

J. Michael Locke

Musings

#143: Musing September 10, 2021

It is not good when your customers are so frustrated that they build a website to track your broken ice cream machines: www.mcbroken.com. Surprised McDonald's can't figure this one out. 32% of machines in New York are currently broken according to the site.

The Theranos trial is reminding us that smart people can be really stupid. The power of FOMO in the financial community is stunning. Always be skeptical/critical when analyzing investments. Dig into the details. Interesting that Elizabeth Holmes is predicted to use a Svengali defense where an accused is not capable of being guilty of intent because they were under the control and influence of an evil Svengali. [elizabeth-holmess-last-pitch](#).

Learned a new one this week – CARR: contracted annual recurring revenue (thanks Travis Hughes). SaaS businesses are valued on ARR and banks lend money on ARR lines. CARR takes that one step further by counting business which is contracted but implementation hasn't occurred yet so not recognizing gaap revenue or arr. This one actually makes sense to me.

Don't lose the big picture when implementing your executive bonus programs. The basic principle is to drive the behavior you seek by using the carrot of additional compensation and to align incentives between managers and owners. Still, sometimes – especially in younger companies – targets can be missed irrespective of executive performance and execution. I believe you have to then adjust the goalposts. If the team did all they could and what you asked but externalities prevented success, change the targets midstream. This is also why important to accrue full bonus funding throughout the year.

Sanity is returning to the capital markets with SPACs plummeting in value. Gamestop still way overvalued.

An under-discussed issue is the disappearance of men from colleges and universities. At private four-year schools, women make up 61% of enrollments now. [college-university-fall-higher-education-men-women-enrollment-admissions](#). Good overall piece on the pandemic and education by Scott Galloway is "reprinted" after my initials at the end of this week's musing.

LinkedIn is becoming a non-toxic Facebook. Our personal and professional lives are intertwined. Our work colleagues are our friends and we want to share personal news as well as work news.

The press doesn't always want to get into the details which can mislead. The Supreme Court declined to implement an injunction against the new, restrictive Texas abortion law. This decision was not focused on the abortion rights issue but rather procedural questions. In a novel approach, the Texas law relies on private citizen enforcement and not government officials. This raises a different set of procedural questions. The court was not taking a position on the constitutionality of the law itself.

It will be interesting to see the constitutionality of Biden forcing private employers to mandate vaccines? Federal government can't mandate individuals directly so is doing a "workaround" by using employers through OSHA. *"The New York Times pointed out that OSHA is tasked with overseeing workplace safety and has the authority to "quickly issue a rule, known as an emergency temporary standard, if it can show that workers are exposed to a grave danger and that the rule is necessary to address that danger. The rule must also be feasible for employers to enforce." (Fox News).*

Great quote on change management from Ross Alexander: "Resource the willing, convince the skeptical and ignore the resistant."

Interesting stat. Less than 2% of Africa's population is vaccinated.

RIP online comment section? I am noticing more and more media properties eliminating the cesspool of online comments. Australia courts just opined that the media company is responsible for what is said in the online comments. Good riddance. [australias-top-court-finds-media-companies-liable-for-other-peoples-facebook-comments](#).

Prayers for those lost in 9/11. It is one of two dates in my life where you remember exactly where you were when it happened. Unfortunately, the other is the OJ white Bronco chase although it was nice when Kardashian meant a good lawyer and not inane TV show.

Jml

No Mercy/No Malice

*Scott Galloway @profgalloway
September 10, 2021*

Back to School

Miles of plexiglass, masks, and deranged parents. Back to school 2021 feels more like Stranger Things than the fall ritual we grew up with. Yet there's an eerie sameness between this fall and the previous most-unusual-back-to-school year of our lives ... last year. Classrooms are experiments on viral transmission rates, and school board meetings are proof that antipsychotic meds are dangerously underprescribed.



Whitney Was Right

The children are indeed our future. In my book, *Post Corona*, I offered this thesis: “The pandemic’s most enduring impact will be as an accelerant.” And that’s proving out in many areas. In health care, office work, food delivery, banking, and more, we are seeing “decades happen in weeks” as Lenin said. (Note: He didn’t say it, but attributing the quote to Lenin is gangster.)

In one sector, however, everything is moving slower. Education. Our elementary school kids are learning less, and some are nearly a full school year behind where they would have been pre-pandemic.

NUMBER OF MONTHS BEHIND DUE TO PANDEMIC

GRADES 1-6, U.S.

