

Re:THINK™

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The True Cost of Downtime and the Business Case for Business Continuity

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Most businesses know that downtime and disruptions cause lost revenue. However, many businesses fail to accurately measure the true costs downtime has on their businesses. Measured correctly, it is easy to see these costs are significant, and include a number of costs that often go overlooked.

In addition to lost revenue, other costs can include extra labor fees, recovery activations, loss of customers, loss in stock price, loss of goodwill, fines, and damage to business reputation to name a few.


“By having more accurate measures for the cost of downtime the business case for continuity becomes clear.”

According to a Dunn & Bradstreet study, 59% of Fortune 500 companies experience a minimum of 1.6 hours of downtime per week. To put this in perspective, assume that an average Fortune 500 company has 10,000 employees, who are paid an average of \$56 per hour, including benefits (\$40 per hour salary + \$16 per hour in benefits). Just the labor component of downtime costs for such a company would be \$896,000 weekly, which translates into more than \$46 million per year.¹

As you can see, the costs of downtime are substantial. Being able to reduce or prevent downtime can result in significant cost savings to an organization. However, to do so effectively you need to start with knowing the impact and costs of downtime to your business.

Though 55 percent of respondents to a recent Forrester survey claim their companies have calculated the cost of downtime, only 18 percent knew what the figure was. The average reported cost per hour is near \$350,000. According to the same report, 90 percent of respondents did not know the costs of their most recent disruption. Of the 10 percent who did know the total

¹ Dunn & Bradstreet – Reputation impact of a data breach: US Study of Executives & Managers. Sponsored by Experian – Ponemon November 2011



costs of their recent disruption, the average cost was \$10.8 million.²


Being able to accurately measure the cost of business disruptions is extremely important for a number of reasons. Such as, allowing you to plan and mitigate effectively, accurately measure the cost/benefit analysis of contingency solutions, and to obtain adequate insurance levels for business disruptions. Therefore accurate measurement of downtime must be achieved in order to properly plan for, and mitigate business disruptions effectively.

In order to measure various types of downtime accurately we have developed a tool called, Cost of Downtime Calculator. This tool is currently only available for prospective and current clients. With plans to release the tool through our website.

By having more accurate measures for the cost of downtime, the business case for continuity becomes clear. Most businesses today know the importance of having Business Continuity Management Plans in place. Yet many question the validity of costs in such programs, especially when downtime impacts seem to be minimal. However, we contend that downtime measurements, in many cases, do not accurately reflect the real and true costs to a business.

Business Continuity Management programs should not be thought of as just an expense, but rather like insurance as a means of mitigating the risk of business disruptions. Business Continuity Management Programs have real value, and should be considered an asset, rather than just an expense.

² Forrester – State of enterprise disaster recovery preparedness, Q2 2011 – Rachel A. Dines, May 18, 2011



Over the years, we have witnessed businesses struggle to make the monetary justification for continued spending on business continuity management programs. In fact, overall spending on Business Continuity Programs is down since the economy declined in 2008. Disaster Recovery budgets have also shown a decline with 53 percent of companies spending less than \$500,000, while in 2007 only 43 percent spent less than \$500,000.³

The real question should start with, how much does the business lose during a disruption, and how do we minimize that loss?

Knowing exactly what your downtime costs will be, allows for more accurate, and better planning, as well as, increased cost benefits when spending to prevent business downtime.

Article from Erwood Group, LLC [™] **Re:THINK** [™] Series

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³ Forrester – Wake Up Call: You Aren’t Ready For A Disaster – February 2011