

# Navigating COVID-19

*Adapting to an unprecedented crisis;  
how to secure funding, remain financially stable,  
& prepare for the future.*

***A Financial Guide***

**Prepared By**

Shubham Kulkarni, Alfredo Lopez, Nikhil Penugonda

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# INTRODUCTION

The widespread Covid-19 virus has shifted the world into unprecedented times. Countless lives and businesses around the world have been affected, and continue to feel the drastic impacts of the emergence of this virus and the ensuing quarantine. A significant portion of business operations have been frozen, threatening the solvency of many businesses, and imposing on them a multitude of hardships.

These businesses have seen a dramatic fall in revenue due to a decline in consumer activity, affecting their ability to maintain proper pay to employees; they have had more difficulty securing funds, as investors have been forced to become more conscious of their spending. It is evident that these economic effects will persist to some degree in the future, which elicits the need to identify steps that businesses, entrepreneurs, and startups should be taking to operate within this new reality.

The purpose of this report is to help newer businesses and startups within the San Diego region navigate the current financial climate. Included is a brief overview of prominent issues brought about by the crisis, followed by an exploration of strategies and information that businesses may undertake to operate during this time and prepare for the future. We have also included a table that lists available resources in San Diego County.



## OVERVIEW OF THE FINANCIAL LANDSCAPE

San Diego County began Phase 3 of reopenings as of June 8th,<sup>1</sup> which certainly means good news for businesses in the area. Hotels, movie theaters, community swimming pools, and even the San Diego Zoo, are some businesses that have begun to open their doors. To keep the community safe, however, strict restrictions such as customer capacity remain mandatory. As such, even though a wide variety of industries are once again restarting operations, many businesses are and will continue to struggle with staying afloat; particularly as they have to make up for losses encountered throughout earlier phases of quarantine.

The San Diego Association of Governments' (SANDAG) latest reports assert a 30.1% unemployment rate as of May 22nd,<sup>2</sup> indicative of businesses using layoffs as a band-aid solution to the financial problems they are facing. Tourism is expected to drop 50% by the end of the year in California;<sup>3</sup> this dramatic decrease will negatively affect various industries such as hospitality, public entertainment, gambling/gaming, etc. For example, in the retail sector, taxable retail sales are forecasted to experience a decline of 15% to 24% through June to August,<sup>4</sup> with academic predictions arguing that consumers' confidence with spending will take several months to return to pre-COVID spending trends.

Due to these changes, a significant amount of small businesses are in dire need of grants and investment to remain afloat; however, as is widely evident, VCs and business loan providers have tightened their investment criteria. With 44% of small businesses in California foreseeing closure before the end of this summer,<sup>5</sup> the increased reluctance among investing entities can be understood. Nevertheless, businesses and startups still have an array of resources that are available to help their financial state within the changing circumstances.

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# OPERATING IN THIS NEW NORMAL

It's critical that small businesses and startups, which depend on VC investors, adapt quickly and efficiently, accepting the circumstances as a new normal rather than a temporary emergency. There are 3 main points that we will cover: how small businesses can effectively cut costs or generate additional income, how the investing landscape has changed, and what resources are available to deal with this shift in investing.

## CUTTING COSTS & GENERATING NEW INCOME

When people start talking about cutting costs, it typically means layoffs and downsizing. It's important to keep your company's mission and values in mind when cutting costs, and there are plenty of steps you can take before resorting to cutting your workforce. Such alternatives include:

### *Evaluating variable costs*

- By making efforts to avoid contract labor, it is possible to redistribute tasks to permanent employees.
- Buying supplies in bulk can greatly reduce prices in the long term.
- It's possible to cut overhead by reducing entertainment and transportation costs, as well as non-essential employee programs like free lunch. Cut back on the non-essentials to keep the essentials safe.

### *Reconsidering investment plans*

- With cash flow being a chief concern, only vital capital investment prospects should presently be sought after. Postponing investments that do not apply efficiently in the new normal are important to reassess.

### *Exploring the idea of negotiating non-monetary payment with vendors* - bartering for your own goods and services

- For instance, a design agency could offer low cost graphics in exchange for required goods.

