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On-demand reflections

by Gianni Anchois

There are structural weaknesses in the on-demand economy model, and they are showing.

The failure of Homejoy is just one of the latest examples.
Pundits keep telling us that the on-demand model is the future of business and that all companies, sooner or later, will have to settle on this kind of business practice. According to them, you don't need goods to sell anymore, no warehouse, no shipping. All you need is a piece of software, a more or less defined potential market and some deep pockets from your VC/Angel/Seed of choice to launch and grow like crazy.

A STATE OF DENIAL

I'm not sure, I suppose they must be in a state of denial of some sorts.

The importance of on-demand business is obviously hard to dismiss. As an entrepreneur, it must be very appealing to have the opportunity to start something with very limited upfront investment, apart from your

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brain and sweat, and concentrate on how to become an added-value middle man.
The risk of course is that that's all you'll ever be.

> *Change the rules, but never overlook what ultimately really counts for any business: to have a solid way to make a profit.*

I believe that beyond the usual suspects, which the above experts love to mention at every opportunity (AirBnb, Uber), the reality is actually much more nuanced.
These companies might be trying to change the rules, but actually it seems that in the process they could actually overlook what ultimately, sooner better than later, really counts for any business: to have a solid way to make a profit.

LESSONS TO BE LEARNED

Let's look at a few learned lessons from Homejoy's failure:

- Before you even start building your on-demand business, be very clear what you stand for. Homejoy should have been about facilitating payments, scheduling and demands of house cleaning. Instead, it turned into a botched product nobody could really understand or manage.

- Growth might be where all the action is and to where all the investor's money goes, but it's also the place where money will disappear first from. Expanding geographic operations, looking for accelerated growth, is a huge endeavour, on top of being very expensive. You should never let FOMO (fear of missing out) drive your expansion strategy. Beyond language and local business rules, you have to take into account that not every customer in the world will purchase your service or product in the same way. It's true that most startups, even those with traditional business models, have an obsession with growth, but expanding too quickly usually proves a major, almost unsurmountable challenge. It makes it even

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more difficult to recruit a sufficient numbers of clients, plus in some of these regions the competition from well-established companies might be fierce. It will also introduce a high degree of management complexity, both in terms of supply-chain and business operations.

- Contract-for-hire workers is a key tenet of the on-demand model. It needs to be fixed first, not ignored until it's too late. If you can't control and coordinate your workers, you will never be able to direct their behaviours, train them or even keep them for long. A side effect of using independent contractors, it boils down to being unable to provide consistent, high quality services to your clients. Plus, any of those contractors can cut you - the middle man - out of the game by establishing direct relationships with some of your customers.

- If all you provide is "cheaper than others", no matter how fast you grow or how large your business is, your profit will disappear pretty quick, assuming you had any to begin with.

- Technology is a key differentiator for on-demand businesses. It's no good to developed third rate glitchy software (in Homejoy's case, logistics algorithms to connect clients with cleaners and schedule visits), and fail to fix and constantly refine it to improve customer satisfaction and service quality.

- Acquiring customers can be a very expensive proposition, even more so when you are launching and need to grow fast. Not being able to keep and turn them into repeat customers is a disastrous one. Bad quality is guaranteed to turn customers very vocal against your company.

COMMON SENSE

I suppose that it all boils down to a set of common sense observations.

Nobody can operate a company at a net-negative for very long, not even in today's technology-enabled and hype-driven world. Old economy principles still apply to any business model: solve the right

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problem, get the right customers, delight them, grow them, make sure they are profitable for your business.
Manage your costs, not only your revenues. Price yourself right from the very beginning, as scale alone will not necessarily improve your profit.
Take care of your core structural weaknesses and make sure you understand the cause-and-effect relationship of your business, especially when in the ramp up phase.

Ultimately, I believe that the positive side effect of so much focus on the on- demand model is the realisation that, in the end, the future of business will not belong to big corporations anymore. Newcomers, armed with a very different breed of workers than in the past, will be smaller, nimbler, faster, more open to experiment and ready to pivot at short notice. This in turn will likely change the competitive scenario forever, and put a premium on a timely, broader range of innovative products and services rather than long term relationships with clients.

But those newcomers will have to pay attention to the longstanding written rules of business.

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> *Not everything needs to completely change to introduce meaningful change.*

For now, the on-demand economy is proving to be largely a myth. Truth is, the largest companies in the world still have very solid, traditional and sound manufacturing-based business models that serve them pretty well, and it looks like they will carry on just a little bit longer.

Even the new economy darlings - Amazon, Google - are opening up brick and mortar outlets, to provide more traditional channels to reach new clients.

This of course doesn’t mean that we shouldn’t welcome, and to a certain degree embrace, new models and the disruption they bring to long established market dynamics: we just need to be realistic enough

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to understand that not everything needs to completely change to introduce meaningful change.

It takes time to build a novelty into a practice, and so the on-demand economy might just be in its infancy. Let it run its course and see what happens, in a few years' time we might as well realise it was the wrong thing to do.
Or maybe it's just what we needed.

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Gianni Anchois *is a writer, blogger and technology enthusiast, with a background in electronics engineering, computer science and marketing. He has worked at Olivetti, Italia Online, Yahoo! and Hewlett-Packard, holding international responsibilities across IT services, business management, e-commerce, sales and marketing.*

http://twitter.com/giannianchois

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