

Scarcity & Volatility with COVID-19

- *Seth Barnett*



Like many of you, I find myself seeking answers to our present global situation on a daily basis and depending on where you look, you find yourself lost in a rabbit hole of confusion and worry. I have been a student of behavioral economics since I was introduced to it as part of a graduate

program at Oxford several years back. I now dedicate my academic research to how behavior influences every business, inside and out. For those unfamiliar with this topic, essentially it is a cross-section of economics, such as supply and demand, market price, and resource allocation, with that of psychological focuses such as social, cognitive, and emotional decision making. Needless to say, our world is now a giant behavioral economic example and we can use what we are learning to bolster our businesses.

Let's start with toilet paper. This has become the number one retail consumer item over the past three weeks, increasing U.S. toilet paper sales by more than 60 percent since March 7. But why is there such limited toilet paper on the shelves? This has to do with the consumer perception of scarcity. Scarcity is one of the key factors in measuring behavioral economics. In this case, the presumption of scarcity is fueling more scarcity. This event is actually similar to how a virus expands. Assume that one person buys out all the toilet paper at one major location in a highly populous area. Perhaps they are even doing that for reasons unrelated to this crisis. Others then assume there is a coming scarcity based on the fear they already have in the market and go out to purchase their own toilet paper at an over-consumed rate. This repeats again and again until you are left with a short shelf supply. Now, unlike most examples of scarcity, this one is only scarce in retail and not in its manufacturing. Still, this presumption continues, and we begin to see this repeated again and again in this new market.

Volatility is also behavioral. Our consumer market is experiencing the most volatility many of us have ever seen. Again, this is based on an assumption of scarcity. So how do we combat this and get a positive outcome for our business? The answer is not too easy. First, we have to understand the true scarcity in the market and then find ways to redirect attention. Promotional products are not scarce, nor are they expensive, for example. We have to take this time to remind our clients and our prospects of those facts. I think back to the 2008 recession and how well this industry survived. We did that by focusing on facts and adhering to behavior. If a business was cost-conscious, we branded ourselves as such. If they were struggling to reenter the market, we were there to help. We also have the most captive audience in history in that everyone wants to see that things are going to be okay. Social media is getting more daily views than ever, and people now have more time to pay attention to it. Most will look at anything that isn't more bad news. So, remind them of the good news. Remind them that you are a solution to their woes. Businesses will need to emerge victorious from this volatility. You can help them do that.

So, what do you do today? My advice? Behavioral economics is reciprocating. This means that in order to take we must also be willing to give. I would encourage you to get take out or delivery (be cautious and wash your hands) from your favorite local spot. Perhaps even a place that has been your client or you would like to be. Remind them who you are and that you are supporting them during this time. Within all of this, we have to remember to be human, that is core to understanding how human behavior impacts economics. The success of our businesses will rely on our ability to remain an integral part of the economics machine. We will persevere and our industry will return stronger than ever. But we will do this as one and in support of the greater market.

Be well, my friends.