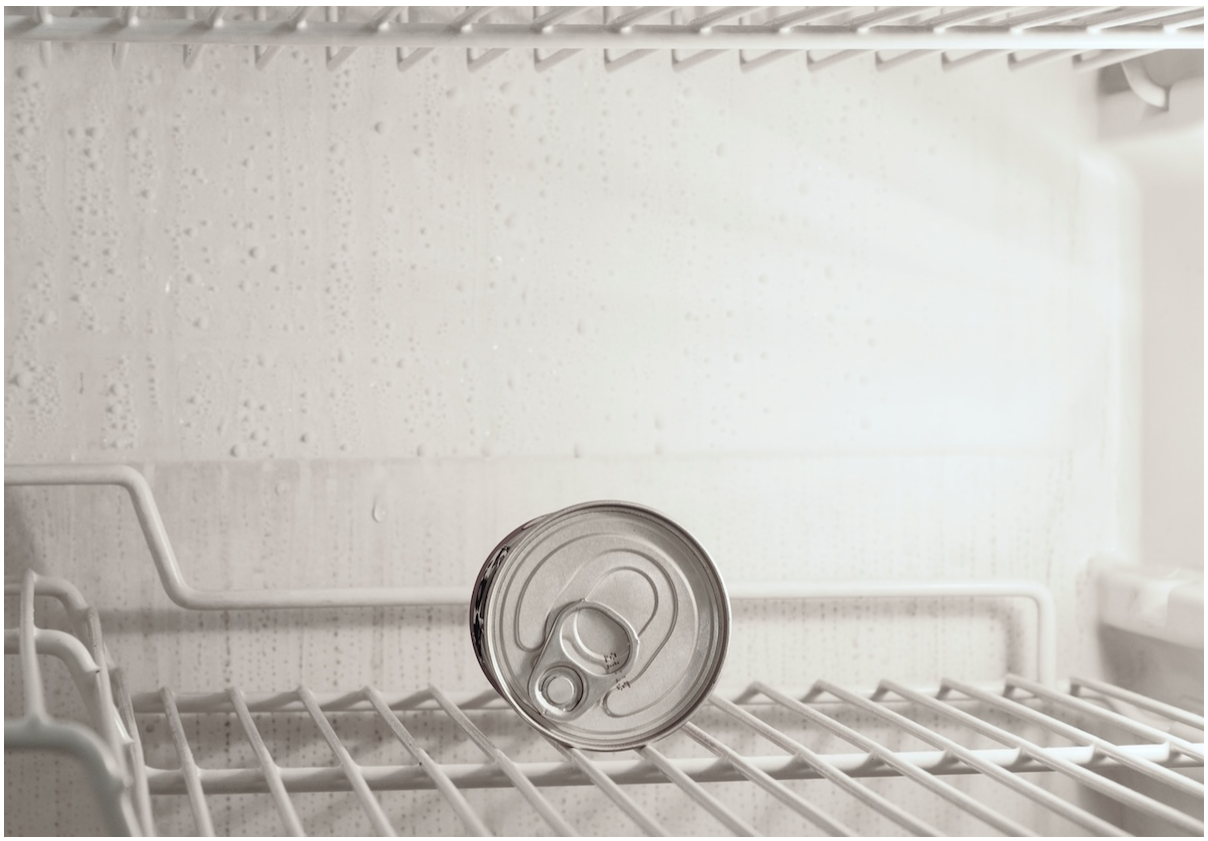
California Management Review

STRATEGY

Scarcity as Strategy: Innovative Business Models for a Resilient Future

by Chris P. Blocker, Jonathan Zhang, Ronald Paul Hill, and Caroline Roux



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We explore the various forms of scarcity faced by customers and employees.

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In light of the escalating scarcity challenges faced by customers and employees due to a myriad of crises like the COVID-19 pandemic, unemployment, natural disasters, and inflation, the necessity for resilience and well-being has heightened. With labor shortages, employee welfare, resilience-building, and disruption management topping the concerns of CEOs (Conference Board 2023; Forbes 2023; Yucaoglu et al. 2021), it is essential for companies to acknowledge and incorporate these realities into their customer and HR strategies to stay relevant and competitive.

RELATED CMR ARTICLES

"The New Meaning of Corporate Social Responsibility" by Robert B. Reich. (Vol. 40/2) 1998.

