

ARE YOU READY TO DEAL WITH A CATASTROPHIC EVENT? WHAT DO YOU DO WHEN THE UNTHINKABLE HAPPENS? LOSS ADJUSTMENT, RISK MANAGEMENT AND CONTINGENCY PLANNING ARE CRITICAL.

There must be more than 100,000 significant paper based packaging production sites around the world and it comes as no surprise that every year, a number of them are hit by catastrophic events — Cartisa Barcelona, Smurfit Kappa Almeria, Thai Container, Orora Brisbane, Smurfit Kappa Herzberg, Cargal in Israel, Rengo in Japan, International Paper in Italy, just to name a few.

There are many plants in the corrugated industry that have experienced what it takes to handle the most feared disasters. They all had major catastrophic incidents, ranging from severe fires to floods, storms and earthquakes. It would be hard to find a plant that has never had to deal with a minor incident that could have turned in to a major disaster. What makes the difference is awareness of the local environment and planning.

In all cases of catastrophe, it is the action taken by a few that prevents the worst outcome. Preparing the managers and workers for what

AN ARTICLE BY ANDREAS
TINGVALL, TRENECO AB

DISASTER STRIKES!



Cartisa's factory in Barcelona
after a devastating fire.

IN BUSINESS, AS IN PRIVATE LIFE, IT IS NOT UNCOMMON TO SEE A LACK OF EXPERIENCE IN DEALING WITH THE UNFORTUNATE SURPRISES THAT COME OUR WAY.

could come their way must be an important part of your overall contingency plan. For example, plants that are in close proximity to rivers that are known to cause floods frequently, or those that are located in areas of extreme weather conditions need to have plans in place to deal with a disaster. You also need to see who you are located next to — maybe your neighbour is in a risky production business, so you can not claim that you 'did not know' if something went wrong at their site and that impacted on your factory. While extreme weather conditions are something we can't control, think about what you can control in order to avoid a severe incident.

The reason for avoiding preventive actions is simple — it is human nature! This is because our mental defense kicks in automatically once we start thinking about the incidents that could affect our lives. However, we often hesitate to deal with this as a precaution, because the average person might feel totally overwhelmed. It also delegates responsibility to people that may not be ready for it. We also sometimes forget that people we have put in place to be part of a disaster plan might leave or they might move to different positions and they simply forget what they have been trained to do while the company continues to grow and develop. So when the catastrophe hits us, we find out that we are not as well prepared as we thought we would be. Thankfully, we also find out about those who rise to the challenges at hand, save lives



An aerial shot of Orora Rocklea before and after a massive flood.



and prevent us from even greater damage.

At Treneco AB, we have worked directly and indirectly with many loss adjustment cases. Ranging from minor damage on single machines to complete losses of mega plants, we have seen it all. We have provided expertise and project management to the insurance companies as well as to the insured all over the world.

In business, as in private life, it is not uncommon to see a lack of experience in dealing with the unfortunate surprises that come our way. Unfortunately, that is common

human behaviour. We tend to ignore what we don't want to happen. We may think that the insurance will take care of everything when it happens, but don't be fooled! Your insurance will pay, but you have to do the work fixing it.

In your own interests, consider if your company has the expertise to rebuild a complete plant today with no notice. Think of the fundamental failings of governments all over the world whenever a catastrophic situation happens. Even well organised countries have frequent catastrophic events like floods and fires and will struggle with

A RELATIVELY SMALL AMOUNT OF CONTINGENCY PLANNING CAN HAVE A HUGE IMPACT ON HOW WE ARE ABLE TO DEAL WITH SUCH SITUATIONS.



dealing with the event. The ability to handle emergency prevention and preparation is a fundamental part of leadership. Whenever it is handled well and to the best possible results, tremendous efforts for training and education had been made prior to the event. The good news is that this can be learnt.

But where do we start? This is where the Pareto Principle can be applied — “In business, approximately 80 per cent of the result is achieved through approximately 20 per cent of the effort.” Interesting enough, you may agree that approximately 80 per cent of your profit is achieved with 20 per cent of your customers. This is not uncommon for many industries.

For a discussion about catastrophe prevention, this could translate in to understanding that 80 per cent of the negative results impacting your business could be prevented through following up and preparing the top 20 per cent of the

preventive measures. A relatively small amount of contingency planning can have a huge impact on how we are able to deal with such situations.

A good starting point would be to understand what has to be insured under which conditions and what we can do to minimise risks through training and preparation. Looking at your insurance and your current set-up, you need to consider:

- Is the machine model that is installed still available?
- What current equipment would match the lost equipment?
- Will the new equipment fit in to the old building?
- Do I need new buildings?
- How can I make sure the insurance understands the relationship between space and the new production machinery requirements?
- Will I get permits to rebuild my business on the same plot of land?

