KEWEENAW BAY AND BEYOND

BARAGA COUNTY
ECONOMIC DEVELOPMENT CORPORATION

Business Hibernation Toolkit

The World View The dramatic and rapid change in consumer demand spurred by the response to the global Covid-19 pandemic greatly affected industries and individual businesses. The grim reality is economic downturns do not spare many businesses from hardship, especially when demand is so heavily and suddenly stifled. However, consumer demand will return and the economy will recover. We have been in uncharted waters as a global and local economy. Unchartered waters provide for peril or opportunity, but the chances of opportunity are increased when one is prepared for the journey and can chart the best route to a new or familiar destination.

The Hibernation Option In the in crisis toolkit we have designed basic ideas to help businesses begin to address the current marketplace. Much was geared to helping businesses understand the need to focus on cash and cash flow: reduction of costs where possible, maintaining access to lines of credit, deferring loans and rents when possible, and the potential need to pivot one's business and reformulate how one works with customers. However, businesses owners who have focused on cash flow monitoring and are still struggling may be at a point of understanding there's a need to hit a pause button, to put their business in some level of hibernation mode to ensure it is strong enough to operate once demand returns.

The Hibernation Framework

In our business crisis toolkit, we suggested focusing on protecting your cash and adopting weekly cash flow management procedures. Based on that experience, one can begin to build a self-guide to hibernating one's business through analyzing, acting, and reflecting on the supply and consumer sides of your business. By focusing on cash flow during the initial phase of a downturn you most likely have a clearer, more honest picture of your business—maybe even more than you did before the current crisis.

It is important to recognize a business is a separate entity that requires its own forms of life support and general health. As a business owner or manager, you may feel as if your business is your life, but as much as possible, one needs to view their business as its own entity. It's the mindset airline pilots put you in before each flight: put on your own oxygen mask before assisting others. Viewing your business as its own entity can often times give one a stronger ability to see the trees from the forest.

Hibernation Preparation

As you begin preparing for hibernation mode, reach out to your BAIL team that you have built over time for your business. Your BAIL team usually will consist of your bankers, accountants, insurance agents, and lawyers (BAIL), as well as other important business advisors. Your BAIL team should have important advice for you at this time, and now is when you may need them to help you ensure you are doing things in a proper fashion.

Bankers: Most likely you have already communicated with your bankers based on our initial resource guide, but if you haven't, now is the time to do so. Make sure to talk with them about the reasons you are arriving at your decision, see if they have any advice or suggestions about government assistance or your existing debt, and ask them to work with you on a plan to ensure your business can come out of hibernation without issues. Remember it is in the interest of your bankers to see you succeed, to help in the ways they can, and to support you.

Accountants: If you have outside accountants or internal ones, make sure you talk with them about what is needed to ensure managing the ongoing financial obligations of your business and get a solid picture of your balance sheet and physical and financial assets. Ensure your accountant understands in relation to taxes you are focused on profitability and preserving cash, not solely decreasing tax bills.

Insurance Agents: As we have all learned pandemics aren't covered by your policies; however, you should discuss your hibernation plans with your insurance agent to ensure you have the proper coverage during the hibernation phase. There may be the ability to adjust policies and see a cost savings, or there may be risks you haven't assessed that need coverage.

Lawyers: Depending on your type of business, your lawyer(s) may have important advice on how to hibernate your business from any number of legal views (maybe you have contracts with suppliers or customers that obligate you to something, maybe you have a lease contract coming up, etc.).

- Discussions with you BAIL team should begin to help guide you with some of the important, basic steps you need to follow to hibernate your business.
- Your BAIL team will most likely give you the best information they can provide; however, understand the economic and political realities of the pandemic downturn are changing daily.
- Reach out to other business advisors outside of your BAIL team as appropriate.
- Evaluate how effective your BAIL team and other advisors are and what **Key** support or advice each one can provide.
- Evaluate expanding or changing your BAIL team or advisors if you find your team is not as strong as you would like it to be.

Mapping your Productive Assets

Underlying your business are productive assets that enable you to produce and offer the goods and services you sell into the marketplace. In economics these are conceptualized as factors of production—the classic Y=f (Land, Labor, Capital) production function. What basic assets and "things" enable you to produce the goods or services you sell?

Do you have a place of business (a building), do you have employees, do you have financial assets? You most likely do. Take a moment to consider what they are.