SUBJECT	BY RACE	BY INCOME	BY LOCATION
MATH	BLACK 6	<\$25K 7	CITY 5
	HISPANIC 6	\$25K-\$75K 5	SUBURB 5
	WHITE 4	>\$75K 4	RURAL 4
READING	BLACK 6	<\$25K 6	CITY 4
	HISPANIC 5	\$25K-\$75K 4	SUBURB 4
	WHITE 3	>\$75K 3	RURAL 3

SOURCES: CURRICULUM ASSOCIATES I-READY ASSESSMENT DATA, MCKINSEY

While their parents harass doctors at school board meetings and fight epic Facebook comment wars, our

kids are not learning to read or count. McKinsey projects that this learning gap will reduce lifetime earnings for K-12 students by an average of \$49,000 to \$61,000. By the time the majority of these kids have joined the workforce in 2040, it's estimated we'll have lost as much as \$188 billion a year in GDP due to unfinished learning during the pandemic.

As with most things, these ill effects are falling disproportionately on the poor and children of color. Black kids are six months behind in math and learning, whereas white kids are "only" four and three months behind.

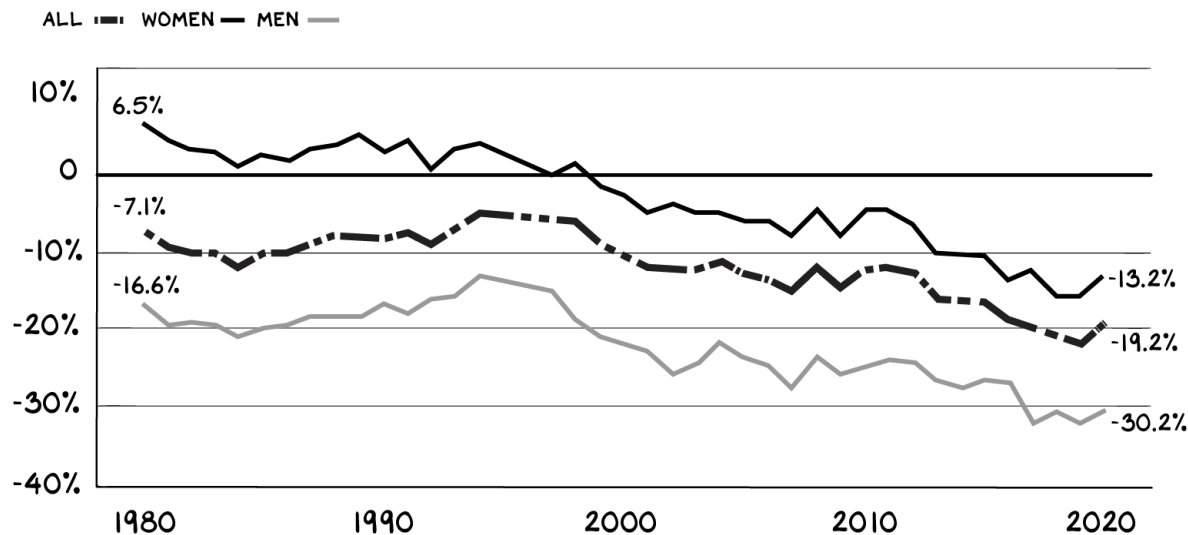
Meanwhile, the U.S. educational system has been losing ground to those of our international peers for years. American students routinely score lower on tests of basic skills than students in other countries, a trend that isn't likely to reverse.

Not for Teacher

Who will get these kids back on track? Don't count on teachers. It turns out that if you underpay, under-resource, and fail to accord equal respect to people for long enough ... they'll quit. Two-thirds of our school districts face a teacher shortage, and 28% of teachers are likely to retire or leave the profession earlier than expected.

Who can blame them? Since 1980, their income relative to other college graduates has been in steady decline. Men have always taken a pay cut to enter the classroom, but it's gone from a 17% haircut to a 30% scalping. Teaching used to be an economically attractive profession for women, relative to their other options — though I'd guess that wasn't because we paid female teachers so well — but now a female college graduate makes 13% less than her peers if she goes into teaching.

WAGE DIFFERENCE: TEACHERS VS. OTHER COLLEGE-EDUCATED WORKERS



SOURCE: ECONOMIC POLICY INSTITUTE

In addition to underpaying them, we're now asking teachers to stand in a room full of potential delta variant factories, and to referee QAnon vs. anti-vaxxer brawls on parent-teacher night.

Teaching is arguably the most important job in society. Our future is in their care. And something has gone very, very wrong. We'll know the profession has hit a new low when we start referring to them as "heros" or (worse) "essential workers" — the lip-service labels liberals bestow on those we exploit to maintain our creature comforts through pestilence, poverty, and war.

