

HOW THE PANDEMIC MAY CHANGE THINGS

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BY DAVE BUJNOWSKI

Traditions that once seemed sacred sometimes unwind. On the other side of such dismantling, someone typically benefits. This process is usually very slow but could Covid-19 accelerate the change, relegating certain behaviours and 'traditions' to the past? Dave Bujnowski investigates.

I suspect very few of us have experienced behavioural changes as dramatic as the ones we are living through: Social distancing. Working from home. Schooling from home. Zoom parties. Zoom fatigue. And on it goes. The abrupt, all-encompassing nature of the change that has come with Covid-19 is startling and raises many questions about what the future will look like. These include:

- How might behaviour change in the new post-Covid-19 world?
- Which of the current behaviour changes might endure?
- Which will not?

Let me emphasise that I approach this question with great humility. An exogenous shock hitting a complex system? Egads! “It’s still very much unclear” is far and away my highest conviction answer. But it’s worth reflecting on how best to approach what comes next.

With this in mind, I found myself reaching for Clay Shirky’s book *Cognitive Surplus: Creativity and Generosity in a Connected Age*. Written in 2010 it is ostensibly about media and how the internet was then poised to disrupt TV as we knew it. It has nothing to do with a global pandemic. What does seem relevant, however, is a concept Shirky introduces called “accumulated accidents”. This is a tool I’ve grown fond of that can be instructive in assessing current questions.

WHAT ARE “ACCUMULATED ACCIDENTS”?

The idea of accumulated accidents challenges traditions and asks whether they really do represent an “ideal expression of society” (i.e. sacred institutions) or whether they are simply a series of accidents that can be unwound in the right circumstances. The unwinding part gets my attention because it often presents a significant new opportunity: Creative destruction in other words.

Shirky applies this thinking to the media world by challenging whether such things as professionally created content, TV sitcoms etc. were ever as ‘sacred’ as we thought. When his book was written, user-generated content was still decried as a fad (or at least a niche), YouTube was only five years old, and Facebook had yet to amass 500 million monthly average users. Indeed, the passive, laugh-track-laden, broadcast TV sitcom still ruled: Resilient. Seemingly unshakable. Sacred.

One of Shirky’s key insights came from deconstructing the evolution of the US TV industry and identifying how it was jumpstarted. He claims that in addition to responding to the basic human need to be entertained and the enabling technologies that emerged, a key factor in the early adoption of TV was the social change brought about by America’s post-war migration to the suburbs. This shift created deep unrest, which prompted the need for an anaesthetic, which – in turn – intensified our love for the passivity of this medium. By asking no more than that we turn on and sit back, TV was the perfect escape from suburban loneliness. The couch potato was born.



*...TV was the perfect escape
from suburban loneliness.
The couch potato was born.*

But the TV sitcom was not an ideal expression of society. It wasn’t even an optimised form of media. It was a solution that happened to address a need of the time and which then had a 60-year run, during which it came to be seen as ‘sacred’. But it wasn’t perfect. It came with ‘trade-offs’ (tolerated drawbacks), even if we didn’t know it at the time.

By challenging the assumptions we attached to this tradition, Shirky was able more clearly to predict the rise of new forms of media and emerging new behaviours.

SO WHAT DOES THIS HAVE TO DO WITH COVID-19?

Since reading Shirky's book, I've wrestled with how such accumulated accidents can be reversed. The Covid-19 crisis prompts more thorough consideration. Usually these so-called accidents unwind slowly. But when a global pandemic hits and we're suddenly forced to change behaviour, some will unwind more rapidly. The likelihood of fringe behaviours going mainstream increases. A temporary-seeming change induced by the virus could be an acceleration of a future state we were already moving towards.

To understand how an accumulated accident might be deconstructed, a good starting point is how it was constructed in the first place. So let's dive in...



CORE JOBS AND TRADE-OFFS

Assertion A: To understand if an accumulated accident will unwind, we must first understand the core job it was meant to address. For disruption to occur, the new solution must do the job more effectively or remove its associated trade-offs.

Necessity is the mother of invention, right? Working from that premise, by definition every product or service in existence, let alone enduring traditions, address some core need. This is where Shirky suggests we can go astray – by misunderstanding (or by not thoroughly considering) what exactly the job is that needs addressed and how well matched it is with the solution currently addressing it.

