Business analysis: "We must accelerate the transition to an idea-driven economy"

By Roger Trapp

Wednesday, 26 May 2010

The coming years are going to be as tough for business as for individuals with the new Government seeking to deal with the huge national debt it has inherited. If that were not bad enough, there is a growing belief that we are not in the grip of the usual cyclical downturn but are in the middle of a “great reset”, to use a term that is suddenly becoming more common. If – as the author Richard Florida and others contend – we are in the middle of the sort of change that followed the Long Depression, which lasted from the early 1870s until the mid-1890s, and the Great Depression of the 1930s, then the usual measures to deal with economic downturns are unlikely to work.

Indeed, Florida, who has previously explored how a “creative class” has grown up in certain locations around the world, writes in his new book, The Great Reset (Random House Canada), that in circumstances such as those at present, government can “patch up some holes to keep the economy afloat for a short time [but it lacks] both the means and the resources to generate the enormous level of demand needed to power sustained growth”. In other words, we are going through a huge structural change and policymakers need to beware of any attempts to return things to how they were before the crisis struck in 2008.

Rather, we must seek to build the economy of the future. “Instead of infusing scarce capital into the very banks and financial system that brought us to the brink in the first place, or trying to reinvigorate the housing and mortgage markets that pushed us over the edge, and instead of bailing out mismanaged old-economy companies, we must use whatever resources are available to accelerate the transition to an idea-driven economy, while improving the jobs that have survived or are now being created.”

The good news is many in the business world – particularly in small and growing companies – are already moving in this direction. For example, the Basingstoke company 2 Save Energy has grown from almost nothing to a turnover of £5m by supplying the monitors that enable householders and other energy users to check instantly on the amount of power they are using. Under the leadership of the brand developer Belinda
Gooding, the company has seen its original OWL monitor become commonplace in homes and businesses and has developed a range of related products including a USB that enables information to be transmitted from an OWL monitor to a PC, so that accurate computer records of energy use can be kept.

Avoiding waste is also behind the development of WhipCar. The founders, Tom Wright and Vinay Gupta, saw the opportunity to make use of the cars that typically spend more time parked outside their owners’ homes than being used. Building on the idea of the car pool and shared-ride schemes, they are using the internet to link car owners with would-be renters. They do all the administration and have agreed a deal with a major insurer. The business was launched in the same week that Zipcar of the US acquired its UK equivalent Streetcar. With lower overheads than these companies through not having to operate a fleet, Wright and Gupta are confident they can expand rapidly.

The fact there are different approaches – and that big carmakers are experimenting with the mobile phone-type pay-as-you-go model – offers hope that entrepreneurial vision will help find solutions in other areas. All the Government needs to do is create a benign environment.