

THE SMALL BUSINESS CONTINUITY TEMPLATE: A STRATEGIC DESIGN TOOL TO SUSTAIN RECURRING REVENUE DURING TIMES OF CRISIS

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ABSTRACT

The COVID-19 pandemic has disrupted the continuity of small, for-profit businesses. These businesses have experienced several negative impacts involving employees, customers, finances, operations, and supply chain disruptions. Since pandemics are a type of external threat that is nonpreventable, small-business owners must find ways to survive or permanently close. This paper offers a design tool called the Small Business Continuity Template (SBCT), which small businesses can use to develop strategies to survive, adapt, and in some cases, grow. It offers a simplified way for small business owners to generate new or changing value propositions that address key customers' changing problems and needs. Meeting their needs helps ensure recurring revenue, which is the lifeblood of any small business. In times of crisis, small businesses must leverage all sources of capital, including economic, human, social, and psychological. The SBCT is very beneficial for the current situation surrounding the COVID-19 pandemic. Small business owners can also utilize it for any future external threat that might negatively impact their businesses.

Keywords: Small Business Continuity Template, strategic design, recurring revenue, COVID-19

INTRODUCTION

Business continuity management is a form of acute crisis management that responds to operational risks and interruptions caused by external threats such as the COVID-19 pandemic. During times of crisis, small businesses are particularly vulnerable to challenges such as maintaining regular revenue streams, operations, employee management, supply chain management, and complying with new regulations. The current pandemic is an example of an external threat that no business could have prevented but which all companies must respond to through acute crisis management or by permanent closure. One index found the majority (84%) of small-to-mid-sized businesses were negatively impacted by the pandemic and corresponding economic slowdown (McKenzie, 2020), with over 43% reporting a significant-to-severe impact. Some of the main concerns centered on revenue loss (68%), maintaining a prolonged sales cycle (32%), and staff reduction (27%). Another survey (Pilon, 2020) found that most small businesses (66%) did not return a profit in 2020. However, these figures are now trending in the right direction as most states are easing restrictions, and consumers are feeling safer about leaving their homes and getting back to regular settings, both at work and socially (Sophy, 2020). It is now critical for all small-business owners to discover what strategies and best practices surviving small businesses have used to sustain and grow.

The Small Business Continuity Template (SBCT) is a practical strategic design tool that small-business owners can use to develop innovative ways to continue operations and sustain recurring revenue, which is the income generated regularly from key customers. In times of crisis, it is vital to safeguard the things that are most predictable and stable. The SBCT is akin to Business Model Canvas (Osterwalder & Pigneur, 2010), which is a lean start-up template used to generate new business models by linking internal and external factors to identify possible value propositions for potential customer segments. The SBCT differs from BMC by focusing on external factors that already exist, such as current key customers, and internal factors that stem from various capital sources that an existing small business already has available. Specifically, the SBCT operationalizes the Expanding Capital for Competitive Advantage model presented by F. Luthans, K. Luthans, and B. Luthans (2004), which provides four capital sources:

1. Economic Capital – *What you have*: tangible resources such as facilities, equipment, information, and patents along with financial working capital and growth capital.
2. Human Capital – *What you know/can do*: intangible collective resources that include knowledge, abilities, skills, and experience.
3. Social Capital – *Who you know*: any person or other organization that can help and support your business, such as family, friends, business networks, and the local community through business legitimacy.
4. Psychological Capital – *Who you are*: the psychological states that help ensure business success, which are hope, efficacy, resilience, and optimism.

Small business owners can use the SBCT in times of crisis to develop strategies that operationalize and leverage all their capital sources to safeguard recurring revenue, key customer relationships, and other assets. More specifically, the SBCT helps small business owners generate solutions and value propositions for key customers who most likely have new and changing pains and problems. In times of crisis, it is critical for small businesses to maintain and develop those relationships. The SBCT can also help small business owners identify necessary operational shifts, human resource changes, and supply chain alterations.

LITERATURE REVIEW

The word ‘capital’ refers to the value of assets and resources available for a specific need. Quite often, financial capital is the main idea that comes to mind when thinking about business. However, other types of capital are just as important to consider. These include human, social, and psychological capital, all of which incorporate intangible assets and resources supplied by people involved in a small business, most notably the top management team (Luthans et al., 2004; Ensvick, 2005). Since Luthans et al. (2004) introduced the Expanding Capital for Competitive Advantage Model, it has been cited almost 2,000 times. However, to date, this model's components have not been operationalized as a planning tool that small-business owners can use to ensure sustainability or to identify growth opportunities.