### *Switching to open source to avoid expensive monthly software fees*

- Using free community-based software rather than expensive commercial software can save businesses money, especially in industries where software is a significant cost.
- Non technical Examples:
  - Mozilla Thunderbird instead of Outlook
  - LibreOffice instead of Microsoft Office
  - Wordpress instead of Squarespace/Wix
  - Rocket.chat/IRC instead of Slack
- Technical examples:
  - SSH/VNC instead of Remote Desktop
  - Ubuntu instead of Windows
  - Apache instead of Windows IIS Server
  - Atom/Eclipse/VS Code instead of Sublime/IntelliJ

### *Shifting to eCommerce and adapting goods and services to digital products*

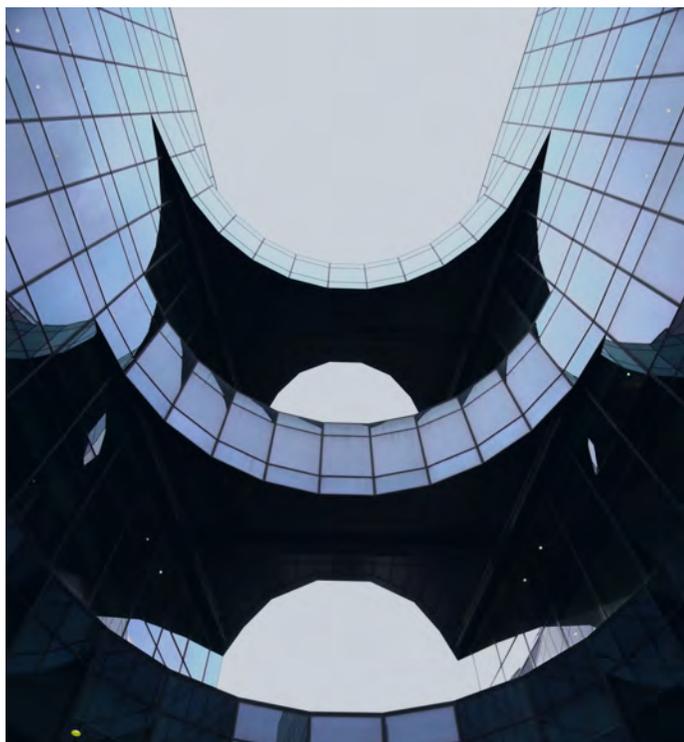
- Digital products include: ebooks, online courses, webinars, etc.

### ***Building partnerships with other businesses in lieu of traditional marketing***

- Word of mouth and affiliations with related businesses is much more valuable than traditional marketing efforts like TV or radio ads.
- Leveraging partnerships with businesses in related or complementary industries can lead more targeted and effective advertising.

### ***Links to additional information:***

- [6 Ways to Create Additional Revenue Streams for Your Small Business](#)
- [27 Money-Saving Tips From Successful Small Businesses](#)
- [10 Tips to Build a Business Partnership and Win Twice](#)
- [How to Create and Sell Digital Products: A Roadmap With 6 Ideas to Get You Started](#)



Finding creative ways to use existing resources and talent can generate additional revenue, and keep your business afloat while we wait for the pandemic to end and business to return. The most common methods of doing this include: selling ebooks, online courses, and webinars, providing consulting services on your business's industry and niche, and selling advertising space for relevant content.

It's important to keep your mission and values in mind when pursuing these alternative revenue streams; doing so will protect your brand and place in the industry. There should always be a plan to return to your main business operations when the opportunity presents itself.

The short and long term success of businesses hinges on the owner's ability to identify and seize opportunities as they come. It is the owner's responsibility, particularly as we pass through these exceptional times, to adjust and revise their business operations to ensure their companies survive.

## **THE CHANGING INVESTMENT LANDSCAPE**

Vcs and loan providers have grown notably stricter; they are seeing an influx of applications from pre-Covid times, but are undertaking a lower proportion of these applicants. What we are seeing now is that they are leaning away from early stage capital, primarily impacting funding for newer startups. Instead, they are directing their funds to businesses that have achieved solvency at least in 2019.

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## What investors and lenders are looking for from...

### Aspiring founders and fresh startups (Seed and Series A):

- *A business framework that is built around the new normal*<sup>6</sup>

The product, market, strategies, and team must all be tailored to operate within the present circumstances for several months, specifying how new technologies and practices are being used by the company to operate efficiently. This must prove how the company will not only survive, but be sustainable throughout the next fiscal year.
- *A convincing plan, outlining readiness for dealing with delayed demand*

Investors are more likely to trust those who understand current changes related to consumer demand; they are looking for companies that can tailor their business model to deal with these changes. They seek plans which explain how to deal with delayed/reduced payments from customers, as well as how to respond to current payments/debts that the business itself has yet to meet.
- *A plan for keeping burn rate low, while focusing primarily on the product and/or UI/UX*<sup>7</sup>

Burn rate is the rate at which a business spends its capital, which is why investors are valuing this factor so direly. The focus of a business needs to be on providing a product or service that will truly be in demand at such an uncertain and fluctuating time.