"Understanding the Performance Drivers of Conscious Firms" by Rajendra S. Sisodia. (Vol. 55/3) 2013.

Drawing from our academic research, "Rethinking Scarcity and Poverty: Building Bridges for Shared Insight and Impact" (*Journal of Consumer Psychology* 2023), we explore the various forms of scarcity faced by customers and employees and offer case studies on innovative business models tailored to address each form of scarcity. We demonstrate that such models can lead to superior firm performance, substantiating the business case for empathetic and human-centric policies beneficial to multiple stakeholders.

From Crisis to Opportunity - Rethinking Business Strategies Amidst Scarcity

The recent years have underscored the vulnerability of people to external shocks, particularly those with constrained resources. Individual or family illness can lead to long-term absence, resulting in financial instability. Unexpected expenses, such as those arising from medical emergencies, auto incidents, or natural disasters, can worsen financial conditions and quality of life, impeding recovery. Resource scarcity has been shown to impair rational, long-term decision-making, consequently reducing productivity.

While some companies have acknowledged these hardships through Corporate Social Responsibility (CSR) initiatives, the connection to business performance is often overlooked. Few initiatives are deeply embedded into a firm's long-term business model and identity for sustained impact.

Interviews with executives confirm an awareness of the issue's severity affecting their customers and employees, but also reveal a knowledge gap regarding the integration of these initiatives into long-term policies and corporate identities for sustained impact:

> *"Our healthcare workers are burning out; we all see it. They face illness risks every day, and the emotional toll is high. But you see, we've thrown wellness programs at them, mental health days, you name it. We're proud of our HR initiatives, but I'm not convinced they're making a lasting impact. These are like Band-Aids on a wound that needs stitches. How do you actually build these things into the core of your business model? That's the million-dollar question we're grappling with." -President of a healthcare group*

> *"We're in a tough spot. On one hand, we've got more customers defaulting on loans than ever, which tells me they're financially stretched thin. On the other, we're not a charity; we have shareholders to answer to. We've set up emergency funds and payment extensions, but its not a long-term solution Financial hardships are becoming the norm, not the exception. We need a business model that takes this new reality into account, without sinking the ship." -a CEO of a financial services firm*

> *“A large portion of our workforce relies on part-time work, and it’s not because they want to; it’s because they have to juggle multiple jobs to make ends meet. We’ve tried offering flexible schedules and performance bonuses, but the fact is they’re not earning enough to cope with the rising cost of living. It’s a symptom of a much larger financial hardship problem that we need to address.” -CHRO of a retail chain*

In our view, these initiatives should be treated as business investments for their long-term viability and value creation for all stakeholders. They should be designed and executed strategically, with success metrics tied to both social outcomes and business performance.

To successfully address scarcity, companies need to understand its various forms and their lasting effects. Reich (1998) has argued CSR has evolved beyond philanthropy to a strategic necessity, a deeper understanding of the different types of scarcity can inform firms on leveraging CSR as a tool to navigate these challenges. The next step is to devise strategies that can mitigate the adverse effects of shocks and facilitate individual recovery and prosperity. Lastly, companies need to measure the impact of these strategies, tracking both social and business outcomes.