A long quote from Shirky elucidates this point:

“As long as the assumed purpose of media is to allow ordinary people to consume professionally created material, the proliferation of amateur-created stuff will seem incomprehensible... But what if, all this time, providing professional content isn't the only job we've been hiring 'media' to do? What if we've also been hiring it to make us feel connected, engaged, or just less lonely? What if we've always wanted to produce as well as consume, but no one offered us that opportunity? ...people like to consume, but they also like to produce and to share. We've always enjoyed all three of those activities, but until recently, broadcast media rewarded only one of them.”



Clay Shirky.
© Getty Images North America.

The operative words here are “assumed purpose”. Shirky’s insight was that the assumed purpose of a tradition (media) was not in fact the core job we wanted it to address. By introducing “producing”, “engaging”, and “sharing” to the core task of media, Shirky was making a case that social media (creating content and engaging with others) would become a preferred form of media because – in contrast – the TV sitcom only let you “consume”.

So what? Or rather, where should we look for opportunity today?

Two situations come to mind:

ONE

Situations in which the core demand we want addressed has evolved so that there is now a mismatch between the current solution/tradition and the core job it is meant to address. As I laid out in a previous paper, *A Case for Growth*, this is bound to happen over time because we ourselves change. As we change, so do our needs.

Consider the tasks a 19-year-old in the 1950s required his new Chevrolet to fulfil: To be more appealing to girls, to escape the reach of his parents, and – sure – to get from A to B. Contrast that with the solutions a 19-year-old in 2020 would deploy to address these needs. Buying a car might not even be the answer, and consideration of carbon footprint is now in the mix. We have changed, our core tasks have changed, and the solutions that address the core tasks have changed. Seen through that lens, there seems plenty of room for disruption.

TWO

Situations in which the old solution always came with significant trade-offs or drawbacks that a new solution can eradicate. In the hunt for enduring behavioural changes, the part about trade-offs is fertile ground. Habits and behavioural patterns are notoriously hard to alter, but they often come with a trade-off. Usually, the trade-offs are minor and inertia helps us tolerate them. But what if we’re jolted into a new way of doing things? And what if these new routines eradicate the trade-offs while doing the job just as effectively?

For an example of a trade-off consider Zoom video meetings. Zoom has helped large swathes of society see that, if the core job was connecting, communicating, and collaborating, then video conferencing can adequately address that while eradicating a long-endured trade-off: Business travel. Leaving our families. Jet lag. Growing our carbon footprint, etc.

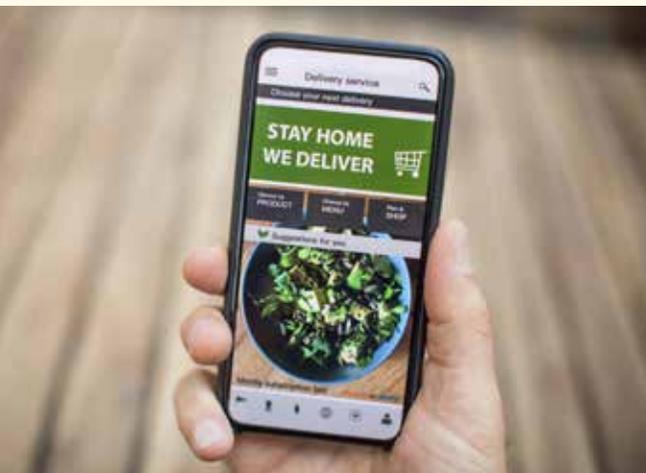


ZOOM Cloud Meetings app.
© NurPhoto/Getty Images.

ECOSYSTEM DEVELOPMENT

Assertion B: Ecosystems develop around a tradition, making it harder to eliminate. Now, already weakening ecosystems could be more easily disrupted by behaviour change induced by Covid-19.

So far it might appear relatively easy for an innovator to create a better mousetrap and tear down an established tradition. Do the core job better, remove the trade-offs, and *voilà* – new technology displaces legacy solution. Obviously, that’s easier said than done. That thinking doesn’t account for the ecosystem that often develops around a solution, making that system self-reinforcing. Such ecosystems not only help fend off up-and-coming disruptors, they can also carry enough clout to affect regulation and dictate the rules of engagement themselves.



