J. Michael Locke
Musings

#153: Musing
<u>November 19, 2021</u>

Readers are probably tired of my commentary on the labor shortage, but I wanted to drill down and give some specific examples.

As I have written, a real issue is the decline in workforce participation by women at least in part due to the lack of childcare availability. From the WSJ: "*About 13,000 centers representing more than 20% of the nation's child-care capacity, including those offering before- and after-school programs, shut down during the pandemic and haven't reopened.*" Part of the challenge in expanding childcare availability is the labor shortage so it becomes circular. Families are being turned away because operators can't hire. To quote a childcare company CEO: "*We have 10% of our work force unfilled. We have families that want to enroll, we want to enroll them, but we can't service them because we don't have the staff. We have raised wages, sign on bonuses, referral bonuses, etc. Childcare rates are going to rise significantly as these wages won't slide back down once there is a bit more equilibrium in the labor market*."

The impact of the decline in participation by women due to childcare challenges will vary by industry. According to BLS report this spring: "*Women accounted for 51.8 percent of all workers employed in management, professional, and related occupations in 2019, somewhat more than their share of total employment (47.0 percent). The share of women in specific occupations within this large category varied. For example, 18.7 percent of software developers, 27.6 percent of chief executives, and 36.4 percent of lawyers were women, whereas 88.9 percent of registered nurses, 80.5 percent of elementary and middle school teachers, and 61.7 percent of accountants and auditors were women*."

Back to the Childcare CEO – "*We can't even get a recruiter hired. We have made four offers to recruiters and their current firms have outbid us on counter offers at unreasonable levels*." Go long talent acquisition companies. Here are some specifics on the tightness of hiring a recruiter. From a search firm CEO: "*In 2021, we've helped companies hire 150 recruiters. Look at the trends in average salary for recruiters: Q1 = $86k, Q2 = $102k, Q3 = $118k*."

The John Deere strike got settled and pretty amazing what workers received: $8,500 restart bonus, immediate 10% raise, two 5% raises and two large bonuses through 2026 and more retirement benefits. From a recent ADP report: "*job switchers in the information services and professional and business services fields goosed their wages by 10.5% and 10.6% respectively*" great-resignation-has-put-many-workers-in-the-drivers-seat. I think we are in a structural reset on the share of income which goes to owners (in the form of profits) and employees (as a reminder from Musing #108 in January, the labor share of income has been declining. In advanced economies it has fallen from 54% to 50% in the last couple decades). As such, corporate profits will face headwinds and I would start looking at your investment asset allocations and consider moving money from equities to fixed income.

This increase in wage rates will make our current high inflation not transitory and persistently high inflation will also tear at our social cohesion. Inflation tends to impact the middle class much more than upper class. From Scott Galloway: "*The middle 60% now own less wealth than the top 1%. In 1989, the American middle class claimed 36% of the nation's wealth. The top 1% owned less than double that share at 17%. The middles class's share has steadily declined since then, while that of the super-rich has skyrocketed. This year, for the first time ever, the top 1% owns a greater share of U.S. wealth than the middle 60%*." This is what led to the rise of Hitler in Germany in the 1920s. From one of my mentors 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*."

CEOs need to be all over the issue of talent acquisition and retention. Develop good reports. Engage directly in the activity with the CHRO or whoever runs HR. Leaders should be skipping their lieutenants and directly engaging with folks "lower" in the org chart to make sure they have a feel for what is going on. Remote work is going to make things even harder, and the scarcity issue is going to make companies hesitant to force employees back into the office. From a technology recruiting firm: "*Remote work isn't slowing down. In Q3, 95% of the roles we saw were 100% remote (or allowed for fully remote work). We placed one engineer (out of 80+) that was onsite 100%*."

Enough on the labor crisis, to some managerial topics. Most companies are in the midst of budget season as their fiscal year matches the calendar year. I think the annual budget process is broken. Our economy and business move too rapidly. IMO, you should keep a constant four quarter forward "budget." That is, every time you finish a quarter, plan out a new one which starts 9 months in future. If you just do annual budget, you lose any planning as you get to the second half of the year and when you get to mid-November, you don't have good plans for 45 days away. Not a way to promote "managing forward" (a "reprint" of Musing #19 on Managing Forward from April 2020 is at the end of this week's).