Economic Capital

The traditional types of capital people think of when considering business ownership are economic sources such as money, facilities, and equipment. Small business owners must have enough financial capital for current operations and growth, which most often comes from profits, investment funds, cash-on-hand, and the owner’s personal wealth. Additional financial capital may be acquired through debt and equity sources. Research indicates that a person’s financial assets are linked to self-employment and have a statistically significant impact on starting a business (Evans & Jovanovic, 1989; Leighton, 1989; Marshall & Oliver, 2005; Montgomery, Johnson, & Faisal, 2005). Aside from financial capital, economic capital includes facilities, equipment, information, and patents needed to operate a business.

Small-business owners must determine all economic capital sources they can utilize to innovate in times of crisis to propose new and changing value propositions to key customers who provide recurring revenue to the business. For example, during the COVID-19 pandemic many small liquor distilleries transformed their facilities and equipment to manufacture hand-sanitizers instead of spirits (Distilled Spirits Council, 2021). Other small business owners leveraged their financial capital by tapping into personal savings and investments (Rosenberg, 2020).

Human Capital

Human capital refers to the collective knowledge, abilities, skills, and experience of all the business members. Stewart (1999) refers to it as organized knowledge that can produce

wealth and contends that it is the most critical resource in organizations. Human capital is linked to innovation (Dakhli & De Clercq, 2004) and entrepreneurial performance (Hayton, 2004). When considering investment decisions, venture capitalists place a heavy emphasis on the firm's human capital (Baum & Silverman, 2004). Likewise, human capital is linked to an entrepreneur's success in equity crowdfunding (Piva & Rossi-Lamastra, 2018). Moreover, it provides a competitive advantage for firms, and is essential for innovation. One empirical study by McGuirk, Lenihan, & Hart (2015) revealed that innovative human capital is more valuable to small businesses than larger firms.

Small-business owners must leverage human capital during a crisis to innovate and provide critical, and possibly new and altered, value propositions to key customers who provide the business with recurring revenue. For example, Moriarty's Gem Art was forced to close its retail store when the pandemic prompted a city mandate requiring all nonessential businesses to close. But they came up with different strategies to keep their businesses going—and engaged with customers—by creating live-streamed gem-shows that proved to be very popular with these home-bound customers (Gurchiek, 2020).

Social Capital

Social capital refers to the value of existing or potential assets and resources a person may be able to acquire based on who they know, what networks they are associated with, and their reputation in specific communities. This is known as business legitimacy. Social capital does not constitute the resources or assets themselves; rather, it is the individual's ability to attain and mobilize them (Portes, 1995). Empirical evidence shows that social capital provides business owners with an important credential that can be directly converted into financial and tangible assets (Shane & Cable, 1999; Baron & Markman, 2000). If one prepares a business plan with others, social capital is being built, and with each successful transaction, that social capital is being reinforced and used toward productive ends. Katz and Green (2021) state that social capital is a critical resource from the external environment, with which small-business owners need to build their businesses.

In general, social capital is an essential asset to leverage in times of crisis. Georgescu (2020) contends that the value of social capital is subject to expectations about the future, and it is critical to have during bad times such as the pandemic. Small-business owners even collaborated with each other to navigate the COVID-19 pandemic crisis, both within and across industries (Fallon, 2020).

Psychological Capital

Psychological capital is reflected in a person's self-view or sense of self-esteem (Goldsmith, Veum, & Darity, 1997). In a small business, it is the owner's view of their ability to successfully utilize the collective economic, human, and social capital available in an innovative and productive way (Envick, 2005). Research shows that psychological capital influences productivity, especially in business (Goldsmith, Veum & Darity, 1997; Luthans et al., 2004;

Schultz, 1994). It is also a key determinant in entrepreneurial success in small- and medium-sized businesses (Hall & Chandler, 2005; Hmieleski & Carr, 2011; Peterson, Luthans, Avolio, Walumbwa, & Zhang, 2011).