Decoding Scarcity - Four Types Every Manager Should Know

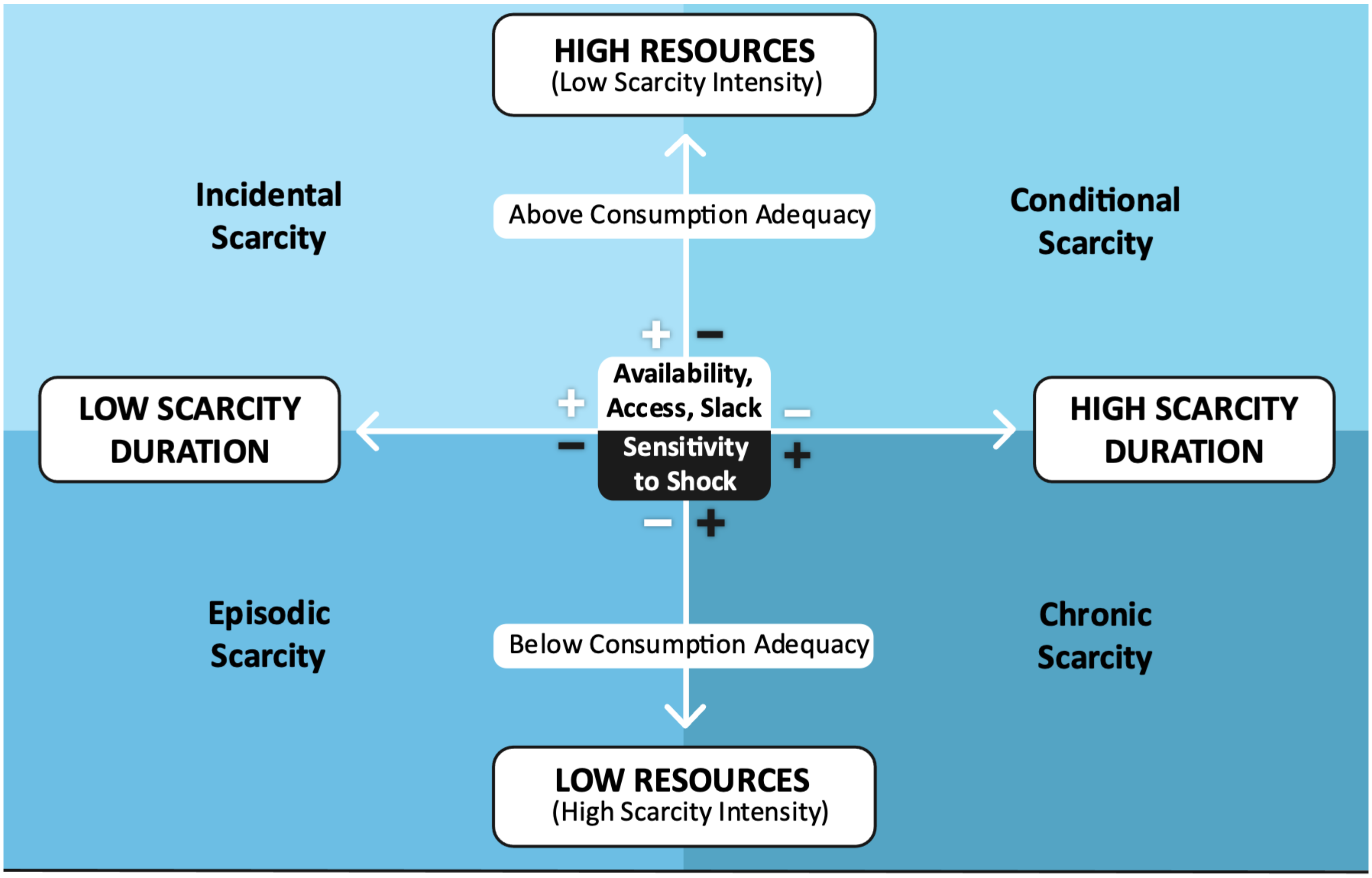
Our research paper “Rethinking scarcity and poverty: Building bridges for shared insight and impact” presents an integrated model of human scarcity that enables firms and researchers to identify and compare various forms of scarcity. The model classifies scarcity by its *duration* and *intensity* (See **Figure 1**):

- **Incidental Scarcity**: This form of scarcity is characterized by short duration and low intensity, causing minimal disruption to day-to-day life. Individuals dealing with incidental scarcity generally have their basic needs met, and their encounters with scarcity do not significantly alter their lifestyle. For instance, customers who opt for alternative brands during supply chain shortages, or professionals working extra hours on a time-bound project may experience incidental scarcity.

- **Conditional Scarcity**: This term refers to low-intensity scarcity over an extended period. Those experiencing conditional scarcity can meet their basic needs—what we term consumption adequacy—but often adopt strategies to stretch their resources, such as budgeting for groceries or shopping at thrift stores. They might be living paycheck to paycheck, and unexpected expenses or short-term unemployment can strain their budget. Despite being on the brink of economic distress, they maintain reasonably stable lives as long as their circumstances remain the same.

- **Episodic Scarcity**: This category describes individuals whose resources become insufficient when conditions worsen, causing high-intensity, intermittent scarcity. In these instances, financial resources, time management, or physical security may be inadequate, leading to temporary homelessness or reliance on support services to meet basic needs. The impacts of scarcity are high and stressful, experienced in an episodic manner.