Watch the development of "super apps." From Infopulse: "*Originally, the term 'super app' was coined by BlackBerry founder Mike Lazaridis back in 2010. He defined it as "a closed ecosystem of many apps" that people would use every day because they offer such a seamless, integrated, contextualized and efficient experience." In short, a super app is a marketplace of services and offerings, delivered via in-house technology and through 3rd party integrations*." Part of the driver is the poor user experience of moving between so many apps. From the WSJ: "*research finds people switch screens an average of 566 times a day.*" There has to be a better way and "Super apps" may be it.

Get your flu shot. Big outbreaks on college campuses. flu-virus-grips-college-campuses

The seven deadly sins social media style (copied from Renee Selzer on LinkedIn):

Lust	Tinder
Gluttony	UberEats
Greed	Amazon
Sloth	Netflix
Wrath	Facebook
Envy	Instagram
Pride	LinkedIn

A sign of the times — Lakers' Staples arena now to be called the Crypto.com Center.

Can we stop obsessing about Covid infection rates? The vaccine will not stop infection completely, but it will greatly reduce likelihood of serious illness, hospitalizations and death. Let's have the media focus more on those statistics.

Happy Thanksgiving!

Jml

Musing #19: Managing Forward

April 10, 2020

Good leaders are always looking over the horizon. They are the captain of the ship ensuring no icebergs ahead. I am frustrated when I read about organizations surprised by developments in the market that creates an existential threat. I am not talking about a Black Swan event like the current Covid-19 situation. I am talking about any retailer who in 2020 does not have meaningful online capabilities. Amazon became a public company in 1997!

The leader's job is to manage forward and predict what is going to happen in the market and with employees. The job is to take preemptive action to mitigate risks. One way to do this is to constantly seek inputs from competitors, customers and other constituents. Asking questions and listening (see Musing #16: The Importance of Listening). To have something bad happen is business. To be surprised by it is inexcusable.

You need to establish KPIs (key performance indicators) which provide you with visibility. The better the KPIs, the more time you have to react. Like your car's headlights on high beam. Sales create the revenue which then covers the expenses. However, good management should be able to forecast sales. Especially in today's digital world, you should be able to measure traffic on your website or volumes of calls. Then you should have the statistic models on how those potential buyers convert in various steps through the funnel. While every specific buyer is unique, when you aggregate them up, the demand should behave in statistically consistent ways. Make your sales leader give you a projection not just the budgeted number.

Think about how the healthcare system has been preparing for Covid-19. They have models on the rate of infection and what percentage will need hospitalization. They know how many days from test result to needing a ventilator so they can take the testing results today and figure out the ventilators needed in a week.

One unfortunate model is the correlation of third grade reading level and adult incarceration. Some states using their third grade reading tests to figure out how many prison beds they will need in 10 years. That is managing forward in a sad way.

In a business, your CFO needs to be your partner in this endeavor. I am not a fan of the basic annual budgeting cycle where a budget is set and a year later, wash and repeat. Rather, executives need a rolling four quarter forward projection. As you finish a quarter, you add another one on the other end. This should be a complete three statement model: income statement, balance sheet, and cash flows.

One common mistake people make is to do annual budgets and miss the “run rate” they have going into next year. You need to know the full year amount of the expense structure you have built up by either taking the fourth quarter x 4 or December x 12. When you add an expense midyear, it only hits your P&L for a part of the year and you can miss the annualization of the impact.

The Covid-19 crisis has made managing forward difficult. There are so many unknowns. Don’t let that stop you from projecting! Rather, project ranges rather than specific numbers as volatility has increased and create scenarios under different assumptions.

The best leaders I know right now are discussing the equilibrium of reversion (thanks Jamie Cowie for the term). Things will not go back to where they were before Covid. The world will be more digital now– more telehealth, more online education, more remote work. The question is how much reversion will there be? How far back to the pre-Covid world will we go?

The best leaders are also contingency planning. What if we are still dealing with latent Covid issues in the fall? Right now, consumers have accepted subpar quality of online delivery because it was rushed out in a crisis. The consumer won’t be as forgiving in the fall. Good leaders will invest in their digital capability now so if they have to use it in the fall, they are ready. They are managing forward. No Leo and Kate on the bow of their ship.