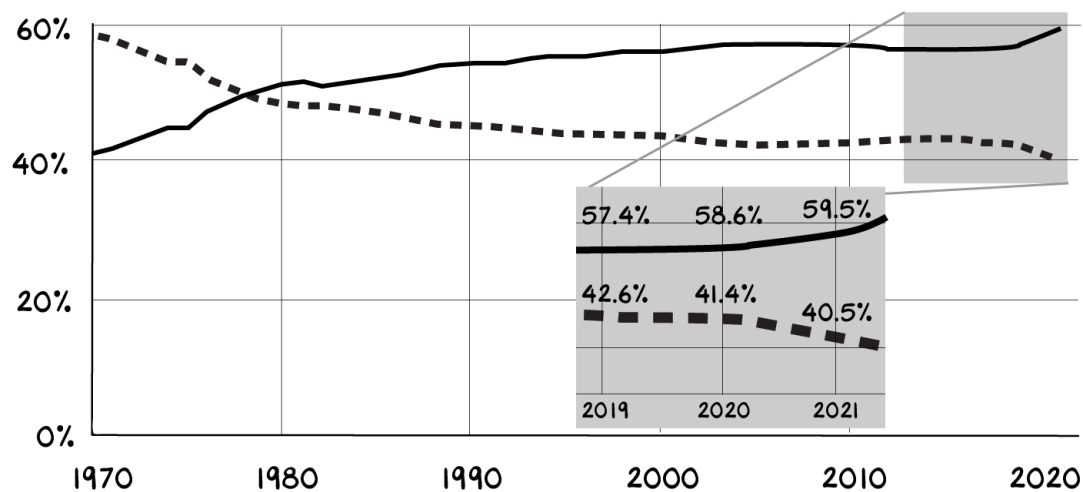
The Ivory Tower

I write often about higher education — not only because it's my day job, but also because it's an integral part of the innovation and economic mobility at the heart of the American dream. College has become too expensive. It's morphed from the ultimate lubricant of upward mobility to the enforcer of the caste system. Every day, it becomes less American. I thought Covid would inspire partnerships with tech firms to dramatically expand access. I was wrong. Our elite universities have doubled down on exclusivity rather than embrace the opportunity for change.

But while I and many others were worrying about rising costs, administrative bloat, and a lack of teaching innovation, another worrying trend was gathering momentum. Young men are opting out of college.

COLLEGE ENROLLMENT

WOMEN — MEN ---



SOURCES: U.S. DEPT. OF EDUCATION, NATIONAL STUDENT CLEARINGHOUSE

In 1970, men accounted for 60% of college enrollment. That number has decreased to 40%. This largely reflects a dwindling male applicant pool. Women now submit 35% more college applications than men, which is forcing some schools to quietly prop up male admission rates. Yes, you read that right. Men are receiving affirmative action for being men.

This decline is a Rorschach test for pundits and comment-section warriors. People who think college is too woke declare that's what's driving men out. People who hate video games, THC, or feminism can blame them.

Employment economics probably explains the trend to an extent. Young men without college degrees have better options than young women. Many fields that don't require a degree are gender imbalanced,

and the traditionally male-dominated jobs tend to pay better. Thus, as the value proposition of college gets worse (higher costs, worse experience), men opt out because they can. Women stick around because they have fewer choices. With traditionally male-dominated skilled labor trades in high demand, we should expect to see even more decline in male college attendance.

But is that enough to explain how far women have pulled ahead? UCLA has expanded its enrollment by 3,000 students since 2013, and 90% of that increase is attributed to women. The essence of this data is too much of a good thing. An overdue correction may have, as often happens in markets, inspired an overcorrection.

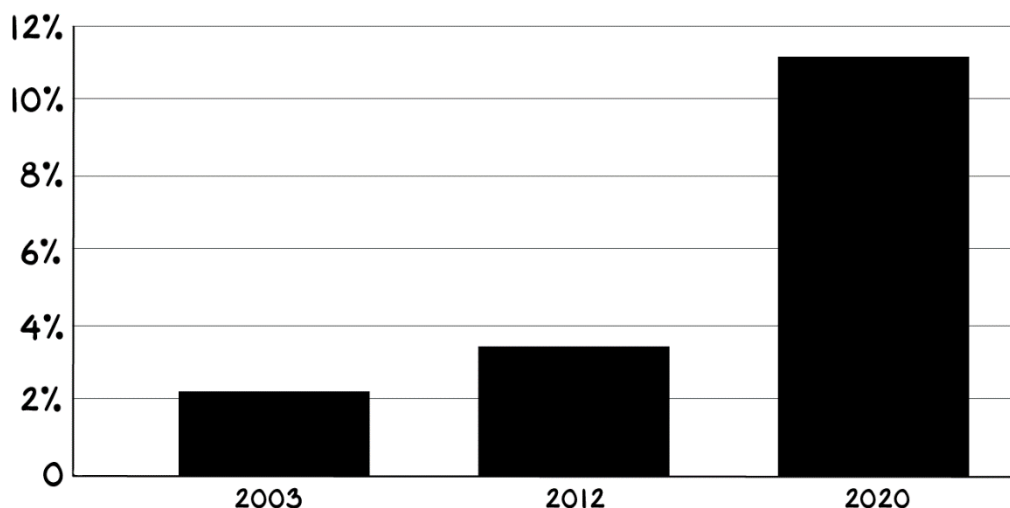
We've lost young men in the shuffle, made them objects of our political arguments and targets of our algorithms. It's easy to shrug it off. "Someone else's turn to eat," so to speak. Sure. But hungry young men without role models or prospects are, to be blunt, dangerous. The wheel doesn't need to turn, it needs to be broken.