More specifically, *hope* is a desire accompanied by an expectation of fulfillment. It is a positive motivational state with two crucial components, the physical and mental energy to meet goals, and having identified avenues to meet those goals. *Efficacy* refers to a person’s confidence and conviction about his or her abilities to successfully execute a given task within a specified context. *Resilience* is the process of adapting well in the face of adversity, trauma, tragedy, threats—or even significant sources of stress, such as potential business failure. *Optimism* is defined as the positive aspect of an emotional state, applied positively to explain good and bad events (Luthans et al., 2004).

Deshmukh (2020) contends that positive psychological capital is the key for small-business owners to come out of the pandemic crisis stronger, wiser, and healthier. One study found that maintaining a positive state of mind—specifically optimism—during the pandemic enhanced the intentions of college students to become future small-business owners (Hernandez-Sanchez, Cardella, & Sanchez-Garcia, 2020).

HOW TO UTILIZE THE SMALL-BUSINESS CONTINUITY TEMPLATE

The SBCT is a strategic design tool that small-business owners can use to develop innovative strategies to survive and even grow during crisis times. Figure 1 depicts the model with descriptors, and Figure 2 is a blank version that can be used as a planning tool.

FIGURE 1
SBCT with Descriptors

SMALL BUSINESS CONTINUITY TEMPLATE: A PLANNING TOOL IN TIMES OF CRISIS

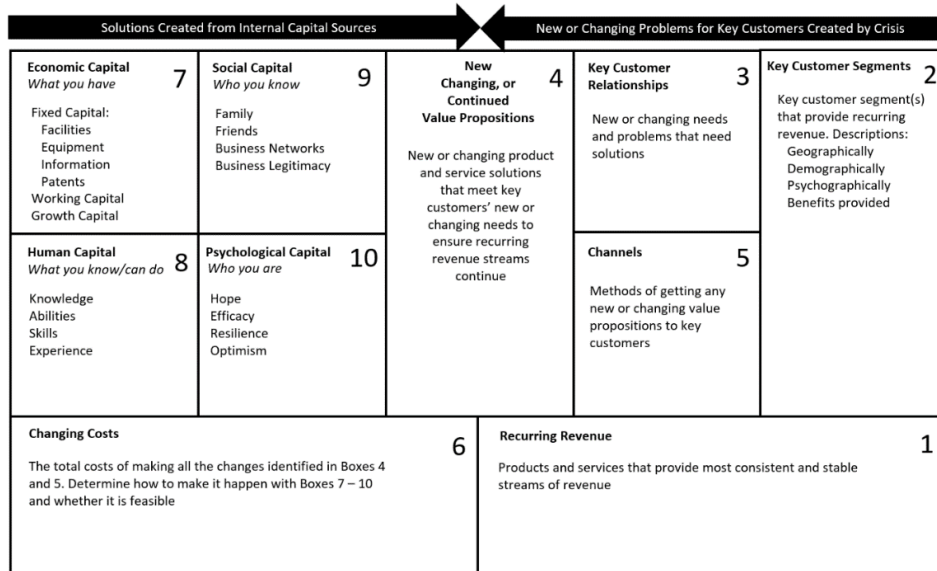
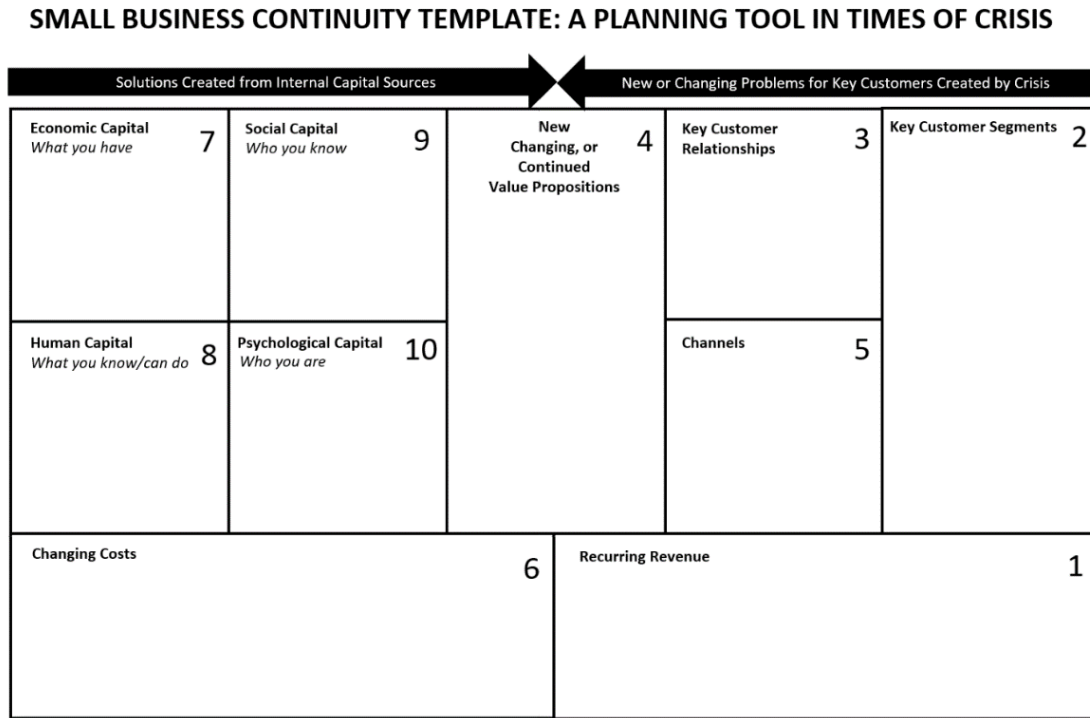


