

J. Michael Locke

Musings

#59: Don't Waste **May 21, 2020**

Most successful business leaders I know are driven crazy by waste. It is in their DNA. It applies to their lives in and outside of the workplace. Waste is wrong for a business and for society. When you are thinking like an owner, waste is your money being thrown away.

Waste increases expenses and hurts margins. How does the rent bill feel right now when no one is using the space? I hope it drives you crazy. Per my earlier musing on capitalism, I am really frustrated when I see municipal workers getting paid and not working. In most businesses, labor is the largest expense. Usually there is not waste where someone isn't working. No executives allow that (unless they are required to overemploy like the auto companies having to pay thousands of employees to do nothing in Job Banks due to union contracts.) So "waste" in labor usually becomes a question of efficiency. Are people working hard and smart? Technology can help by taking tasks and making them easier to accomplish.

Reducing waste can come in the form of matching the expertise of the person doing the task with that of the task being performed and not overstaffing. You see this in healthcare with everyone looking to maximize the "scope of practice." If a nurse can do it, a doctor shouldn't. If a medical assistant can do it, a nurse shouldn't. An Anesthesiologist can now cover four or five operating rooms because they have a nurse anesthetist in each OR. You also see a movement towards this "leverageable" labor model in online higher education. Georgia Tech can charge only \$7,000 for its online Masters in Computer Science because the highly credentialed and expensive faculty member has supporting course assistants who take much of the administrative load off his or her plate as well as teaching assistants to handle student academic questions. With this lower instructional expense, they can charge less (the on ground version is \$63,000).

Personally, I think there is waste in the online curriculum side of higher education where every school starts from scratch in building their courses. There is no reason schools couldn't start with pieces or modules of content that were developed outside and then assemble those and customize their course at a far cheaper cost. The difficulty for students in transferring credit is also big waste in higher ed. Using DOE transfer data, the GAO estimated that students who transferred lose, on average, an estimated 43 percent of their credits. Some estimate that this costs \$6bn a year in wasted tuition.

Back to business side, waste can also be simple things. With today's fancy printers, you can print things two sided (or do you need to print at all?) to save paper. Do you have an office for salesperson who spends 80% of his or her time on the road?

Anything on "autorenewal" should be inspected because their might be waste. Society has moved to a subscription model where almost everything is "per month." Unfortunately, what can happen is you lose sight of the subscriptions. Apple certainly makes it hard to track those down on your iPhone. Third

party services have even developed to help inspect your subscriptions. Consumers can use Truebill, Subby and Bobby to make sure there is not a leak out the door of something forgotten. One of the businesses I am involved with discovered a monthly charge for toner that a departed employee had set up and current employees did not know about.

Ideally, not wasting money becomes part of an organization's culture. Overcapitalization can lead to waste. If you have a lot of cash sitting on the balance sheet, you are not as attentive to cash outflows. Having some debt and payments which must be made can help drive fiscal discipline.

Sometimes I hear people lament the "cheap" boss but the core value is avoiding all waste. Famously, the billionaire owner of Ikea, Ingvar Kamprad, still buys second-hand clothes to save money. Why do I need a brand new iPhone with a couple of new features I don't care about? Apple has created an "I must upgrade" phenomenon which is incredible. What a waste of money. My used iPhone 7 and wired headphones are just fine thanks.

Be safe. Work hard. Don't waste.

jml

Second Thoughts

I didn't realize Bud Light would benefit from the coronavirus. According to WSJ: *"the [coronavirus crisis](#) has shut restaurants, bars, tap rooms and other out-of-home venues that together make up about 18% of U.S. beer sales. A jump in retail-store beer sales hasn't entirely made up for those losses, but it has given new life to flagging mainstream beer brands. Sales of mainstream beers like Bud Light and Coors Light in U.S. retail stores fell 3.1% in 2019. Since coronavirus pantry-loading began in early March, sales in that category have jumped 10.7% from the same period a year ago, according to an analysis of Nielsen data by beer-industry consultant Bump Williams."*

J.B. Pritzker seems to be waking up to the "over the top" nature of some of his mandates. Restaurants (the largest employer in IL) are going to be able to provide outdoor, socially distant dining in his Phase 3 which will hopefully be in a couple of weeks. I hope economically it is not too late for all of these businesses.