Optimizing user experience not only satisfies current customers and strengthens your brand, but also shows investors that your business is using this period of minimal new sales to optimize itself. This will help your business be prepared to respond strongly once competition and pent up demand return.

### Established startups/small businesses:

- *Have demonstrated efficiency in alleviating pain points*<sup>8</sup>

Investors trust those who have already proven themselves to a reasonable extent. They seek a functional service/product that has since succeeded in addressing the needs and problems of its customers (a.k.a satisfying pain points). In essence, there must be some demonstration that your product/service is reliable and is something customers value.
- *Have demonstrated solvency at least in 2019*

Investors are looking for businesses that have maintained productivity, extended or maintained runway, and most importantly continued to secure sales within the last few months. Businesses have to prove that they can continue operating this way in order to show that they are a financially sound investment. Investors need to feel comfortable that your business will provide them with a significant return on investment without adding excessive risk to their portfolios.
- *Have established altered operations*

You need to show how your operations, supply chain, customer interaction, employee policies, etc. have adapted, and how they will sustainably transcribe post-Covid.<sup>9</sup> Businesses need to demonstrate flexibility and willingness to adapt so investors can feel confident that in the event the pandemic continues or worsens, their money is secure.
- *Illustrate an understanding of market shifts*

It's important to show how proposed strategies will tailor to new trends and behaviors. With the drastic volatility all markets are experiencing, investors need to be confident in your awareness of the circumstances. Your plans must take into account changes in your industry, demonstrating how you will deal with the currently experienced shifts in consumer behavior. Additionally, plans for contingencies are crucial to gaining investors' trust; doing so acknowledges the unpredictability of the near future, whilst demonstrating your preparedness to handle future challenges.

Though investors may be a viable option for some business owners, they are not the right fit for all. It is vital to be informed on both the state of the economy and the availability of additional resources at all times. Business owners may find that they can benefit more from alternative resources than from traditional investors. Understanding what works best for each business, and taking into account the size of the company, what entity it is (ie. LLC), and its need for capital are vital to identifying which resources to choose. For assistance with understanding these, you may refer to the following table which includes a guide to alternative resources in San Diego County.

## AVAILABLE RESOURCES

Resources like grant programs and government funding provide an alternative for strained businesses. Generally, federal programs offer funding, state programs offer various tax breaks, while county/city programs are deferring fees for utilities, building permits, and administrative tasks. Furthermore it is imperative to remember that funds run out and programs change, so business owners must ensure they keep up to date with both pre-existing and new programs.

### Factors to be aware of when seeking aid<sup>10</sup>

- A strong awareness of one’s business credit will prevent unforeseen consequences such as denial of a loan.
- Awareness of your financial institution’s policies (e.g. if your bank has a cap, it is likely you will fall behind their larger clients and qualify for less aid).
- It is not uncommon to use two separate banks to secure your financial freedom - it widens your net of opportunity.
- It is absolutely necessary to hold accurate account records and be well versed in them.

## FEDERAL

<p><b>Employee Retention Credit</b></p>	<p>Refundable tax credit of up to \$5000 per employee. Businesses qualify if they are fully or partially suspended by government order. Self-employed individuals are not eligible.</p>	<p>Run by the IRS</p>
<p><b>Emergency Injury Disaster Loan (EIDL)</b></p>	<p>Grant of up to \$10,000 for small businesses, sole proprietors, nonprofits and faith based organizations</p>	<p>Run by the U.S Small Business Administration (SBA)</p>

## STATE OF CALIFORNIA

<p><b>California Infrastructure and Economic Development Bank</b></p>	<p>Offers a variety of working capital loans and other programs such as the Small Business Finance Center's loan for small businesses of 1-750 employees. Included in their website is a survey to specify a business's structure and thus provide an according list of viable resources.</p>	<p>Run by IBank</p>
<p><b>Accion Covid-19 Relief Fund</b></p>	<p>Up to \$50,000 or businesses with fewer than 50 employees in San Diego, Imperial, Riverside and San Bernardino counties. To be eligible, the business must have been operational since August 2019.</p>	<p>Run by Accion</p>