*...where can we look
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change?*

While Shirky didn’t address this, given the interdependence of the key parties inside the massive, growing TV ecosystem, it’s easy to see how TV evolved from simply being a popular service to being deeply embedded in America’s culture. Content companies relied on advertisers for funding and cable companies for distribution. Meanwhile, cable companies relied on content companies for programming, and of course advertisers relied on content companies and distributors for more eyeballs. Surely, a disruptor would need more than just a better mousetrap to win. It would have to address each component of this ecosystem with a disruptive force. Distribution. Content. Audience aggregation. And even then change would be slow.

Of course, such dynamics are not confined to media. Any large industry has a similarly intricate web of self-reinforcing interdependence: food, healthcare, energy, etc.

So, given the role that ecosystems play in the development and longevity of ‘sacred’ traditions, where can we look for sustainable post-Covid-19 behaviour change?

We need to:

- Assess whether an up-and-coming solution needs an entire ecosystem to change for it to grow.
- Identify which ecosystems are already fragile. Could Covid-19 be their undoing?
- Assess what regulatory changes might come about. After all, it’s a force that can be more powerful than an ecosystem.

MOTIVATION AND DETERRENCE

***Assertion C:** The removal of a deterrent can trigger permanent behavioural change. It is important to assess whether a deterrent can be removed in one fell swoop or whether deeper cultural change is needed.*

It's not overly controversial to suggest that behavioural change often happens when, in a new situation extra motivation is added or deterrence removed. We can see it all around us: "Stay home!" is nothing if not motivational. But which of these changes will endure when normality returns? Eventually, the imposed motivators will be removed and the vast bulk of behavioural changes revealed as temporary.

The questions in the case of Covid-19 are as follows: Will shock-induced motivations endure? Will the removal of deterrents prove permanent?

The answer to such questions is usually no. Motivators and deterrents are often governed by culture, which changes slowly. Just as we saw with ecosystems, a culture is a web of interrelated forces – beliefs, behaviours, and actions – that are self-reinforcing. A person thinks, feels, and acts in ways that perpetuate a culture. Likewise, a culture defines what thoughts, feelings and actions are acceptable.

Still, there are bound to be opportunities. Two come to mind.

ONE

What behavioural deterrents/impediments are being removed? Of course, not all deterrents are alike. As noted previously, many are tied to cultural norms or institutional demands that won't soon change. We won't all continue to work only from home and socialise exclusively on Zoom when this pandemic finally passes. But other deterrents are less deeply engrained. Some only require a single mindset adjustment to 'stick'. Examples include situations where the key friction point was: (a) unfamiliarity with a product or service, (b) scepticism that said product or service actually works, or even (c) lack of awareness that a new solution actually exists.

We are now being forced to try some of these new things. If they work, the friction that tied us to our accidentally-accrued old ways could be permanently removed. An example would be having an interest in online groceries but never quite pulling the trigger because of uncertainty about how the app worked or about whether the right products would be delivered. But social distancing forced you to try it and you realised it was not only easy but it saved you 90 minutes. A quick and easy mindset shift.

TWO

Enterprise motivation. I'm sceptical that many Covid-19 related consumer motivations will endure – again, largely due to cultural inertia. But decisions made inside businesses can turn on a dime. In the two economic downdrafts I've experienced as an adult, the enterprise shifted toward a cost-saving mindset fairly immediately. Chief Financial Officers and Chief Information Officers had a very strong motivator: don't buy anything without a strong return-on-investment proposition, lest you be fired! If the economic impact of Covid-19 is as significant as early indicators suggest, I suspect buying decisions will be largely informed by two fresh motivators: value/return on investment and business agility.

CONCLUSIONS

Our disrupted lives may bias us towards assuming the new normal will be different from the old ways. Not necessarily. We absolutely won't all want to work from home. We won't want to spend five hours a day on Zoom. All schooling will not be done virtually. And I very much doubt that we will continue to sing Happy Birthday while washing our hands. But, yes, I do see changes that may stick. And while the point of this paper was to provide a lens for viewing the question of lasting habit change, it would feel incomplete without the inclusion of a few possible investment implications.

For starters, a word on what we've done in the Baillie Gifford US Equities team. We've made very few alterations to our portfolios. In addition to testing the resilience of our companies from a balance sheet and cash flow perspective, one step in our process, naturally, has been to reassess the forward-looking hypotheses for our holdings. And there is good news here. The investment case for the companies we invest in is long term and tends to be tied either to deep structural changes or to enduring cultural trends. Such things are not easily derailed by an economic slowdown. In fact, and to the point of this paper, a case can be made that the current shock may accelerate changes we thought inevitable anyway. It may speed up the deconstruction of old traditions and usher in new trends. In that spirit, here are a few that pop to mind:





Because millions have discovered it just 'works', a deterrent has been slain.

