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Musings

#152: Musing
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Quick reminder to readers: you are free to share this as you like. I am also happy to add anyone if you want to provide me an email address. A compilation of all the musings can be found at gilesrichard.com. I am also happy to remove anyone. With our move to an "email service" a couple months ago, you can unsubscribe at the bottom or just let me know (no hard feelings.)

Someone should tell Elon Musk that pure populism doesn't work. There is a reason we have a representative democracy rather than simply having a national poll on all decisions. Musk put up a twitter poll for a $21billion decision on selling stock? elon-musk-asks-twitter-if-he-should-sell-stock. That said, he really doesn't have a choice as he has deep in the money options expiring so had to exercise them/sell them which will create enormous tax bill at ordinary income rates. Musk has options for 22,862,050 shares at $6.24 due to expire on Aug. 13, 2022 and the stock currently trades around $1100 per share. Nice investment. Personally, I would unload as much stock as I could if I were Musk. The valuation is crazy. Valued at over $1 trillion when it only has revenue of $41bn and barely makes money. It is worth more than the rest of the entire car and aviation industry. I credit Musk with the vision and what he has created – love my Tesla; however, this valuation is nuts.

One factor in Tesla's favor is the enormous dislocation in the labor models of existing car makers which will take place as we pivot to electric vehicles. The service employees at your normal dealerships are experts in pistons, gaskets, and carburetors. They are not like your local IT professional. We have experienced enormous frustration in our household with our local car dealer's inability to service our vehicle because it's really a technology issue. Running a company to support millions of internet devices with wipers and wheels is a totally different beast. This is the logic behind electric truck maker Rivian getting almost a $100bn valuation even though it has just started delivering its first vehicles. It is already worth more than GM?

Corporate leaders also need to remember the "limits on management by popular demand." Yes, you have to attract and retain labor so employee satisfaction is very important, but you can't run a business doing what will make employees happy and that is your North Star. Make the right decisions and effectively communicate why to your team even though some decisions may not be liked by the majority. Be open and honest on why you made the decision. As Jamie Dimon recently commented on leadership *"[H]umility, openness, fairness [and] being authentic" are most important – "not [being] the smartest person in the room or the hardest working person in the room,"* jpmorgan-ceo-jamie-dimon-on-what-makes-the-most-successful-leaders (thanks Jeff Dobosh). The return to office issue is going to take some great leadership. According to the Economist, 75% of executives who are working remotely want to get back into the office 3 days a week or more while only 34% of non-executives feel that way.

Ideally, you want to run your business by managing metrics "above" revenue. That is, identify the key metrics around sales and customer acquisition which will eventually lead to revenue. With the ubiquitous deployment of customer relationship management software (CRM) and use of digital marketing, you now have troves of data to use to build models and project outcomes. B2C businesses usually can be managed around lead volumes, traffic to website etc. and then apply historical conversion models to how many people will actually buy. B2B businesses can be managed by meetings held, opportunities and overall $ value in the pipeline at a given time and how the weighted probability of the overall pipeline has turned into sales/bookings historically. You can also "build up" from the number of salespeople you have, their productivity ramps and historical levels of production. Personally, I recommend managing all of these by growth rates. What is the growth in the pipeline, in the Google search volumes or in the sales force? You should obsessively seek to maximize the conversion rate of opportunities and eliminate friction but over the long haul you have to grow top of funnel and things that drive sales to then grow bookings to then grow revenue and manage expense growth to get leverage, so profits and free cash flow grow fastest of all.

The C-suite is getting full. When my career started, there was a Chief Executive Officer and Chief Financial Officer. Some companies had a Chief Operating Officer. In the late 90s, came the Chief Information Officer (CIO) and more recently, the Chief Revenue Officer and the Chief Human Resources Officer (CHRO). Lots of Chiefs. On the CHRO front, I do like the model where the person running human resources reports straight to CEO rather than through CFO. HR has become a mission critical function. It is not just about benefits administration and compliance. It is now more about talent procurement and retention. It is growingly complex as the world has moved from having a set of full-time employees coming to your office location to having full time/part time/contractors, job sharing, remote work, employees in multiple states creating payroll issues, and pressure to expand benefits to include paying student loans or elder care.

We are in a shortage of labor crisis and with demographic trends, this is all going to get even harder. Today's September jobs report shows us treading water with basically as many people leaving work as getting hired. From CNN: *"The nation had 10.4 million open jobs….Employers hired 6.5 million people, while separations — which include voluntary quits — stood at 6.2 million…A record 4.4 million Americans quit their jobs in September as the sheer volume of available jobs is empowering workers to have their pick."* Companies have to figure out their labor shortage issue without just paying more. Consumers can't take the downstream price increases. CNBC: *"The Labor Department reported that its consumer price index, or CPI, jumped 6.2% in October from a year ago, the largest acceleration since December 1990 and the fifth straight reading above 5%."* Society must also figure it. Per Stan Goldblatt *"Strong and continuing inflation reduces the effective income for everyone (other than the very rich) and particularly for those on fixed incomes without adequate inflators. With the kind of cultural divisions that we have today such reductions will only fan the flames."* This is the dynamic that led to the rise of Hitler in the 1920s.

I have to admit that I never knew what as "flywheel" was as people talked about it on a business model. Good Economist article on the food delivery companies and the theory. *"In the real world a flywheel is a mechanical contraption that stores rotational energy. In Silicon Valley it has come to mean something else: a perpetual-motion business that not only runs forever but is self-reinforcing. Thanks to powerful network effects, the theory goes, a digital platform becomes more attractive as it draws in more users, which makes it even more attractive and so on. The end state is a venture that has gathered enough energy to self-levitate and throw off tons of cash."* *uber-doordash-and-similar-firms-cant-defy-the-laws-of-capitalism-after-all* Let's see if it works. Personally, I think Masa Son and Softbank's Vision Fund are wasting money and disrupting rational valuations.

Interesting stat from CNBC: *"The average hiring professional spends 7.4 seconds scanning a resume before deciding whether to look at the candidate more closely, a 2018 Ladders study found."*

Good quote: *"Most people do not listen with the intent to understand; they listen with the intent to reply."* (Steven Covey)

Video killed the radio star, but Covid saved the country club. After years of declining demand as society moved away from golf and being "male-centric", golf rounds are way up with work from home and country clubs are generating surpluses and raising prices.

RIP the big conglomerate. GE decision to split up shows the fallacy of a holding company in the public markets operating in lots of disparate industries. Jack Welch's legacy doesn't look so hot anymore. His real skill was using the flexibility provided by pension benefits accounting to manipulate earnings and drive stock price.

Thanks to all of our veterans.

jml