC RISKS

The industry in which the company operates may have other unique risks. This might include licensing requirements, governmental filings, maintaining industry certifications, etc.

INCLUSION IN COMPANY DATA BANK

This contingency plan, along with all related documents and policies, should be placed in the company's databank prior to initiating conversations with potential buyers.