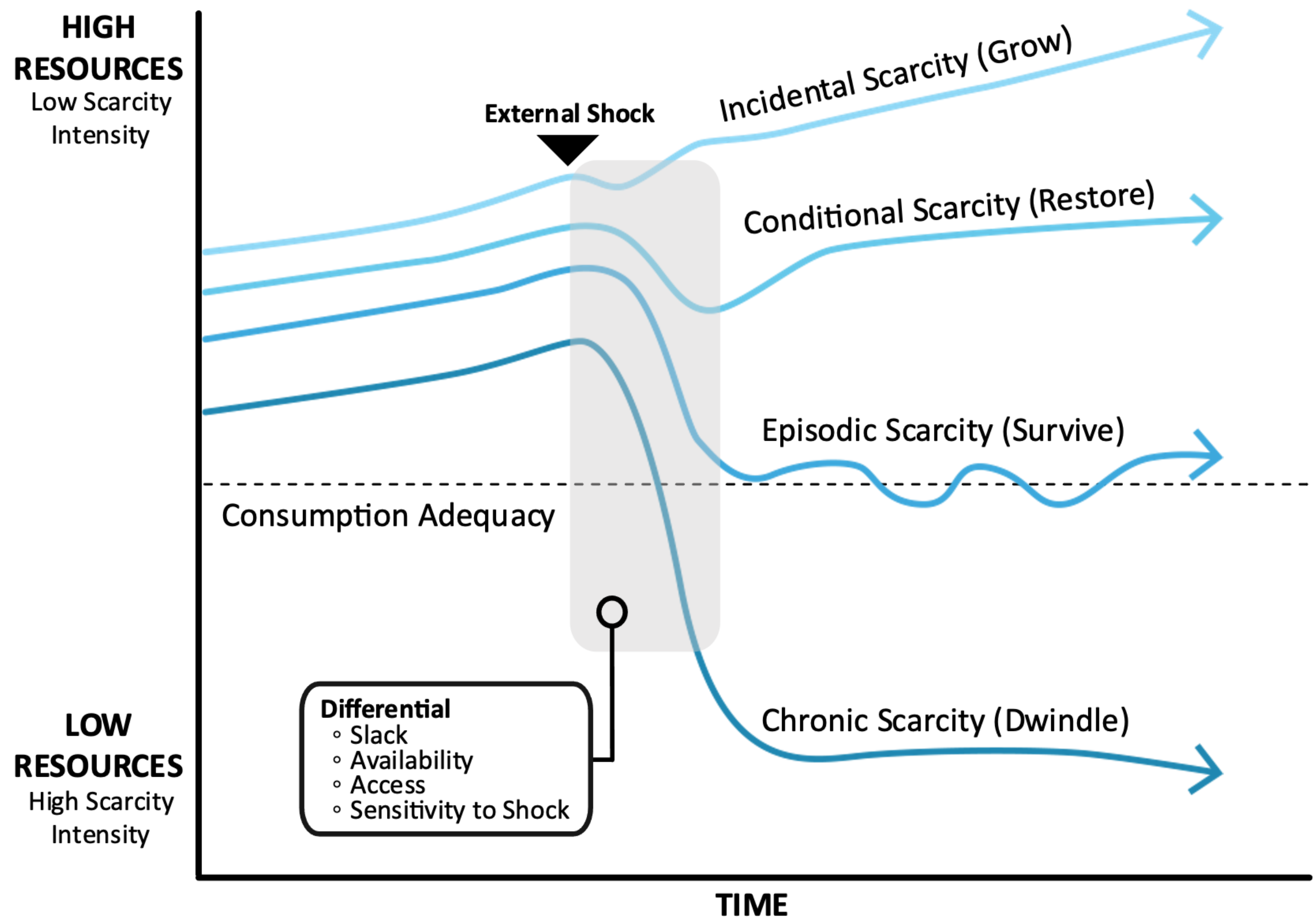
- **Chronic Scarcity**: The most severe form, chronic scarcity, is characterized by long-term, high-intensity scarcity that consistently prevents individuals from achieving consumption adequacy. These are people experiencing long-term homelessness, food insecurity, threats to their physical safety, and struggle to meet basic needs. People in chronic scarcity struggle to rebound. It's often rare that individuals are able to break out of certain cycles without extraordinary help.