Specifically, we need to dramatically expand enrollments at our great public universities and invest in vocational and apprenticeship programs (for young women and men). I've given up on elite private schools — we've become Birkin Bags posing as public servants whose arrogance and self-aggrandizement is noxious. This week, I was invited to an NYU faculty education session on the use of pronouns. If the supposedly most brilliant among us can't keep track of he/she/they, what hope is there that we'll ever tackle have/have nots and how we (faculty and administrators drunk on luxury) are making the problem worse?

Abandoning Ship

For a rapidly increasing number of American families, the answer to the problems with our schools is not to attend them. Home-schooling, growing in popularity for years, skyrocketed during the pandemic. Today, more than 1 in 10 kids are home-schooled. It may indeed be a solution for some families, but it's impractical or unappealing for millions of households who rely on public and private schools to teach critical skills.

SHARE OF U.S. K-12 STUDENTS HOME-SCHOOLED



SOURCES: NATIONAL CENTER FOR EDUCATION STATISTICS, U.S. CENSUS BUREAU

Hope

There are real signs of hope and change, though. U.K.-based Multiverse offers non-college-bound kids apprenticeships at many of the world's premier firms. Promising kids get an onramp to the American dream that bypasses the arrogance and debt of admissions departments and outrageous tuition fees, respectively. In addition, this summer, the University of California sent out more than 160,000 admissions offers for Fall 2021, a record high. And institutions like the UC system that are taking positive steps got a boost this week from, of all places, the college-ranking industrial complex. Forbes magazine changed its ranking system in a way that could inspire a huge shift back to where higher ed needs to be.

Rankings are devastatingly important to the demand a school registers. Young people are inexperienced and insecure, which are the pillars upon which margin from brand equity rests. The next time you see a ranking of the "world's strongest brands," recognize that it's left off the uber brands ... universities. If Apple were a school, it could have paid for its \$5 billion spaceship with naming rights across the side of the building, on each lecture hall, and over every urinal. Coke and McDonald's don't hold a candle to MIT and Michigan. Anyway, the most insidious input to these paramount rankings is the rate of admission. More accurately, non-admission. The more people they turn away, the higher the ranking, the more apps, the more margin power, the more student debt, the higher the pay of administrators, the more incentive to reject more students ... and the wheel turns.

Forbes's most recent ranking, however, includes "access" as a factor (specifically, the percentage of kids at the school who received a Pell grant). When that essential element is taken into account ... UC Berkeley is the top-ranked school in America. Four UC campuses are in the top 25, as are five other public universities. This. Is. Big.

Ms. Jensen

My iPhone keeps serving pictures of my boys from years ago. It is very rewarding and, at the same time, heartbreaking. I feel a rush of happiness, and then longing sets in. I will never have back the 5-year-old who let me grow his curls out. Gone is the 8-year-old who'd sleep naked unless you found pajamas with

Jedi Master Yoda on them. If you don't find the preceding two sentences nauseating, it means one thing: You have kids.

Back to school, one week in, has been wondrous in our household. There's been a step change in our 11-year-old. He left the fourth grade a boy who swore every morning he had unbearable stomach pain and had to be literally dragged out of bed. As a new fifth grader, he's asking us to help him organize his homework the night before, as he wants "to impress Ms. Jensen."

When he said this, I told him that a man expresses quiet confidence — we talk a lot about "what a man does" — and that one of the ways you develop quiet confidence is by being prepared, and that I'm really impressed with him as he's clearly developing into a man. He beams ... I mean beams. A feeling of reward and confidence visibly washes over him, and he lurches to hug me, only he evades my embrace, runs into his older brother's room, hits him in the face, and screams "nobody likes you!" Everyone celebrates in their own way.

I tell him to stop (being a dad means issuing several million verbal warnings each day) and say he needs to get to bed right away. He responds, as he does dozens of times each day, with "why?" Because ... we're back to school.

Life is so rich,
SCOTT