ZOOM

True, Zoom is already universally heralded as a ‘winner’ in the Covid-19 world, but I see no need to play contrarian. I’m a believer. More people have been drawn into its service, which only feeds its network effects. Relative to the model I put forth today, Zoom can be hired to do a job that multiple traditions previously did. It does so by addressing those old trade-offs.

- Business travel. No, not all business travel will end. Not even close. But we have woken up to how some of it can. And we can reduce our carbon footprint to boot.
- Business conference calls. No, Zoom won’t replace the ad hoc phone call to a colleague or friend anytime soon, but the 30-minute catch up I had planned with my colleague Gary? Of course it can!

There’s also the point about deterrence-removal. Because millions have discovered it just ‘works’, a deterrent has been slain. Further, more businesses will be motivated to equip themselves with it now that they’ve tried it. Use cases have exploded, and Zooming is inching closer to becoming a cultural phenomenon. Our forward-looking hypothesis has just been accelerated.



TELADOC

Another ‘obvious’ candidate, firmly on the right side of this note. The healthcare system is laced with inertia but Covid-19 has caused two key parties (practitioners and patients) to shift from considering telemedicine to be a curiosity to being something they need to implement. To the extent more people use it over the coming months, it could – like Zoom – permanently remove a deterrent. Like Zoom, it just works! Telemedicine also neatly destroys an old trade-off. It does the core job of visit to the doctor (for more and more types of these) without the need to waste hours in waiting rooms.

EMERGING, STILL-EARLY CATEGORIES OF ECOMMERCE

Why wouldn’t someone order groceries online six months ago? Or pet supplies? Or home furnishings? Probably not for cultural reasons, and emphatically not because they love going to the store. It was because of habit, and these habits were laced with trade-offs. If the Covid-19 lockdown forces people finally to try these emerging online services and their experience is a good one (removing deterrents), I suspect the odds of reverting to the prior situation are low.

MINDSET SHIFTS IN THE ENTERPRISE

In 2000, the bursting of the internet bubble gave way to a cost-saving mentality and opened the door for outsourcing to India, among other things. Later, the Great Recession of 2008–2009 helped fuel other massive cost efficiency-boosters such as cloud services and software-as-a-service in the ensuing decade.

In sharp contrast, for enterprise software in the past five years, life has been good. More and more companies emerged with a vague ‘digital transformation’ or ‘customer experience’-type promise. The proposition was decidedly not about taking out costs. This will shift, and on the other side of Covid-19, I’ll be more interested in software companies with either a straightforward value proposition or a powerful business agility promise.

An accelerated shift to the cloud seems likely, to save costs, enable remote access and improve business agility.

INFRASTRUCTURE PLATFORMS STRENGTHEN. WEAK ECOSYSTEMS WITHER

Who will solidify their industry position because of the turmoil? Whose position makes them better able to control their fate? It’s often the still-fragile up-and-comers that get shaken out in a shock like this. So who could benefit not just from a balance sheet perspective but also an industry structural perspective? Amazon? Microsoft? Google?

There is surely far more to consider. This is just one of the many ways to address what opportunities might emerge in the next few years. If the company conclusions listed here seem unoriginal, perhaps the framework I’ve described will help identify others. As always, I’d be glad to hear your thoughts if you feel like applying this thinking to your own areas of interest.

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Dave joined Baillie Gifford in 2018 and is an Investment Manager in the US Equities team. Dave’s investment interest is focused on markets and businesses in which a highly dynamic societal change or business model shift affects potential future cash flow in a monumental and underappreciated manner. Prior to joining Baillie Gifford, he co-founded Coburn Ventures in 2005, a consulting and investment company that studies monumental change in business, markets and society to better understand the powerful forces that shape investment opportunities. In his 13 years at Coburn Ventures, Dave was a Partner, primary client-facing consultant, research analyst and portfolio manager of a long-short, market neutral hedge fund. He started his career in 1996, joining Warburg Dillon Read’s equity research group as an associate semiconductor analyst before joining UBS’s Global Tech Strategy Team. Dave graduated from Boston College in 1993, where he majored in Finance and Philosophy.

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