

## J. Michael Locke

### Musings

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#### #176: Musing April 30, 2022

Don't pay attention to the media narrative about economic growth and a potential recession. Yes, GDP declined in the first quarter by 1.4% compared to last year but things are not bad. Consumer spending is 70% of GDP and it grew 2.7%. Business investment grew 9.2%. The labor market is tight, wages are up (although not as much as inflation so real wages down), and personal balance sheets are healthy. The overall decrease was because government expenditures decreased and net imports increased (Long Beach finally caught up to the freighter logjam). Less government spending is good and the import/export market is working through the pandemic dislocation.

I am not a fan of big strategic planning processes. Certainly, it is helpful to keep your eye on the horizon and understand where you are going. However, too many strategic plans are simply aspirational and don't help run the business. Lots of time goes into them and they then get put on the shelf. Instead, I recommend a three-year operating plan. It will inherently involve key strategies and vision discussions and open the aperture to a multi-year thinking but it will be more actionable. Anything further out than three years is simply conjecture.

Starbucks certainly needs to do some planning. The third-place to hang out is now a productivity kitchen serving take-out and workers are not happy. I like how Howard Schultz is attacking things by first going on a listening tour across the country sitting with small groups of "retail level" employees. Good Inc. article (thanks Jenn Walsh). *"In order to build trust, you have to listen first....Finally, by personally visiting with store leadership in cities around the country, Schultz accomplishes a further goal: Beyond just empowering employees, he teaches other leaders within Starbucks to do the same."* [schultz-how-to-build-trust-problem-solving-emotional-intelligence](#). If you ever want to know what is really going on, talk to the individuals interacting with the customer. Skip middle management who will inherently adjust information based on bias (usually unconsciously).

The continuum of models from full return to office to full remote just got extended. AirBnB announced the ultimate "all remote" model. Employees can work from anywhere *in the world*. Pay will not be adjusted. AirBnB is going to figure out all of the tax and other regulatory implications and "open source" their system to encourage others. They are working with governments to create "digital nomad visas." Let's see if a company can effectively work this way.

There is a movement towards skills-based hiring and away from college degrees. Historically,

degrees served as a rudimentary labor market “signal” where one could assume a level of competence and knowledge on the basis of someone having a certain type of degree from a certain school. More and more people are shunning the extravagant costs of higher education (mostly due to inefficient cost structures starting with tenure) and building skills in other ways. Employers are following suit and reducing the requirement that someone have a degree and instead checking out what specific competencies someone has. Good article (thanks Bill Carroll) [why-many-employers-have-ditched-4-year-degree-requirements](#).

Make sure not to lose the human element in this world of evaluating competencies of a potential employee. Employees are not just robotic compilations of skills and competencies. They are human beings who need to be nurtured, grown, challenged, mentored and developed. I have always hated how the HR “rules” push out personal conversation on getting to know someone. You are not supposed to ask about someone’s personal life (are you married? Do you have kids? or how old are you?) I like to hear the life story about where someone grew up, do they have siblings (birth order is a huge driver of personality IMO), why did they pick where they went to school and what did their parents do. It gives me a picture of the person. Give me the candidate who was raised by a single mom, is a middle child who had to fight for attention, went to community college to save money and then transferred to finish the bachelor’s degree and worked while they attended school any day of the week (ironic as I look in the mirror.) Real value in employees with grit.

The question of the day is how elastic your demand curve is. For the non-economics majors, this means how much demand will change based on changes in price. With today’s inflationary environment, most companies are raising prices and some are really surprised that demand has not diminished (ex. Chipotle recently posted great earnings on pricier burritos and McDonald’s raised prices 8%). Really important to figure out your competition’s pricing and identifying whether you have room to raise prices.

The most amazing thing about the Musk/Twitter deal is the simple scale of the deal and the risk Musk is taking. This isn’t a private equity firm or group of firms in a “club deal”, but rather an individual taking on enormous amounts of personal debt to buy a company for \$44 billion. He is borrowing massively against his Tesla stock to get the money (this is not good for Tesla shareholders — he already sold \$8bn worth of stock). Whatever you think about him, the man has courage and takes risks. That said, I could do without his sophomoric behavior like this tweet from Fall 21 *“Am thinking of starting new university: Texas Institute of Technology & Science”* Think MIT as a corollary acronym.

Second only to Apple’s terrible weather app is the iPhone autocorrect function. In this world of AI and machine learning, it is amazing how much we still battle with autocorrects we didn’t want. Good article in WSJ: *“Here’s what’s going on. When you type, the autocorrect algorithms are trying to figure out what you mean by looking at various things, including where your fingers landed on the keyboard and the other words in the sentences, while comparing your word fragment to the words in two unseen dictionaries: • Static Dictionary: Built into iOS, this contains dictionary words and common proper nouns, such as product names or sports teams.*

*There were over 70,000 words in this when the first iPhone launched and it's gotten bigger since then.* • *Dynamic Dictionary:* Built over time as you use your phone, this consists of words that are unique to you. The system looks at your contacts, emails, messages, Safari pages—even the names of installed apps.” [/autocorrect-explained-why-your-iphone-adds-annoying-typo-while-fixing-others](#)

I never realized that menthol cigarettes target the black community. FDA wants to ban them. From the New York Times: *“The ban would most likely have the deepest impact on Black smokers, nearly 85 percent of whom use menthol cigarettes, compared with 29 percent of white smokers, according to a government survey.”*

There is a biological concept around “getting in the flow” where your brain releases a mix of chemicals which allows for superior performance. Think about athletes getting “in the zone.” Time slows down and productivity sky rockets. Different individuals get “in the zone” in different environments. For me, it is quiet morning solitude. Take this quiz if you want to see yours: <https://www.flowgenomeproject.com/flow-profile> . Personally, I think organizations can “get in the flow.” Organizations are just aggregated individual human behaviors. Just like individuals need the right setting to get into their flow, organizations need the right leadership and culture.

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