Y2K: How Are Central Wisconsin Businesses Preparing?

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How serious will the Year 2000 (Y2K) be for businesses? By now, most people have developed their own opinions, varying from “Don’t worry, it’s all hype” to “It will result in a worldwide catastrophe.” Somewhere between these two extremes lies reality. The fact is, even the “experts” don’t have any way of knowing how serious or widespread the problems will be on January 1, 2000 or even sooner. But those of us that have been helping businesses prepare for the “Year 2000” the past two years recognize the level of urgency.

Year 2000 Preparation Process:

Wipfli Ullrich Bertelson LLP has been working with financial institutions, manufacturers, not-for-profit organizations, and service businesses for the past two years providing Y2K advice, awareness, and consulting services. The majority of our time has been dedicated to creating business awareness through state and local organizations, as well as engaging with clients to complete Y2K assessments. The methodology employed by Wipfli to complete assessments is consistent with the FFIEC (Federal Financial Institutions Examinations Council). Figure 1 illustrates the FFIEC methodology and the dates financial institutions are required to have completed each phase. As indicated, at the present time, organizations should be in the testing phase or completed with the Y2K project.
The awareness phase entails developing a business Y2K team and obtaining executive commitment and participation. In too many cases, the Y2K problem has been defined as a MIS department problem resulting in a situation where MIS does not have personnel or the budget to complete the required tasks. Executives, including the President of the organization, need to promote and actively participate in the Y2K team to ensure the resources are committed to complete the project on time. This deadline will not change!

The assessment phase includes inventorying and assessing the items which require Y2K compliant investigation. The inventory process is rather simple. The business must log the software, hardware, and building (HVAC, sprinkler systems, digital scales, security system, telephone systems, etc.) items which have or may have a computer chip or date function. Wipfli has been involved in over 50 assessments and most often finds companies overlooking the building-associated Y2K items. We have found numerous instances where the security systems, telephone systems, and HVAC require maintenance to pass the Y2K tests. This leaves serious concerns for those companies not recognizing the importance of taking some action to prepare their businesses.

The renovation and testing process are the final phases to complete prior to the year 2000. The renovation phase requires the business to implement the corrective action eliminating the Y2K concern. This may include purchasing new software, hardware, building devices or simply
downloading from the internet “patches” which eliminate the Y2K bug from a software program. The testing process requires the business to evaluate the item’s ability to effectively process year 2000 dates. The testing includes both inter and intra-company tests. Financial institutions illustrate this point as they must both ensure the internal applications process year 2000 dates correctly as well as ensure funds can be transferred electronically to other branches and the Federal Reserve. The ultimate test will not occur until the Year 2000 when all of the interconnected systems will be operating simultaneously.

With the exception of financial institutions that are stringently regulated by the Federal Government and the regional Bank Examiners, few businesses are completing all of the phases of the Y2K project. Based on public surveys and client engagements, I would estimate that 30% of the businesses do not plan on taking any action regarding Y2K. In addition, I would estimate that 80% of the businesses have not addressed building/facilities related Y2K items. In general, the businesses addressing the Y2K problem are completing the first three phases of the process (awareness, assessment, and renovation). Little if any testing is being performed to verify the compliance status of the equipment, software, hardware, or facilities. Rather, the client is accepting the word of the vendor and assuming the application/equipment will function as specified.

**Businesses Y2K Readiness:**

Large businesses (Fortune 1000 companies) have been working on the Y2K bug for years and will have minimal business disruptions due to Y2K. These businesses have benefited from a positive economic period and have had the resources (financial and personnel) to address the problem without significantly impacting the profitability of their businesses. During April 1999, we have seen evidence of the readiness of big businesses as airlines, manufacturers, and large investment trading organizations continue to post profitable quarters while executing “live” Y2K tests in their businesses with only minor problems.

Small to mid-size businesses on the other hand, do not have the luxury of large IT departments with dedicated personnel for special projects such as Y2K. As a result, small businesses are lagging behind on their projects or ignoring Y2K entirely. A recent Business Week survey indicated 37% of small businesses, although aware of the Y2K issue, either do not plan on taking any action or have not begun a project to become Y2K compliant.