Physical Assets (land, buildings, machinery, computers--things you can touch):

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Human Capital (your employees, yourself, your business team, etc.):

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Financial Assets and/or Liabilities (your bank accounts, your lines of credit, your short and long-term debt, your accounts receivable):

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For each of the assets you've identified, assess what is required to shut them down in order to hibernate your business, as well as what will need to be done to fire them back up (advice from your BAIL team will be helpful here). Keep an eye on decreasing costs associated with the underlying assets while they are not being utilized to produce your products and services. However, do not make decisions that may ultimately be costly or negatively affect the ability of your assets to benefit you in the future. For example:

- If you have a place of business, ensure buildings are properly secured and maintained
- Offer a sense of community to employees: give them an opportunity to increase their level of adherence to the company, consider developing rituals to keep connections
- Ensure you are on the same page as your provider(s) of debt (bankers/family and friends) and/or your investors (venture capital/family and friends)

You may face heightened transaction costs during a downturn if you do not ensure your productive assets are secured and maintained in a ready state to resume business.

As you identify what is needed to hibernate your factors of production, make sure to keep a list of everything you are doing. A list will help you create a corresponding list to follow to turn things back on:

- If you adjust your insurance coverage to accommodate your business hibernation, you'll need to make sure to readjust it before coming out of hibernation.

- If you are shutting down a restaurant, what will you need to do to open it back up? Will you need to do a deep clean or have the county sanitarian stop by?

Developing your shut-off and turn-on list will continue through your focus on the supply and demand aspects of your business. Consider using a spreadsheet to record information to keep things organized or make use of any ERP or CRM system you may have.

As you prepare to address your suppliers and customers, begin to outline how long it will take to ramp things back up—be in discovery mode when addressing your supply and demand side:

- How long of a lead time will you need with your suppliers to get things going again?
  - Will order sizes, product availability, and logistics time change?
  - Will payment terms change?
- What will it take to start supplying customers again?
  - When will you need to turn things back on—two days before sales, three weeks?
  - What will need to be done to get word to customers you are back and open for business?

Addressing Human Resources:

In our initial crisis guide we called attention to managing cash flow and decreasing costs. Decreasing those costs earlier rather than later was considered a priority. However, firms should consider the relevant state and federal laws and regulations which have changed over the past several weeks in relation to some variable costs such as employees. As one working to hibernate a business, exactly how to manage your human resources is vital and depends on each individual situation.

Specific information for Michigan is available for your convenience at here.

Addressing Financial Resources:

In our initial crisis guide we called attention to managing cash flow and decreasing costs before automatically looking for debt financing as a solution. It is important to evaluate your capital stack and whether it makes sound economic and financial sense to take advantage of government assistance and to figure out the best form of assistance to tap. We encourage you to work with your banking and financial partners and to make sure you are accessing sound information from official government sources when available.

www.sba.gov

Addressing the Supply Side

#1. Identify Key Suppliers, Key Service Providers, and Key Providers of Physical Assets

Focus initially on the most important suppliers, service providers, and providers of physical assets. One may identify them based on the volume of business you do with them, the longest business relationships, the ones you trust the most, etc. Identifying these ***Keys*** to your business if you have not already done so will become increasingly important.

#2. Communicate with the Keys

The Mindset: This is your opportunity to be transparent and real with business contacts. Remember to be empathetic and demonstrate human connection—remember there's a person on the other side of the phone or email. Chances are many of your suppliers may be stressed and be afraid, while others may be going through your same thought process about hibernating their business, others may be doing fine and be open to helping you find solutions now and in the future, and still others may be relieved that you are open to pushing the pause button.

Action: Communicate with each regarding your plans, consider requesting time to discuss your business and how the relationships can be strengthened moving forward. Demonstrate empathy and invite them to understand your situation and open yourself to understanding theirs. Find ways you may be able to help each other moving forward.

Reflection: How have things changed for your suppliers? Will some of your suppliers go out of business or themselves change their business models? Is there a need to re-evaluate your supplier relationships while your business is hibernating? Have your suppliers shared anything that make you see new short-term or long-term business opportunities?

Why am I doing this?

Imagine having a giant, intricate machine that is essential to your survival. Imagine you need to shut it down temporarily and it requires a set of steps to turn it off without damaging the machine. Before you flip the switch to shut it off you want to be sure you know which steps need to be followed to turn it back on—which lever to pull, which gauge to calibrate, which knob to turn 90 degrees. If you turn it off without knowing how to turn it on again it may just sit there and gather dust or may not ever work the same, and because you need the machine for survival you would find yourself in a perilous situation.

While the machine is off, you might see a thing or two that is poorly designed, you might find the energy source isn't the most efficient, you might find it could be moved to make it easier to use.

Thoughts or Doodles:

Addressing the Demand Side

#1. Identify Key Customers or Key Consumer Clusters

Focus initially on your most important customers and consumer clusters. In the case you operate in the business-to-business sphere, take note of the end customers of the businesses you serve. One may identify your important customers based on the volume of business one does with them, the longest business relationships, the ones you trust the most, the most promising customers, etc. Again, Identifying the ***Keys*** to your business if you have not already done so will become increasingly important.