FORMS OF SCARCITY	ILLUSTRATIVE EXAMPLE (HOUSING CONTEXT)
Incidental Scarcity	Comparing a Luxury Home to a Current Home
Conditional Scarcity	Mortgage Financed Paycheckto-Paycheck
Episodic Scarcity	Temporary Eviction from Apartment
Chronic Scarcity	Extended Homelessness

Impact of Shocks on Different Scarcity Types

Our framework acknowledges that individuals’ responses to economic or personal shocks, which can trigger scarcity, are influenced by their life circumstances. Shocks such as chronic illness, layoffs, or rent increases can trigger financial instability, but the effects of these shocks can differ depending on an individual’s available tangible and intangible resources. Moreover, one’s ability to cope with these shocks often relies on access to support services or the leniency granted by creditors, employers, and social circles. (See **Figure 2**)



Innovative Strategies - How Businesses are Addressing Various Forms of Scarcity

Using our framework, we've identified innovative approaches addressing each type of scarcity, leading to enhanced employee and customer performance metrics.

Incidental Scarcity:

- **Unilever New Zealand** reduced the traditional five-day workweek to just four days for its employees. It was a strategic endeavor aimed at improving the lives of its employees and, indirectly, uplifting company performance. After implementation, stress levels in the workplace dramatically plummeted by 33%. Feelings of vigor and strength among the staff increased by 15%, and a work-life balance became more attainable, as evidenced by a 67% decrease in conflict between these two essential life elements. Perhaps most tellingly, absenteeism—a considerable drain on productivity and morale—fell by 34%. Unilever not only improved the lives of its employees but also saw an upturn in its revenue, a real win-win situation for everyone involved.

- In an era defined by The Great Resignation, where employees are more likely to leave their jobs than ever before, **Primary (Online Children's Clothing)** took an approach that was anything but elementary. They instituted a four-day workweek, leading to a staggering 7% attrition rate at a time when other companies were losing employees like a sieve losing water. This radical policy didn't just keep employees around—it turned them into the bedrock on which the company could rely during one of the most tumultuous periods in labor history.

- **Salesforce** provides its employees with 7 days of paid Volunteering Time Off (VTO) each year. During times of natural disasters or community crises, this conditional offer becomes particularly valuable. It not only helps communities in need but also boosts employee morale and company reputation. Salesforce reported that 86% of its employees say that giving back to the community is part of the company's identity. This has a significant impact on employee engagement and contributes to Salesforce consistently ranking high on 'Great Place to Work' lists.

Conditional Scarcity:

- Offering its employees a vacation bonus, **Full Contact** achieved an 85% retention rate during a time known for high attrition—The Great Resignation. This isn't just a compelling statistic; it's a testament to the company's understanding that sometimes, the best work is done when employees have time away from work. By investing in their employees' wellbeing outside of the office, Full Contact has made them more committed and less likely to leave, which is a remarkable achievement in an industry where talent frequently jumps ship.

- **Airbnb** took corporate social responsibility to a new level by providing free temporary housing for refugees. This move wasn't just about enhancing its public image; it aimed to demonstrate that a corporation could make a meaningful difference in tackling global issues. And the returns have been significant. A considerable portion of consumers in Australia, the U.S., and the UK now view the company more positively, with respective rates of 33%, 26%, and 23%. These figures aren't just good PR; they translate into real booking rates and, ultimately, increased revenue for the company.

- **American Express** has set up a Hurricane Assistance Fund to provide immediate financial aid to employees affected by natural disasters. The company has noted an uptick in employee loyalty and a reduction in voluntary turnover following the implementation of this program. Though they haven't released exact figures, they attribute part of their high employee engagement scores to initiatives like these.

- **Patagonia** provides maternity leaves and company-paid onsite childcare. This led to higher return rates of women after maternity leave and lower parent turnover. As the result, 100% of the women who have had children at Patagonia over the past five years have returned to work, significantly higher than the 79% average in the US.