## SAN DIEGO COUNTY

<p><b>Rady School Business Recovery Coalition</b></p>	<p>Pro bono assistance and advice about crisis response, recovery and innovation for businesses in the San Diego region. Also provides further resources and programs available.</p>	<p>Run by the Rady School of Management</p>
<p><b>Local Initiatives Support Corporation (LISC) - San Diego</b></p>	<p>Nonprofit community development financial institution that provides grants to businesses, projects and initiatives. They currently have a list of programs and funding options they offer on their website for small businesses.</p>	<p>Run by LISC</p>

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# PREPARING FOR THE FUTURE

Businesses that get through this pandemic will need time and hard work to make up for significant losses, as these difficulties will extend post-Covid. Funding will continue to experience limitations for several months which is why it's critical that businesses' primary focus be shifted towards profitability and positive cashflow before growth.<sup>11</sup> Businesses that remain solvent will be those that prove sustainable in the long term and that are acutely aware of the resources available to them.

A point to keep in mind is that opportunities may arise from current circumstances. Although businesses everywhere, current and new, will continue to face uncertainty and fluctuating trends, competition in some sectors will decrease, creating opportunities for innovators to capitalize on these changes.<sup>12</sup> Aspiring entrepreneurs should take note of new investment trends and opportunities that will arise in the near future; for information on potential opportunities to arise out of covid, see our Opportunity Identification report.

Considering the fact that many, if not most, business plans and timelines have been significantly derailed, the approach to long-term planning should focus on contingency. Businesses must accept unpredictability as a new normal that is here to stay - not merely a temporary, emergency response. This highlights the importance of needing to revise business plans rather than trying to make the original work.

## CONCLUSION

Businesses seeking to remain afloat must remember to be adaptable and informed, as there will continue to be a factor of unpredictability in the coming months. To summarize, business owners must focus on the following:

- Re-examining business plans and timelines in detail, from employee management to supply chain. Businesses must adapt to the current situation while preparing for the future with contingency planning.
- Embracing current trends and preparing to integrate them in a more permanent manner. Operational changes such as remote working are likely to be enforced to a certain degree even post-Covid.
- Optimizing your service/product, as well as current customer satisfaction. There must be a focus on adaptation instead of growth, in order to ensure stakeholder trust.
- Understanding your business's needs and what resources are available. Investors, grants and loans are all viable options, but it is up to you to understand what each offers in the short term as well as long term, in order to make the decision that will help your business most.

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<sup>1</sup><https://www.kusi.com/more-businesses-reopening-in-phase-3-of-reopening-plan/>

<sup>2</sup>[https://www.sandag.org/uploads/publicationid/publicationid\\_4675\\_27510.pdf](https://www.sandag.org/uploads/publicationid/publicationid_4675_27510.pdf)

<sup>3</sup><https://www.kpbs.org/news/2020/may/11/california-tourism-industry-rocked-covid-19/>

<sup>4</sup>[https://www.sandag.org/uploads/publicationid/publicationid\\_4677\\_27528.pdf](https://www.sandag.org/uploads/publicationid/publicationid_4677_27528.pdf)

<sup>5</sup><https://smallbusinessmajority.org/our-research/entrepreneurship/ca-small-business-owners-report-devastating-impacts-covid-19-need-immediate-cash-assistance>

<sup>6</sup><https://techcrunch.com/2020/05/14/7-top-mobility-vcs-discuss-covid-19-strategies-and-trends/>

<sup>7</sup><https://news.crunchbase.com/news/navigating-the-covid-19-pandemic-advice-for-startups-and-venture-capitalists/>

<sup>8</sup><https://news.crunchbase.com/news/survival-of-the-fittest-impact-of-covid-19-on-venture-funding/>

<sup>9</sup><https://home.kpmg/xx/en/blogs/home/posts/2020/04/venture-capital-response-to-covid-19.html>

<sup>10</sup><https://www.inc.com/levi-king/five-lessons-to-take-away-from-chaos-of-ppp.html>

<sup>11</sup><https://www.bbva.com/en/startups-in-a-post-coronavirus-world-how-will-the-crisis-impact-fintech/>

<sup>12</sup><https://techcrunch.com/2020/04/22/6-investment-trends-that-could-emerge-from-the-covid-19-pandemic/>

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**Designed by:** Nicole Yegorina

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### About Lumnus Consulting

Lumnus Consulting is a student-run consulting firm operating out of the University of California, San Diego and affiliate of the Junior Enterprise USA organization. Lumnus offers services that include but are not limited to: market research, business strategy, software development, marketing strategy and social media marketing.