#2. Communicate with the Keys

Mindset: Remember there's people on the other end of a phone call or email, and people are absorbing and reacting to messages in advertisements and public relations. Think through the problems your customers are facing and what they may be desiring at a time like this. You want to be able to connect with your customers on the human level and provide them with a part of the experience they are desiring.

Action: Communicate with each regarding your plans, consider requesting time to discuss your business and how the relationships can be strengthened moving forward. Demonstrate empathy and invite them to understand your situation and open yourself to understanding theirs. Find ways you may be able to help each other moving forward.

Reflection: How have things changed for your customers? Will some of your customers go out of business or themselves change their business models? Is there a need to re-evaluate your customer relationships while your business is hibernating? Have your customers shared anything that makes you see new short-term or long-term business opportunities? Are there ways to continue to cultivate customers and/or connect with your customers while your business is in hibernation mode? Can provide a minimally viable product even during hibernation that maintains brand adherence?

Do you have a customer mindset?

Identifying your demand Keys to your business will help you understand whether you have been in a customer or a product mindset. If you've been in a product mindset now more than ever you need to get into a customer one.

https://youtu.be/eicCJ6jJxmI

A customer mindset is rooted in focusing on consumers and working backwards to design your business model in order to drive profitable unit economics over time. It's the basis of innovation: through identifying consumer problems one can develop solutions—understanding consumers allows one to soundly commercialize a solution, e.g. the process of innovation.

Have you ever created a consumer persona to help ground your business in a customer-focused approach?

At the core of consumer decision making, when one strips away the economic factors of how much money you have in the bank and what you think will make you happy, are your values. Those values are what define you, what makes you feel as if you are alive.

Listen to the application of a customer mindset by employers:

https://hbr.org/sponsored/2019/09/how-to-shift-to-a-consumer-mindset-to-modernize-your-workforce

Ensure Sound Financial Management

Just as was suggested in our initial business crisis toolkit, one needs to maintain the healthiest possible cash flow and a solid cash position. Seeing revenues slow or disappear, and costs continuing, may have led you to pursue hibernation mode for your business. Entering hibernation mode, however, does not eliminate all costs and may result in extra costs you may not have considered. Hibernation mode does not release you from monitoring and forecasting cash flow—***you must continue to monitor the vitals of your business even in hibernation mode***.

Understanding your productive assets and the necessary costs to put them in hibernation mode, costs to keep them in a ready position, and costs to bring them out of hibernation mode are important to understand. Just as one might understand turning off lights in a building—turn off each light as you exit the rooms so you aren't let in the dark and can't find the next room—one should think through their business in the same way. It may be that you need to turn on a hall light first in order to make it to other rooms with ease to turn their lights back on—don't let yourself fumble around for the switches in the dark when you are ready to turn the lights back on.

As you work through your changing cash flow structure for the foreseeable future, it is helpful to utilize a 13 week rolling cash flow. The following resource provided by the Food Finance Institute at the University of Wisconsin provides a sound working spreadsheet, written guidance on how to populate the spreadsheet, and a video featuring a seasoned executive and business founder walking one through the spreadsheet and the associated concepts:

https://edible-alpha.org/courses/13-week-rolling-cash-flow/

Continue to also plan out weekly cash flow statements to help you understand how to move forward and to keep a keen eye on your cash. Consider running through scenarios for a detailed two- or three-week timeline to wake your business up, and please remember to review any auto pay accounts and turn off those that are not necessary.

Some Things to Ask Yourself About Your Cash Flow:

- **How sound was your business before the downturn (be honest)?**
- **If your business was producing sound cash flow and was profitable, what will need to be done to return to that profitability?**
- **If your business wasn't producing sound cash flow and was not sufficiently profitable, what needs to be done to improve your business cash flow and profitability?**
- **Were you focused on driving profitability before the downturn?**
- **Who were/are your customers?**

Begin to Understand How Things Have Changed

Begin by trying to understand how you, yourself, have changed during the pandemic downturn. Then put yourself in the shoes of your business, your suppliers, and your customers. Then reflect on those changes in relation to the pre-downturn timeframe.

The useful design thinking approach of Rose (something positive), Thorn (something negative/challenging), and Bud (something promising) can be helpful.

Yourself Before:	***Yourself After:***
Suppliers Before:	***Suppliers After:***
Customers Before:	***Customers After:***
Your Business Before:	***Your Business After:***

Business Mind Exercise: Changes Create Challenges and Opportunities

During this downturn, many of the food calories consumers have purchased through restaurants have shifted to grocery retail which has historically been dominated by brick-and-mortar stores. While purchases have increased significantly at those brick-and-mortar grocery stores, there's also been a new surge in online purchases of staple and processed foods. These changes are an abrupt change in consumer purchasing patterns.