FIGURE 2
SBCT without Descriptors

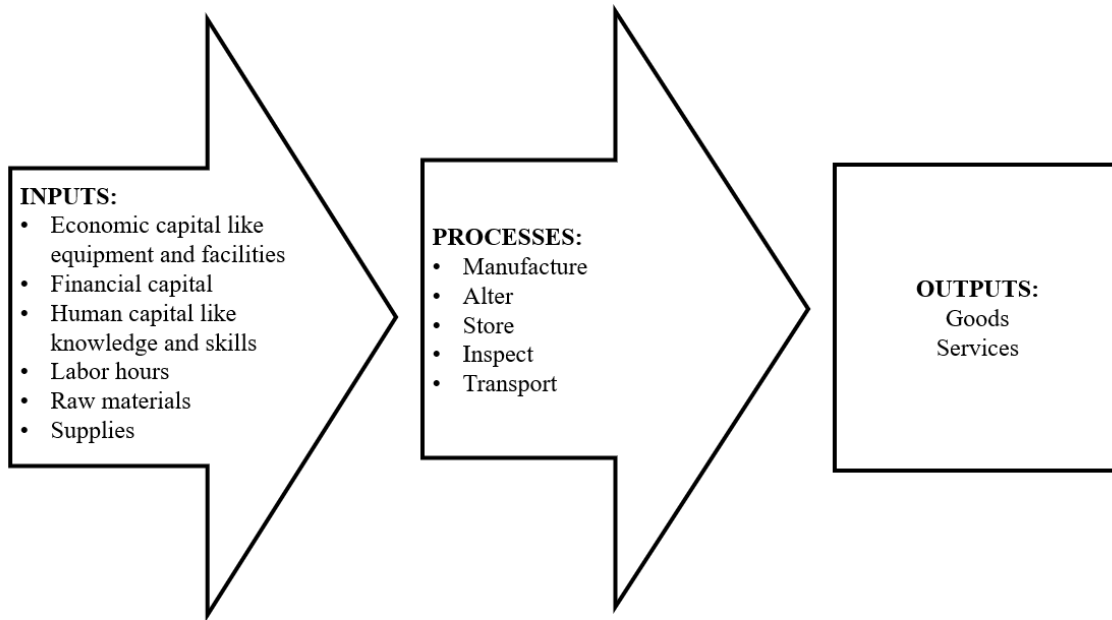


The SBCT contains ten boxes to address in sequential order. A description of each box, and how to address them, are described below:

1. **Recurring revenue** is the most predictable and stable income source, which provides the small business with the best opportunity to ensure sustainability during times of crisis. It is important to determine which products and services are providing the business with recurring revenue. After these are identified and quantified, it is necessary to determine who (key customers) is providing these revenue streams. This leads to Box 2: Key Customer Segments.
2. A customer segment is a group or subgroup of purchasers that a business can approach methodically to solve problems providing product and service offerings with solid value propositions that strengthen their connections to the business. During times of crisis, it is important to identify **key customer segment(s)**, which are those customers who provide the business with recurring revenue streams. Since these revenues are the most stable and predictable, it is critical to sustain them throughout the crisis. Key customer segments can be described geographically, demographically, psychographically, or by the benefits the business provides them. Once the key customer segment(s) are identified and described, then the methods to maintain and further develop those relationships must be determined. This leads to Box 3: Key Customer Relationships.

