

# COVID-19 era offers proving ground for new business models—for better or worse

May 7 2020, by Jeff Karoub

---



Credit: CC0 Public Domain

Jerry Davis is a professor at the Ross School of Business, where he also serves as associate dean for Business + Impact. He has studied the effect of crises on business for years, and the ways in which commerce has fallen into but fought its way out of crushing events like the Great

Recession.

He sees parallels between that crisis and the one caused by COVID-19. In the following discussion, he explores some of them, as well as how entrepreneurial and technological trends that bubbled up in the intervening years could be catalysts for significant change on the other side of the latest economic upheaval. In other words, are we headed for an era of "Uber-ization"?

**You wrote about the Great Recession in your 2009 book "Managed by the Markets." It detailed how tied to financial markets society had become. I realize the crisis today has different causes but what parallels can you draw?**

I started writing that book in 2006, before the financial crisis, and I had been monitoring how finance and [financial transactions](#) were pervading all of society. All these crazy things were being turned into financial instruments that could be traded on markets, including the payoffs of life insurance policies on the elderly and terminally ill. The financial logic behind it made perfect sense: Any one life insurance policy's payoff is hard to predict, but if you buy 1,000 of them the yields become much more regular. Why not pool them together and turn them into a bond? This kind of thing was happening all over the economy.

I thought financialization—relying on financial markets to channel capital—was a peculiar, one-time shift that had happened to our economy. But financialization is actually an information technology problem. It became possible on a grand scale because it got much cheaper to turn things into financial instruments and trade them on markets, such as bundles of mortgages. Information and communication technologies enabled finance to metastasize in the way that it did.

But it's not just finance—now this is happening to labor markets. Think

of this as "Uber-ization." That's information technology applied to labor markets: Instead of hiring someone for a job, you pay them for a specific task. That is a pretty big shift. That is the labor market version of financialization.

The financial crisis showed us the limits of financial markets: Where can things go wrong? The current crisis is showing what happens when people can't show up in a common place to do their work together. We've created this technology that allows us to pay people by the task to work remotely. That is the essence of Uber: Drivers never set foot in the Uber office. They don't have an Uber boss—they just connect to an app and complete their tasks. We're now stress-testing the idea that people can work from remote locations and still get things done. It's almost like a trial run for rampant Uber-ization.

If the pandemic shows that there's an awful lot of business that can get done by people working in dispersed locations, managed by software, it is not much of a next step to say, "Why do they need to be employees? Why not just hire them as contractors?" This is going to prove which jobs can be done by folks wherever they happen to be, and which really need to be done on-site. It also provides in a sense proof of concept that you can have companies with almost no actual employees. Instead, you can basically "Uberize" the whole labor force.

Think of the Instant Pot. You can cook a rock-solid frozen chicken breast into edible food in 20 minutes. It's also very inexpensive and a very well-made appliance. Here's what's amazing about the Instant Pot: The guy that created the company was a Ph.D. in computer science. He wanted to start his own business after the [financial crisis](#). He thought, "What the world needs now is a quick way to make healthy food." So he devised a pressure cooker with computer technology built into it.

He used \$350,000 of his own money to start the company. After

perfecting the design and finding a vendor to produce it, he listed the Instant Pot on Amazon and used the "Fulfillment by Amazon" service for storage and distribution. He read all the customer reviews on Amazon for his product research to improve the design. His marketing was that he sent 200 Instant Pots to influential food bloggers and cookbook writers. He used a vendor in China to manufacture it. It became a \$300 million a year product category with just 50 employees in Ontario, which is insane. He's created an entirely new category of indispensable appliance that dominates its industry. He didn't need to go to Wall Street to fund it. He didn't build any factories. He didn't have to build a distribution channel or warehouse. He just hired Amazon.