- What environmental rules have to be considered for the rebuilding of the plant?
- What new utilities are needed with the replacement equipment?
- Do these utilities match my new equipment and will they comply with current codes?
- What logistic changes are required to fit the replacement equipment?
- What is the right compensation value for an outdated piece of equipment?
- Should the replacement equipment match original production needs or future needs?
- Do I need new spare parts and consumables with the new equipment?
- Will dies and stereotypes for my orders work on the new machine?
- Will my foundations and building structure comply with the replacement?
- Who needs how much training of what kind and is that covered with my insurance?
- What can I do while I wait for the new equipment?
- How long will it take until my new machines can produce at full capacity?
- How can I prove the business interruption loss for that machine?
- Does my team have the skill and manpower to resurrect a major piece of lost machinery, or do I need outside help?
- Where can I find the help that I need and what will it cost?
- Am I entitled to my own expert consultant and where can I find them?

RECONSIDER HOW YOUR COMPANY WANTS TO DEAL WITH CUSTOMER EXPECTATIONS AND HOW YOU WANT TO COMPLY WITH THIS COMMITMENT.

The assessment of a potentially insured manufacturing asset is much more than just the purchasing price that you will get with a machine manufacturer's proposal. Typically we find that neither the insurance, nor the insured party, or even most professional assessment companies have a full understanding of what is needed and what it will cost to recover from a loss in the corrugated industry. Utilities, foundations and logistics must be addressed.

Most assessment companies will get a standard proposal from a machine supplier and use it for their assessment without understanding the specifics of the corrugated industry. To base an assessment on proposals alone will not take care of your individual situation. You may end up being under insured or pay too high a premium. The insurance will base the premium on the insured value and the contractual terms. Consequently, all side costs should become part of the insured value.



Business interruption

Large risks can be insured. What can not be insured is your business model. Losing your customer base is hard to recover from. A starting point could be to reconsider how your company wants to deal with customer expectations and how you want to comply with this commitment. As with many other businesses that live with short lead

times and low profit margins, they can be brought down by the loss of these few profitable customers. There is no lawyer and no insurance that can bring back a customer. The Pareto Principle could serve you well for determining where your minimum focus should be.

Customers are loyal to their suppliers mostly because they are reliable and deliver on time what was promised. Your customer can't afford to shut down his business because of your unfortunate situation! Consequently, you will most likely lose your customer if you can't supply them. At this point, large groups often make a major mistake by assuming that a sister company could pick up the delivery to a specific customer. Our experience shows that with more than 70 per cent of the orders, this assumption is simply wrong. Even if you technically can move the production to a sister plant, you still need to consider that statistically 80 per cent of your customer reject claims are associated with first time order deliveries.

We have found that every time there is a major loss with a production plant, it is essentially like their entire order book becomes the subject of a new tender to all your competitors. There should be

A Japanese plant the morning after the Tsunami.



DO YOU KNOW WHERE THE NEAREST FIRE DEPARTMENT IS AND IF THEY ARE EQUIPPED TO COMPLY WITH THE DISASTERS THAT COULD HAPPEN TO YOUR OPERATION?



no doubt that having a business interruption component insured is essential for your business. The business interruption damage is often greater than the material loss of assets. It serves no purpose to have insurance for assets alone. We all know that it takes years to build up a customer base while it may only takes hours to lose them again.

The struggle to keep customers, suppliers and staff while dealing with a catastrophic event adds to the complexity at hand. To understand all their needs and how to fulfill them while being in a state of disorder is a major part of the contingency plans for every company. This is a major challenge for the leadership team of any company and can't be taken lightly.

What to do?

Most of the paper based packaging producers have room for improvement in this area. At most, the average manufacturing operation has a fire drill now and then. But do you know where the nearest fire department is and if they are equipped to comply with the disasters that could happen to your operation? Contingency planning is one of the most important duties of a company. This means looking beyond the daily routines and to prepare for the infrequent and unexpected events that can disrupt our business. Start by differentiating between those risks that you can address through training, discipline and education and those that you have to find solutions for outside your direct

operational responsibilities.

Reading this article may remind you of some tasks that you need to look into or even overwhelm some of you as you start to understand that there is lots to do in your company. Just remember, 'anything that can go wrong will eventually go wrong at some point in time!' So, better to be prepared than to be sorry. ■

About the Authors

Andreas Tingvall is the Managing Director of TRENECO AB located in Gothenborg, Sweden, with branches in Germany and Poland. Lothar Jacobmeyer is an independent Consultant associated with TRENECO AB and best known for his life long commitment with the European corrugated Industry.