

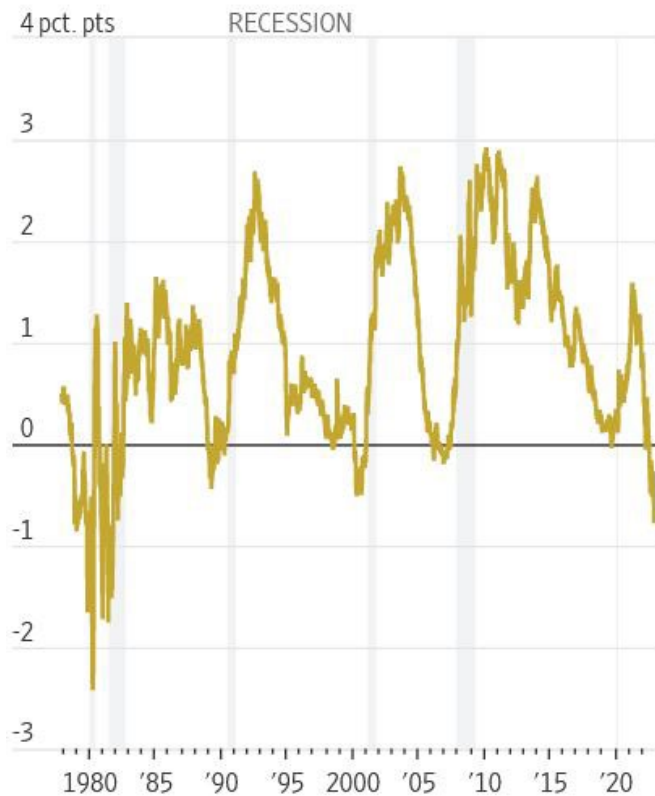
J. Michael Locke Musings

#201: Musing December 4, 2022

I am from the camp that the inflationary spike is already over. The price of shipping containers is down 74% from a year ago. Retailers have a glut of inventory and are discussing the value trade down with families looking to get the most for their money. High end (Louis Vuitton) and low end retailers (Dollar General) are doing well but those in the middle are struggling (Target, Kohls). Home sales have stalled with higher mortgage rates. Finally, employees are losing their bargaining leverage for higher wage rates as more and more companies do layoffs.

Bond traders seem to agree with me as the yield curve is really inverted which means long-term rates are lower than short-term rates. Interesting graph on the level of inversion on WSJ:

10-year Treasury yield minus two-year Treasury yield



Source: Tradeweb ICE

Disruption of supply from China domestic turmoil may delay normalization. Much of the country is currently in a hard lockdown under the Chinese “zero-Covid” approach but citizens are pushing back in an unusually open way. China didn’t use western vaccines (instead using a homegrown inferior vaccine) and kept everybody home in 2020 and 2021 so no immunity has developed. Now Covid is raging again (cases are now higher than they have ever been) and they are locking down again. Our global economy is so interconnected now with supply chains that the US needs China to resume normal operation. An example is Apple which is warning of inventory issues. Most iPhones are made in Zhengzhou, China where over 200,000 employees are actually resident at the manufacturing facility of FoxConn living in dorms (called iPhone City). [apple-iphone-china-foxconn](#). There is a wage dispute and workers can’t leave their dormitories because of “zero-Covid” approach.

I am always fascinated by companies’ customer acquisition strategies and the use of pricing of disparate products. Gas stations breakeven on gas to get you inside to sell you overpriced candy. Dry cleaners use breakeven pricing on shirts to get the margin on your suits. Betting companies are giving new customers some “house money” to make their first bets free. Sam’s Club has reduced their hot dog/pepsi pricing to \$1.38 to beat the \$1.50 at Costco and get you in their big warehouse to buy stuff you don’t even need. Finally, Facebook (like many others) gives you a free app to get your data and monetize your eyeballs as an advertising business.

These customer acquisition strategies are even more powerful if customer then signs up for a subscription (vs just an individual transaction). Locking in customers on an ongoing (ideally long term) basis provides visibility on your revenue stream and allows you to manage expenses with less volatility. ARR and MRR (annual or monthly recurring revenue) are the new contractual backlog. Creditors and investors resultantly provide more and cheaper debt financing leading to an overall superior valuation. The result is transactional businesses experimenting with subscription. Panera offers unlimited drinks for \$11.99 a month. Now, even travel companies are trying it with Frontier rolling out an “all you can fly” model for \$599. <https://simpleflying.com/frontier-all-you-can-fly-pass-599-usd/>

As readers of these musings know, I am a big proponent of individual accountability. One throat to choke. One individual directly responsible. As such, I have never agreed with the “Co-CEO” model. Bret Taylor is leaving his position as co-CEO of Salesforce. I don’t have any insight on why but think it is a good thing so only Benioff is accountable.

Technology-based communication has created an interesting dilemma for doctors and lawyers. Do you charge for answering a email? More healthcare providers are starting to. “Sending an electronic message to a Cleveland Clinic physician could cost as much as \$50 per message, [due to a change in procedures announced Monday](#). The Clinic will begin billing patients’ insurance for messages that require 5 minutes or more of the healthcare provider’s time to answer.”



[Some electronic messages to Cleveland Clinic healthcare providers could cost \\$50 cleveland.com](https://cleveland.com)

Elon Musk has 10 children by three different mothers. Nick Cannon (comic, Mariah ex-husband and Masked Singer host) has 11 children by six different women. While we need to increase the birth rate to enhance our population growth for economic purposes, this really troubles me. How can you be a decent father operating this way?

Spotify released its “most streamed” results. Shows how out of it I am. Puerto Rican artist Bad Bunny was the most-streamed artist this year for the third time in a row — I have never heard of him.

RIP Irene Cara. I hate how fame has become a thing in and of itself. You used to become famous because you created a piece of work (song, book) or accomplished something (business, science). Now, fame has become a thing on its own (creating a sex tape does not qualify as a piece of work). The Kardashians are the poster child. You have to credit the mom’s entrepreneurial spirit and marketing acumen that millions of people watch their inane show and now we care what Kim says about public policy issues.

jml