As consumers spend more time at home and potentially see the cost savings from eating at home and buying things in bulk, maybe reconnect with family around the dinner table, and develop a desire for a deeper connection with their food, how quickly and at what level will calories return to restaurants? How much will stay with online sales of food—will online food purchases continue to grow or fall off following the pandemic? How long will it take people to feel comfortable in bars and restaurants following the pandemic? Will some businesses need to decrease seating levels when they start back-up to give people more space? Will restaurants need to set themselves apart with new health and safety standards? What other changes could occur?

What mindset do you think consumers will be in following the downturn? Will they be changed? What values will be important to consumers?

What challenges will different business face because of these current and potential changes?

What opportunities do these potential short, medium, and long-term changes create?

Looking in the Mirror: Seeing into the Future

While you work through putting your business into hibernation mode, and while it's sleeping peacefully (hopefully not tossing and turning or snoring like you), you need to start to understand your business more deeply in a qualitive manner. Working through understanding your factors of production, your supply and demand sides, and focusing in on managing operations are vital. However, equally as vital is understanding your brand and the heart and soul of your business, as well as focusing on building a customer-focused mindset.

Here is where one needs to lead with empathy. Finding strength and vision through empathy is one of the most important concepts to keep in mind moving forward as our economy and society emerge from this shared challenge. Business owners who practice empathy focused thinking and keep themselves in a customer mindset will be able to respond to changing market dynamics within and outside their business.

How are you doing? Are you taking care of yourself? How have you changed?

Why did you start your business? Did you have a dream, was it out of necessity, did you come up with an innovative idea and run with it?

What value do you provide to your customers? Why do they do business with you?

What values do you feel your business represents?

If your business was a person, what would that person be like? How would people describe the person?

At the core of your business is just that, a core which is key to providing your value proposition and the things which make your business real. It is defined by MIT's Bill Aulet as your business' last defense against the competition. Understanding your core and looking at it with a critical eye—especially now—is important. Your core defines whether your business model is uniquely defensible. Your core is the heart and brain of your business that can outwit others and keep going. Do you know your core?

What value does your business provide to customers? What is your value proposition?

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Look at the assets and business practices you have and ask yourself what makes you strong and what makes you weak. Do you have an outstanding building, team members whose minds for strategy run deep, an invention, outstanding customer service culture, low prices, etc.

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Start thinking about which one of those business assets could be or is your core (feel free to think about more than just eight). Thinking through which of your business assets help defend your core is also important. At the end of the day, though, you need to understand what makes your business defensibly unique and enables your customer value proposition to be defended.

Imagine you are looking to try to sell your business for the highest amount possible to a buyer or you are trying to secure investors and financing. How would you describe the way in which your business is defensibly unique, what is at your core that defends against competition and makes you special, what is your value proposition?

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Some Useful (or Not So Useful) Thoughts

It's pivotal to remember the one necessary condition of a business is a paying customer: You need be able to sell something and be paid to have a business at any level.

Again, for you to have a business you need a paying customer. ☺ **+ $ = Business**

Make sure to keep notes and record as much information and ideas as you focus on your supply and demand sides. Keeping information in the form of spreadsheets may be helpful if you don't have an active ERP or CRM system. Jot down any ideas or thoughts you have, even if they seem trivial on a napkin or another writing surface. Sometimes good ideas follow that fifth cup of coffee while you try to work at home facing your new reality of kids screaming or while you try to exercise away your anxiety.

It may be helpful to work through a business model canvas—it may help you distill things down to a basic level and draw your attention to basic business concepts you haven't focused on. There are different types available; however, one useful one that can be found online for free is at:

https://www.strategyzer.com/canvas/business-model-canvas

We've emphasized there's people behind your supply and demand sides, and thinking through the Rose, Thorn, and Bud framework may help give you a better idea of how things have changed. When you can conceptualize how things have and are changing, it may begin to help you focus on problems and develop solutions. That basic thought pattern helps to build a customer-focused mindset and is the engine behind innovation which is the product of invention and successful commercialization.

"People say what we're all seeking is a meaning for life. I don't think that's what we're really seeking. I think that what we're seeking is an experience of being alive, so that our life experiences on the purely physical plane will have resonances within our own innermost being and reality, so that we actually feel the rapture of being alive."

-Joseph Campbell

SOURCE: JOESEPH CAMBELL WITH BILL MOYERS. BETTY SUE FLOWERS, EDITOR. *THE POWER OF MYTH.* NEW YORK, NY. MJF BOOKS. 1988. pp 1

The information contained in this Business Hibernation Toolkit are not magic bullets, but there maybe one or two ideas that you can focus on or can help you develop your own solutions. If you need help applying some of the concepts to your business or are looking for other generalized business help, please contact ***Mary Myers*** *at 231.409.9065 or* *mary@baragacounty.org.*

Thank you to our friends at Grow Great Falls Montana
for sharing this resource with the business folks of the Upper Peninsula!