That to me is proof of concept that you can have styles of business that look a lot more like a pop-up. That also in some sense feels like the apotheosis of our current situation—I think what the virus is doing is demonstrating in a fairly dramatic way that an awful lot of what we needed to show up to the office to do can be done remotely. If you don't need an office, why not just rely on all contractors all the time like an Instant Pot?

Just to be clear, I'm not saying this is a good thing. It's likely to be a disaster for labor, at least in the U.S., where people get health insurance and pension savings from their employer. But in some cases, it is likely to be the cheaper thing. In capitalism, cheap usually wins.

**Speaking of test runs, auto and apparel makers, who have retooled their lines to make personal protective equipment, could similarly evaluate new lines of business or manufacturing approaches after the pandemic passes.**

You could visualize "reshoring"—bringing manufacturing back to the U.S.—but there's another trend that's really interesting: Capital equipment has gotten really cheap and really flexible. It can be

programmed to do lots of different stuff. It used to be the advantage of China was cheap labor. Because capital equipment has gotten so good and so cheap, you can replicate that ability in the U.S. Next door to every Amazon warehouse you could build a universal manufacturing facility.

I think about Ford Motor Co., where both my grandfathers were welders. Could Ford be a universal manufacturer? It's consistent with their heritage—the idea of converting to wartime production as part of the Arsenal of Democracy. Shifting to producing ventilators is the same kind of transformation. These days designs are often fungible—it can be done in a dispersed, online way, like Wikipedia, or crowd-sourced designs for ventilators. Design globally, manufacture locally.

**We're hearing about big companies being called out or shamed into returning public money that was intended for small business. Is the pandemic lens distorting or enhancing the behavior? Are most businesses doing right amid the pandemic?**

We're at one of those moments where leaders in business are being told that what you do now is what is going to end up in your obituary. Do I lay a bunch of people off or do I

find some way to maintain them and repurpose them? This is one of those moments that is going to define people and their legacy. I think a lot of folks are feeling that.

This is a situation where you don't want to be the one who says, "Shareholders first." It feels like that pressure, that scrutiny is out there—because of social media, one wrong step and it will go viral instantly. There's a lot more at stake in making a morally defensible

choice. From what I've seen, it feels that a lot of businesses are stepping up the best way they can.

This has also enabled workers in an interesting way. For example, GE workers at an idled aviation factory organized this protest and said, "This factory could be making ventilators. We've got the equipment to do that. Why is this factory idled?" That was genius. They weren't protesting about hours or conditions, exactly. They were saying, "We can do some good here." The companies that enable their workforce to identify those opportunities—it feels like they are going to win coming out of this. You'd rather work for a place where those values get built into the culture. Repurposing a manufacturing line to make ventilators and save lives is a story that will be told years from now.

## **What else is important to know or ponder about the culture of business as we emerge from the pandemic?**

Where we end up on the other side of this is going to be a political choice and not purely an economic or business decision. I tweeted the other day: "How about we shift to a 30-hour workweek, where people show up in staggered shifts. That could give us more leisure, a little less income, less unemployment and a safer workplace. Thirty million unemployed in the last month is a lot. Can we return to work in a way that accomplishes some sort of social goals that would make us all better off?"

During the Second World War, in the darkest period in the United Kingdom, they formed the Beveridge Committee. The committee essentially asked, "What can we do when the war is over to make these sacrifices worth it? What kind of vision can we provide about the world we're fighting for that will get us to the other end of this?" They came up with this set of ideas: A universal health care system, which became the

NHS, universal education, pensions for the elderly. They came up with a set of core values and welfare policies for a civilized society. This is kind of our reward at the end of all this trauma.

What can we offer as a vision for the future at the other end of this that would make people say that was horrible but now we're better off? I don't know what that would look like, but it's intriguing to think about.

Provided by University of Michigan

Citation: COVID-19 era offers proving ground for new business models—for better or worse (2020, May 7) retrieved 19 April 2024 from <https://phys.org/news/2020-05-covid-era-ground-business-modelsfor.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.