3. Developing **key customer relationships** is the best way to ensure that recurring revenue streams continue. Before the crisis, key customers were regularly purchasing the business's products and services because the business provided value propositions that met their needs and solved their problems. However, since the onset of the pandemic crisis, these key customers' pains and problems have most likely changed. It is critical to determine what has changed, how they changed, and by how much they changed. This knowledge provides the information needed to develop new or altered value propositions that meet those needs and solve those problems. This leads to Box 4: New or Changing Value Propositions.
4. Addressing the **new or changing value propositions** offered is critical to maintaining and developing key customer relationships to ensure recurring revenue streams, not only during a crisis, but also for the long-term. It is important to remember that value propositions distinguish the business from competitors and provide competitive advantages. When addressing this box in the SBCT, the small business should determine what must change and what must not change with the current product and/or service offerings. Some may stay the same, while others may need to be altered or further developed. The business may even need to create new product or service offerings. These results lead to the next issue of how to best get these products and services to the key customers, which is addressed in Box 5: Channels.
5. The **channels** by which you get the product or service to the customer are important to determine. During a crisis, these channels may need to change, impacting company resources such as time, money, and other resources. For example, if key customers normally come to the business's physical location to make purchases, they might require the business to deliver products and services to homes. This would require the entity to secure a delivery vehicle and driver, both of which come with additional costs. This leads to Box 6: Changing Costs.
6. **Changing costs** occur with new or changing value propositions provided in the product and service offerings to key customers, along with any changes in the channels of distribution. It is important to determine exactly what will cost more, what will cost less, and what costs will not change. Then we determine how everything combined will impact the bottom line. A small business can assess all internal capital sources to determine how it will meet the new or changing costs and challenges. All the changes identified in Boxes 1 to 5 will result in changing costs. Small business owners should spend adequate time and attention to Box 6 to keep an eye on extra costs associated with any change implemented with the new strategies. A useful tool is the Input-Output System Model (Figure 3), first introduced by Buffa (1961) in a production management textbook. This is the organizational process that transforms inputs into valuable outputs for customers.

FIGURE 3
Input-Output System Model



Source: Buffa (1961).

If the outputs change (i.e. the products or services delivered with the new or changing value propositions), then the inputs and processes have also most likely changed. When those items change, their costs also change. As one can see, the inputs do include economic and human capital (Boxes 7 and 8 of the SBCT). Other things that may change are the number of labor hours required, different types and quantities of materials, and supplies. Likewise, the processes by which inputs are transformed into outputs may change. If goods are manufactured, this process may need to be altered along with how products are stored or transported. Changes to inputs and processes must be carefully quantified and calculated in Box 6 to determine the sum of all changing costs.

Once total costs are determined and calculated in Box 6, the business must determine if and how it will make it happen. This leads to Boxes 7-10, the collective economic, human, social, and psychological capital available that can be applied constructively to this new plan.

7. **Economic capital** refers to *what we have*. It includes all tangible resources such as facilities, equipment, information, and patents, along with financial working capital and growth capital. The business might need to use facilities or equipment in different ways to better meet the changing needs of key customers through the new and altered value propositions offered in products and services. The business may also have financial capital previously planned for other uses, but now it is more feasible to allocate them towards business sustainability during the crisis. When circumstances change, all economic capital sources must be reevaluated to determine where and how they can best

be utilized for long-term business success and sustainability. During this assessment, the business must calculate the amount of financial capital needed and quantify the impact on physical resources such as facilities and equipment. If it is economically feasible to make the necessary changes and cover the costs identified in Boxes 1-6, this leads to Box 8. It may be noted that if the business does *not* have the economic capital necessary, Box 9 should be explored before going to Box 8.