Episodic Scarcity:

- Understanding that financial security and timely access to earned wages are critical for hourly workers, **JAE Restaurant** Group implemented an on-demand pay system. This innovation has had a significant impact on employee retention, with approximately 50% of the users deciding to stay longer with the company.

- In times of natural disasters like Hurricane Harvey and the California wildfires, **Wells Fargo and Bank of America** rolled out customer relief programs, including the suspension of negative credit reporting, late fees, and foreclosures for affected customers. They also offered mortgage payment forbearance and other financial relief options like loan modifications and fee waivers. These compassionate policies led to a reduced default rate, saving these financial institutions a considerable sum of money. Additionally, their reputations soared, leading to a 5% increase in reputation score, which translated into a 6.3% increase in customer recommendations.

Chronic Scarcity:

- **Cemex**, the fifth-largest cement company globally, ventured into the virtually untapped market of low-income families by offering microloans for construction material purchases and providing them technical assistance. This strategy was a calculated effort to penetrate a market that had long been ignored by mainstream industries. They've supported more than 300,000 low-income families through this initiative, which not only created a new revenue stream but also improved their market position in Asia, Africa, and the Middle East. Cemex has, thus, demonstrated that the bottom of the pyramid is a viable and profitable market if approached innovatively and empathetically.

- **Aldi**'s rise as one of the fastest-growing retailers in the U.S. can be attributed to its ingenious approach to the low-income demographic. By simplifying the shopping experience—stocking fewer items and encouraging customers to bring their own bags—Aldi could pass these operational savings onto its customers in the form of lower prices. This attracted a new customer base that had been neglected or overlooked by other retail giants. Aldi's approach showcases that profitability and social impact can go hand in hand.

- **Oportun** revolutionized credit access for low-income individuals with limited credit history. Offering affordable, small-dollar loans, they helped build the credit histories of over 1.7 million customers, opening doors to lower-cost credit options for them. It wasn't just a noble endeavor; it also translated into $9 billion in affordable loans and $553 million in reported revenues for 2020. By serving this overlooked demographic, Oportun has successfully created a new avenue for business, while also delivering social good.

- Recognizing the chronic scarcity of banking and financial services in underdeveloped regions, **Mastercard** launched a comprehensive financial inclusion initiative. Their goal is to bring digital financial services to 500 million unbanked people by 2025. Through partnerships with local banks and governments, Mastercard provides technologies for secure, low-cost transaction methods and micro-credits, particularly targeting regions where traditional banking infrastructure is scant or non-existent. Mastercard's financial inclusion initiatives have been substantial in terms of business growth and brand reputation.

- **Rent-a-Center** offered a lifeline to low-income customers who couldn't afford to purchase furniture, appliances, or electronics outright. Through their rent-to-own model, customers could rent these items and eventually own them after a certain period. This innovative business model not only made essential items more accessible for those in need but also translated into an expansive customer base spread across the United States, Mexico, and Puerto Rico. In 2020 alone, despite the economic challenges posed by the pandemic, they reported consolidated total revenues of $2.8 billion.

- In the retail industry notorious for its high employee turnover rates, **Costco** stands as a beacon of stability. By offering higher average wages and benefits to even part-time employees, they've achieved an annualized turnover rate of just 6%. This figure is ten times lower than the industry average, saving the company untold sums in hiring and training costs, and establishing them as an employer of choice in the retail sector.

- **Walmart** has tapped into the power of education to foster employee loyalty and skill development. Their partnership with Guild Education allows employees to earn a degree for just $1 a day, covering all costs from tuition to books. This initiative has resulted in participants being twice as likely to get promoted and retained at significantly higher rates compared to other employee groups.

Concluding Remarks - A Blueprint for Turning Scarcity into Strategy

Our framework and the case studies presented above illustrate how companies can address different forms of scarcity faced by their customers and employees, and how these strategies can lead to positive business outcomes. By understanding the nature and impact of scarcity, companies can design products, services, and policies that are empathetic, human-centric, and tailored to the needs of their stakeholders. These strategies can also create competitive advantages, enhance brand reputation, increase customer loyalty, reduce employee turnover, and improve productivity.

While CSR initiatives have been traditionally viewed skeptically due to their perceived lack of performance link (Davis, 1976; Steiner, 1972), recent research (Sisodia, 2013; O'Toole, 2019) and this article have shown the tangible benefits of responsible actions.