<table>
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<tr>
<th>A January Survey of Small Business Owners</th>
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<tr>
<td>55% Aware of the Y2K Problem</td>
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<tr>
<td>38% Are Taking Action to Fix it</td>
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<tr>
<td>19% Plan to Take Action But Haven't yet</td>
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<td>18% No Action Taken and None Planned</td>
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*Business Week, March 99*

The Federal Government is concerned about U.S. small businesses’ preparation for Y2K and our economy’s dependence on their success. The U.S. Small Business Administration projects as many as 330,000 small businesses risk closing, and another 370,000 could be temporarily
crippled unless awareness and assistance is provided (CNET Web Site). In response to their concerns, on March 23, 1999 the House of Representatives passed the “Small Business Year 2000 Readiness Act” (a $500 million loan program) which authorizes the Small Business Administration to expand its guaranteed loan program and provide businesses with the means to continue operating after January 1, 2000.

Further evidence of the lack of preparation by small businesses is a recent Gallup Poll which showed that 82 percent of businesses with revenue under $50 million are at risk, and three quarters of small business owners have not taken any action to ensure that their computer systems are compliant (SBA Web site – www.sba.gov/y2k). Small businesses are faced with an unfavorable short-term result regardless if they take action or ignore Y2K. If they spend money on renovation/remediation and testing then they will have a cash shortfall to invest for growth. If they ignore Y2K, their business will likely be disrupted resulting in poor cash flow and dissatisfied customers.

I have personally been involved in ten Y2K assessments and continue to be surprised at the frequency clients are not aware of the Y2K bug’s effect on their building/facilities. The obvious area of focus for business owners is computer hardware and software. With the number of clients discussing Y2K with Wipfli, I would concur with the statistics shared by the Business Week survey.

**Business Y2K Costs:**

Globally the Gartner Group projects businesses will spend between $300-600 billion dollars on Y2K fixes. Fortune 500 company examples contributing to this amount include IBM, BankAmerica Corp., and General Motors who plans to spend $575 million (1997-1999), $550 million and $550 million respectively on Y2K fixes (January 1999, CFO Magazine).

Wipfli has seen its clients experience a spectrum of costs with regard to Y2K. Most of our engagements have been with companies ranging in sales between $5 million to $200 million. The costs associated with the Y2K remediation and testing has been as little as $2,500 and in one case exceeded $1,000,000.

**Prediction Of Economic Impact Of Y2K On Central Wisconsin:**

As I view the economic impact of Y2K on Central Wisconsin businesses, I consider three basic areas: global dollars invested in Y2K, the number and size of businesses addressing the Y2K bug, and number of small to mid-size businesses in the community.

As you reflect on the findings shared from Wipfli’s experiences and journal articles, it is rather obvious that businesses have been and will be affected financially by Y2K. Those dollars which have been invested/diverted from business improvement opportunities ($300-$600 billion) to business sustaining activities (Y2K fixes) have resulted in lost productivity and profits for organizations. Thank goodness our economy has been strong and these non-productive activities have been over-shadowed by a growing economy. Assuming the economy continues to expand, the sustained Y2K expenses for the balance of 1999 and early 2000 should have a minimal
impact, if any, on our economy. However, at this point, the investment by businesses has been made mainly by large and mid-size organizations. What happens to the economy when many mid-size and smaller businesses are introduced to the fray later this year and when the year 2000 arrives?

This group has not been nearly as proactive as the larger companies investigating and correcting Y2K issues. As with other larger businesses, small businesses have become extremely dependent on computers. As a result, all businesses will experience some form of inefficiency and disruption due to their Y2K problems or their customers and suppliers lack of preparation. But mid and small businesses will be hit harder. Although these businesses do not process the number of transactions experienced in larger organizations, they still depend on efficiency to remain profitable. Any disruption of business process activities for an extended period of time could be catastrophic to a struggling mid-size or small business. Given the number of mid-size and small businesses in Central Wisconsin and their lack of preparation, I expect some economic decline in our region during the first quarter of the year 2000. Even if all of the non-believers suddenly engaged in an aggressive Y2K readiness program, insufficient time is available to correct all of the possible problems. I do not believe, as many do, that the impact will be catastrophic, but it will be disruptive to the favorable economy we are experiencing today.

Weekly, Wipfli Ullrich Bertelson LLP continues to respond to inquiries requesting assistance with Y2K. During the next six to nine months, we expect the inquiries to remain strong, especially for small businesses.