8. **Human capital** refers to *what we know and what we can do*. If the business has the human capital necessary to execute the new plan effectively, then Box 10 needs to be addressed. Otherwise, Box 9 should be explored. Are the previous human capital sources transferable to the new plan? Furthermore, does the business possess any knowledge, abilities, skills, and experience that have been unused or underutilized? Small business owners should survey everyone's human capital sources in the business and determine how they can use them to execute the new plan. If the business has the human capital necessary to execute the new plan effectively, then Box 10 needs to be addressed. If the business does *not* have the human capital necessary, then Box 9 should be explored.
9. **Social capital** refers to *who we know*. This includes family, friends, business networks, and business legitimacy (personal, product, and organizational). Every person, business, and other organizations who can help are to be identified. Then, we determine specific ways in which they can help. Some might loan or provide the business with economic capital (money, use of storage space, a piece of equipment, or use of a vehicle). Some might be able to provide the business with some temporary human capital to help get the business through the pandemic crisis (knowledge, abilities, skills, experience), while others may be able to help increase the business owner's psychological capital (hope, efficacy, resilience, and optimism) by providing moral support and ongoing encouragement. Once the business has identified all social capital sources and how that capital can be used to execute the new plan, Box 10 must be addressed.
10. **Psychological capital** refers to *who we are*. High levels of hope, efficacy, resilience, and optimism are critical to sustain the business and effectively execute the changes determined in Boxes 1-6. Small-business owners must be purposeful about maintaining high levels of hope, efficacy, resilience, and optimism. They must also model these traits for others in the business, and possibly even find ways to develop them in other small-business owners.

[Appendix A provides an example of the Small Business Continuity Template (SBCT) applied to a small restaurant ("Blind Pig") during the COVID-19 pandemic.]

CONCLUSION

The Small Business Continuity Template (SBCT) is a design tool primarily used to help small-business owners generate business survival strategies and growth in times of crisis. It differs from the Business Model Canvas (Osterwalder & Pigneur, 2010) because it centers on existing external factors such as key customer segments and existing internal capital sources by operationalizing the Expanding Capital for Competitive Advantage Model (Luthans et al., 2004).

The SBCT is also useful as a discovery tool to determine how other small-business owners have sustained their companies during the pandemic crisis. During the spring 2021 semester, 12 undergraduate research teams who enrolled in a small-business management class at a Midwestern university have been using the SBCT to research small businesses in specific industries to discover what surviving small business owners are doing to not only, but to grow during the COVID-19 pandemic and corresponding economic shutdown. Each student team is developing a 'best practices' guide for other businesses in their industry who are on the brink of permanent closure and need ideas to help them survive the current pandemic. The best practices guide will be made available to small businesses in the future, should a different, unforeseen external threat cause a similar type of crisis as the COVID-19 pandemic.

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APPENDIX A: AN EXAMPLE OF SBCT APPLICATION

The Blind Pig is a fine-dining establishment located in a small, Midwestern town. Their regular menu features entrées such as 30-days' aged New York strip steaks, prime rib, fresh Faroe Island salmon, blueberry port duck breast, and chicken Oscar. Every week, they have nightly specials such as smoked chicken confit, Wagyu sirloin steaks, butter poached lobster tail, and filet mignon with foie gras. The Blind Pig also serves high-end cocktails such as their own twist on the French 75, a barrel-aged Manhattan, and a variety of martinis, along with high-quality wine selections and handcrafted beers.

While many customers drive up to 200 miles to eat at The Blind Pig a few times each year, the restaurant had to focus on **Recurring Revenue (Box 1)** to sustain it during the pandemic and in the face of mandatory restaurant shutdowns. It needed to identify the type of customer who would most likely continue to provide the restaurant with revenue during the shutdown. This led the owner to think about **Key Customers (Box 2)**. He knew that residents of surrounding towns within a 10-to-15-miles' radius provided his business with recurring revenue during normal conditions, because many of them ate at this restaurant two or three times each month. During mandatory shutdowns, the only food that could be sold was takeout food that could only stay hot for a short time after the customer picked it up. So, the focus was on the customers who lived nearest to the restaurant. It should be noted that the largest town within the radius of this geographic key customer segment has a population of 5,500 people. There are also a handful of other towns located within this radius with 100-500 residents. Local farmers and their families were also included in this geographic key customer segment.