In making a compelling and long-lasting case for "Better Business for a Better World", companies should plan the impact of their strategies on both social and business outcomes and measure them in a programmatic way. Accordingly, we propose the following blueprint for senior management:

1. **Regular audits**. Regularly conduct 'wellbeing audits' for customers and employees to understand their resource scarcity concerns. Create an internal team with representation from HR, Customer Service, and Data Analytics departments. Train this team on how to assess well-being and scarcity issues using validated survey instruments and interviews.

   Regular audits will provide real-time information to tailor-make interventions and initiatives that can address the specific scarcities that affect your stakeholder groups. For example, if an incidental scarcity like stress is identified among employees, a four-day workweek could be considered, as demonstrated by Unilever New Zealand.

2. **Engage in industry-wide benchmarking**. Decide on key performance indicators related to scarcity and well-being that are relevant both within and outside industry. By looking beyond one's own industry, the management can broaden the pool of successful strategies. This could be particularly beneficial in industries where scarcity issues have not been thoroughly addressed.

3. **Prioritize initiatives.** If multiple areas of scarcity emerge, create a decision matrix to evaluate which scarcities to tackle based on urgency, alignment with company values, and available resources. Develop a timeline for implementing the chosen initiative, breaking it down into phases. This keeps the company focused and prevents "initiative fatigue" by concentrating on one or two key issues that align with the business's larger objectives and values.

4. **Commit, measure, fine-tune, adapt**. Before a full-scale rollout, test the chosen initiative on a smaller scale to iron out any issues. Assign a team to keep track of KPIs related to the initiative, both in terms of social outcomes (e.g, employee well-being) and business metrics (e.g., productivity or customer satisfaction). Periodically review the data and make necessary adjustments to the initiative to enhance efficiency and share the outcomes of the initiative with stakeholders. Transparency builds trust and could result in increased engagement from both employees and customers.

   These pro-social initiatives are dynamic in nature, and call for flexibility and adaptability (Waddock & Boyle 1995). As societal needs and expectations evolve, companies must also adjust their focus and strategies with agility. Corporate citizenship matures over time (Mirvis & Googins 2006), signifying an ongoing commitment to improvement. The case studies discussed earlier underline this evolution, highlighting these strategies as a conscious, long-term investment.

5. **Enlightened leadership.** Due to their perceived deviations from the main business logic, and the need for sustained focus and investment, the role of leadership in setting the tone for these initiatives cannot be overstated. This reflects the observations of O'Toole (2019), who posits that enlightened leadership is vital for nurturing a socially responsible organizational culture.

By addressing scarcity strategically and systematically, companies can create value for themselves and their stakeholders. They can also contribute to the broader goals of social and economic development, especially in times of crisis and uncertainty. As Reich (1998) argues, “the new meaning of corporate social responsibility is not philanthropy but enlightened self-interest”. By transforming scarcity into opportunity and strategy, companies can do well by doing good.

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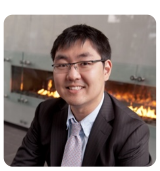
Chris P. Blocker Follow

Chris Blocker is Associate Professor of Marketing and Dean’s Distinguished Research Fellow at Colorado State University. His research explores how marketing and business models can unlock novel economic and social values, and how businesses can promote societal growth and well-being. Chris received a Ph.D. in Marketing from the University of Tennessee.



Jonathan Zhang Follow

Jonathan Z. Zhang is Associate Professor of Marketing and the Dr. Ajay Menon Professor in Business at Colorado State University. His research focuses on understanding how customer attitudes and behaviors change in new economic, social and technological environments and helps develop company strategies to address these changes.

Ronald Paul Hill Follow

Ronald Paul Hill, Ph.D. from the University of Maryland, is the Dean’s Professor of Marketing and Public Policy at American University, Kogod School of Business. He has authored over 200 articles, books, chapters, and conference papers on impoverished consumer behavior, marketing ethics, corporate social responsibility, human development, and public policy.

Caroline Roux Follow

Caroline Roux is Associate Professor of Marketing at Concordia University. Her research explores how reminders of resource scarcity, or thinking about 'not having enough' resources (e.g., money, time, food, etc.), impact consumer decision-making and behavior. Caroline received a Ph.D. in Marketing from Northwestern University.