

COVID-19: Advice for Small Businesses in Indy

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On Friday, I joined an impromptu meeting at the Indy Chamber to answer the following question: “How do we deploy immediate support for small business owners in Indianapolis?”

In a time of great uncertainty, small business owners must make good decisions based upon data and best practices in management and finance. As a world class business school anchored at IUPUI in the heart of Indianapolis, the Kelley School of Business will help the Indy Chamber equip small businesses with knowledge they need to navigate unprecedented challenges.



At this moment, Indianapolis small business owners must steady their emotions, understand the depth of economic shock, and shift priority to one of survival and a readiness to prosper when this crisis ends. I encourage small business owners to monitor the Indy Chamber’s [website](#) for rapid response efforts to support the continuity and survival of their enterprises through this COVID-19 pandemic.

As one economist, I offer my best advice and sense of what the future holds based upon data available on March 15:

- 1. Assume the next two quarters will be worse than the first two quarters after the 2008 financial crisis. Expect unprecedented shrinkage in business activity for restaurants, retail establishments, hotels and other enterprises linked to hospitality and tourism.**

J.P. Morgan [predicts](#) shrinkage in economic activity of 2% in the first quarter and 3% in the second quarter of 2020. This is worse than the first two quarters after the 2008 financial crisis. The economy shrank 2% in the fourth quarter of 2008 and 1% in the first quarter of 2009 (see [this data](#) from the Bureau of Economic Analysis). At the height of coronavirus case growth in February, China’s index of service sector business [fell](#) 49%. Two weeks into the crisis in Seattle, COVID-19 [has already closed](#) 50 restaurants with a celebrity chef reporting a 90% fall in business in his establishments.

- 2. Prepare for a return to business between mid-April and mid-May.**

Coronavirus cases in China [accelerated](#) beyond 500 on January 22. Apple closed their stores in China on February 1 and [completed a reopen](#) of all by March 13. This was six weeks of business disruption preceded by two weeks of escalation of concern. The United States [surpassed 500](#)

[cases](#) on March 8. Like the United States, China has received [mixed reviews](#) of its response. If we assume a time frame of outcomes within two weeks of the trajectory witnessed in China, Indianapolis business owners can expect a return of activity between April 19 and May 16.

3. Project resilience as a leader. Share accurate information and give specific direction calmly, confidently and empathetically.

Employees, customers and shareholders are scared – both for their own safety and survival of the enterprise. Business owners must project resilience – they must be the rock in the storm. Strong leadership builds economic value in times of crises. Decisions and communication cannot be the product of panic or emotional insecurity. Harvard instructor Allison Shapira [says](#) in *Harvard Business Review* that business owners should pause and breathe, put themselves in other's situations, disseminate accurate information based upon research, communicate clearly and confidently and be directive with specific next steps. Bad news should be delivered with honesty, promptness and empathy. During a crisis, well-managed organizations provide support for those negatively impacted by events they cannot control.

4. Adopt financial survival and retention of core staff as the prime business objectives. Restructure loans, negotiate new short-term lease arrangements and draw upon cash reserves and lines of credit to keep key employees on payroll.

For most small businesses, the crisis means a very painful temporary reduction in revenue. The first priority is payment of fixed expenses that ensure business continuity, especially debt service and leases. Near zero interest rates offer an opportunity to restructure long-term loans. Lessors will be open to creative short-term arrangements to ensure their cash flow, such as negotiation of lower lease payments in April, May and June in return for higher payments in July, August and September that include interest. The second priority is to keep key employees on payroll, even if at a reduced wage or salary. When new coronavirus cases subside and restrictions on public gatherings expire, businesses will need their staff to support a sudden return of customers. For many enterprises, the net benefit of retaining employees will be larger than the net benefit of downsizing and then re-staffing. Drawing upon cash reserves and lines of credit is a prudent way to support these two priorities.

5. Use the COVID-19 pause to build strategic strength and a stronger sense of community within the organization.

Smart organizations prepare for their recovery during an economic downturn. They can overtake competitors who remain distracted and myopic throughout the crisis. Teams suddenly have time to engage strategic projects otherwise ignored because of busy day-to-day work. Projects to redesign processes, rebrand current products and research new markets require collaborative brainstorming that strengthens team cohesion. In the midst of crisis, employees can draw closer together and build a more durable culture that benefits the business when revenue returns.