Next, The Blind Pig used social media and direct interpersonal communications to determine these key customers' new and changing needs during the pandemic to develop **Key Customer Relationships (Box 3)**. What they found was that their regular menu items did not lend themselves well to takeout, even if customers got the food home within a short period of time. Another finding was that many key customers also wanted offerings that fed their entire family. Under normal circumstances, these adult customers would order pizza to their homes for their children while they had a night-out at The Blind Pig. But now, they were all home together and needed meals that appealed to everyone and were large enough to feed everyone. This led the owner/chef of The Blind Pig to consider **New and Changing Value Propositions (Box 4)**.

The Blind Pig was still committed to upholding their standards and reputation by cooking and selling high-quality food. The owner/chef was not willing to compromise on that but needed to create and offer different types of dishes with value propositions that met key customers' new and changing needs. Several ideas were introduced, including meatballs and spaghetti, pizza, brisket sold by the pound, spareribs sold by the rack, whole smoked hams, roasted New York Strip loins, lasagna, whole roasted chickens, and large containers of soup. Several side dishes were also identified to go with the main entrées—such as mashed potatoes, sweet potatoes, beans, and different types of salads, along with different kinds of breads. These were all food items that key customers liked, and who would also be willing to drive to the restaurant to pick them up to take home (verified through Facebook polls). This satisfied the **Channels (Box 5)**.

Next, The Blind Pig had to determine the **Changing Costs (Box 6)** of altering almost all their food offerings. The owner/chef had to determine if their current suppliers could provide all the ingredient changes. For example, normally little cheese was used for the traditional menu. But with the pizzas, lasagnas, and other items planned, it was necessary to purchase large amounts of cheese. There were other food items to be purchased in far fewer quantities such as duck breast, salmon, and certain cuts of beef. It was also necessary to determine the costs of all the new takeout containers and other supplies the restaurant would need to serve their food in. For this, several different types of containers were needed in large quantities along with napkins, takeout bags, and other items. As for employees, the owner/chef was determined to keep all of them on staff but use them in different ways. For example, waitresses would be taking orders over the phone, boxing up food, and running orders out to cars in the parking lot. They had to be paid more because they were not receiving tips by waiting on tables. Some of the new menu items even required kitchen equipment that The Blind Pig did not currently own. After identifying and calculating all these changing costs, the owner/chef had to determine if it was going to be possible and profitable. This led to consideration of all **Capital Sources (Boxes 7-10)**.

For **Economic Capital (Box 7)**, the owner/chef determined that sufficient financial capital was unavailable to support all the costs of this new strategy—including the purchase of a commercial pizza oven and an additional meat smoker, which would increase the economic capital by adding this equipment. One part of the kitchen had to be rearranged and used for the party room to store all the takeout supplies, which was an effective use of the facilities. Next, the **Human Capital (Box 8)** was considered. The owner, as a chef, had the knowledge, skills, and abilities to cook all these new menu items, but did not have the experience. It was therefore determined that part of the staff would need some training to fulfill their new duties and responsibilities. To make up for the owner's lack of experience in cooking family-style food in large quantities, the **Social Capital (Box 9)** was tapped into. The previous owner of The Blind Pig, the current owner's father, used to offer a Sunday buffet—aided by significant knowledge, skills, abilities, and experience to share.

The Blind Pig also had well-established relationships with suppliers, the Chamber of Commerce, and the county's Economic Development Corporation that provided much support through these changes and challenges. The local community also rallied around The Blind Pig because of the value propositions they have offered for many years. No one wanted to see this business fail. The owner/chef of The Blind Pig also utilized **Psychological Capital (Box 10)** to get through the challenges created by the pandemic and mandatory shutdowns. He modeled hope, efficacy, resilience, and optimism every day to his staff to keep their spirits up. He also made positive Facebook posts each day that not only advertised their new food items, but also thanked everyone for their support.

By utilizing the Small Business Continuity Template and taking all the measures necessary to plan carefully, The Blind Pig flourished in the face of restaurant shutdowns during the pandemic. On most nights they were sold out of food before closing time. Today, The Blind Pig is operating normally and are back to offering their traditional menu items.