Long-Term Recovery: Addressing Business Failures in Years 2-5

Bonnie Canal

Managing Partner

The Resiliency Institute

Failure of Small Businesses

- Researchers estimate that approximately:
  - Half of business starts do not survive their first 5 years
  - 8 out of 10 fail within the first 3 years

(Tigges and Green1994; Mason 2011)

Small Business Recovery Challenges

- Small Businesses tend to be financially less stable than their corporate counterparts.
  - Those counterparts have:
    - More resources
      - Time
      - Money
      - Technical know how
      - Diverse customer base / way of doing business

Small Business Recovery Challenges

- 52 % of businesses are operated from the owner's home or property.
- Property damage
  - Impacts both the family and the small business,
  - Contributes to increased demand for goods and services
  - Decreased supply that impairs the chances of both business and family for timely recovery.

Overview of Small Business Recurring Views of Natural Disasters

1. Illusion of Security
2. Nothing could be done to protect against this
3. Complete 360-degree disaster for the individual
4. Self-imposed limits
5. Imprudent use of financial resources
6. Not understanding what is happening to their customer base
7. Assumption everything will get back to normal

1. Illusion of Security

- Small business owners believe “this could never happen to me.”
- They think their chances of their being a victim were extremely remote
  - Sufficiently remote that they could largely ignore the phenomenon
  - Or simply buy insurance to deal with losses should the event ever occur.

4 Reasons for Not Taking Precautions

1. Owners do not perceive that a risk exists.
2. Owners believe nothing they can do about it
3. Owners choose not to take precautions at this time.
4. Owners may not have the time or the technical capacity to reduce risks at this time.

Financial Push-Pull

- Small business owners have a small financial flywheel to keep them going should the cash flow stop.
- For every dollar that comes in, there are several high priority claims made on it.
- It is often easier prefer to assume the business is secure from the effects of natural hazards.

Common Reasons for the Illusion of Security

- “I Thought I Was Covered”
- “They Built this Levee; We Were Safe”
- “How Can You Have a Hundred Year Flood Every Three Years?”

People choose to internalize very little of the information about the risks and the potential consequences for them.

2. Nothing They Can Do About It

- People had no idea of how they might have protected themselves against the disaster and all the subsequent ramifications that affected them.

2. Nothing They Can Do About It

- The chain of events set into motion by the disaster such as:
  - the loss of inventory
  - the lack of a place from which to do business
  - the intense competition from large
  - out of region businesses
  - the precipitous market decline
  - are too much to overcome.

3. Complete 360-Degree Disaster

- Small business owners are often effected by long-term emotional and psychological challenges precipitated by the disaster they experienced
- Many owners' businesses recovered from the effect of the disaster, but their personal disaster continues.
- The disaster affected their business and livelihood, their home, their family, and almost every moment of every day for months and even years.

4. Self-Imposed Limits

- Owners often made choices in the absence of perceived alternatives.
- Many failed to see that they had alternatives available to them; in so doing, they limited themselves and their potential response to the disaster.
- Many have trouble envisioning an alternative way to make a living

5. Imprudent Use of Financial Resources

- Business recovery is financed with savings, loans, grants, insurance proceeds, the sale of holdings.
- Few grants are available for business owners, and SBA loans must be fully collateralized.
- Some “max out” their own and their relatives’ credit cards or use their life savings to finance their business recovery.

5. Imprudent Use of Financial Resources

- Often financing through government grants, interest free loans, and low interest loans are tied to special conditions.
- Often the owner is not allowed to relocate the business outside the municipality under the terms of the loan or grant.
- Repayment schedules for low interest and interest free loans were usually demanding, sometimes unrealistic in light of the disaster's impact on the entire community.

5. Imprudent Use of Financial Resources

- Owners who rushed to reopen their business after a disaster often found themselves short of customers and faced with the resulting cash flow squeeze.
  - Owners who are deliberate about re-establishing their business sometimes find their customers' buying habits had changed.
  - This also resulted in a cash flow squeeze.
  - There is an overwhelming temptation to hang on until things get back to normal.
  - In the meantime, savings and loan proceeds dwindle, frustration and anxiety mount, and hope becomes despair.

6. Not Understanding What is Happening to Their Customer Base

- Communities change following a natural hazard event of consequence
  - Demographic changes
  - Population density can be redistributed
  - The demographic changes contributed to changed business relationships.
  - Often exacerbated by post-event decisions about private and public choices about what and where to rebuild

7. Assumption Everything Will Get Back to Normal

- The implicit premise of nearly every business owner who reopened their business after a natural disaster was things would “return to normal” before long.
- The hope or confidence that things would soon get back to normal belies the reality of the post-disaster dynamics.

7. Assumption Everything Will Get Back to Normal

- Simply restoring utilities and roads and repairing and reconstructing buildings did not “bring things back to normal.”
- People had moved away, buying habits changed, lives were altered, new people moved in, and patterns and relationships were altered forever.
- The systems and subsystems that comprise the community and the businesses’ environment had changed forever.

In Conclusion

- The most important variable is the extent to which the owner recognizes and adapts to the post event situation.
- Communities never return to what they were before the event thus the post event environment always different.
- Those who perceive the change and adapts appropriately will have an excellent chance of surviving and become viable again.

In Conclusion

- In contrast those that continue to do business under the old paradigm, assuming that the community will return to pre-existing conditions, have all the cards stacked against their ling-term survival.
- Doing what they did before will not work in these changed circumstances.

Questions?

Bonnie Canal

Managing Partner

The Resiliency Institute

504-874-5474

bonniecanal@theresiliencyinstitute.com

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- TRI is a full service consulting firm specializing in comprehensive solutions for small/medium size businesses (SMBs), understanding the role they play in community preparedness and resiliency.
- This is achieved by engaging the entire community's political, civic, business, and other key leadership personnel.
- From personal continuity, business continuity and disaster preparedness TRI understands that your success and future growth comes from your plan.
- Through practical applications across the full continuum of prevention, protection, response and recovery - TRI is your strategic partner - assisting you to see invisible opportunities and solve seemingly impossible problems that will enhance the resilience of individuals, SMBs, and communities

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