

## J. Michael Locke

### Musings

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#### #219: Musing April 15, 2023

The consumer is dialing back as the recession arrives and labor market softens. From US News *“Retail sales dropped 1% in March from February, a sharper decline than the 0.2% fall in the previous month. Lower sales of autos, electronics, and at home and garden stores drove the decline.”*

Another metric which provides forward visibility on the softening of our economy is inventory levels. After a period of scarcity through supply chain disruption, many companies are now overstocked and have elevated inventory levels. Look at the PC market. From an IDC analysis, global PC shipments were down 29% in Q1 (<https://www.idc.com>). Appears that PC sales had a sugar high during Covid with the arrival of remote work and now we are getting back to normal.

The amount of “extra expense” that was being carried by technology companies is stunning. At Twitter, Musk has cut the workforce to roughly 1,500 employees, down from 8,000 when he took over. As far as I am aware, the platform is still working. Every company has extra people. Don’t confuse someone having work to do equivalent to the value of the work being worth the compensation. Corporations often (I would say usually) have activities they think need to be completed which are “wants” and not “needs.”

I am a big fan of using variable labor (contractors, service providers, gig workers) as a way to manage your cost structure. Layoffs are painful so full-time employees are more of a fixed cost and also expensive (most companies spend another 25-30% of salary on benefits like healthcare, 401k etc.). Technology platform have made it easier to tap into the gig economy. If you do this, make sure the contractors feel part of the company and I recommend including them on all company meetings, communications etc.

One downside of this model is that too many managers do the “contractor end-around” to avoid hiring limitations. While most companies have tight control on hiring (HR has to be involved to add someone to payroll and benefits etc.), they don’t have the same control on the use of contractors who just submit an invoice and get paid via check like a vendor. Depending on the size of an organization, it can be hard for a leader to even know when contractors are being used. This is also happening in the federal government and even the military. There are big businesses providing soldiers for hire and lots of contractors working with national security information such as Edward Snowden which creates another set of issues. The 21 year old national guardsmen who got arrested was not a contractor technically but national guard is a part time gig and should be treated differently for clearances. How in the world did he have access to such important information that he could harm international relations? He couldn’t buy a beer last year and lived with his parents.

Learned a new term about the large language model (LLM) AI chatbots like ChatGPT --- “hallucinating.” I guess the AI engine will invent an answer if it does not know one and they call it hallucinating.

Out in Silicon Valley there is a well-known incubator where startups are nurtured called Y-Combinator (It was an accelerant on the Silicon Valley Bank run.). Interesting to see it's "rules" for startup tech founders:

1. Launch now
2. Build something people want
3. Do things that don't scale
4. Find the 90 / 10 solution
5. Find 10 -100 customers who love your product
6. All startups are badly broken at some point
7. Write code – talk to users
8. "It's not your money"
9. Growth is the result of a great product not the precursor
10. Don't scale your team/product until you have built something people want
11. Valuation is not equal to success or even probability of success
12. Avoid long negotiated deals with big customers if you can
13. Avoid big company corporate development queries – they will only waste time
14. Avoid conferences unless they are the best way to get customers
15. Pre-product market fit – do things that don't scale: remain small/nimble
16. Startups can only solve one problem well at any given time
17. Founder relationships matter more than you think
18. Sometimes you need to fire your customers (they might be killing you)
19. Ignore your competitors, you will more likely die of suicide than murder
20. Most companies don't die because they run out of money
21. Be nice! Or at least don't be a jerk
22. Get sleep and exercise – take care of yourself

Another new term for me --- "Tip Baiting." I guess in the food delivery apps like Uber or Doordash you can put in a large tip when ordering but then change it after delivery. This "tip baiting" motivates someone to take the order and hurry to deliver it under false pretenses.

Interesting blog by Ken Kaufman who is the founder of prestigious healthcare consulting group KaufmanHall. He writes about how our hospital-based delivery model is outdated – like Ford's combustion engine lineup – and needs to rapidly change. *"More recently, the longstanding traditional patient-physician-referral relationship began to change. A smarter, internet-savvy, and self-interested patient population was looking for different aspects of service in different situations. In some cases, patients' priority was convenience. In other cases, their priority was affordability. In other cases, patients began going to great lengths to find the best doctors for high-end care regardless of geographic location. In other cases, patients wanted care as close as their phone.... Around the country, hospitals and health systems have seen these environmental changes and adjusted their strategies, but for the most part only incrementally. The strategic focus remains centered on clinical quality delivered on campus, while convenience, access, value, affordability, efficiency, and many virtual innovations remain on the strategic periphery."* [thoughts-ken-kaufman/traditional-hospital-strategy-aging-out](https://www.kenkaufman.com/thoughts-ken-kaufman/traditional-hospital-strategy-aging-out). Personally, I am thinking about signing up for One Medical as my primary care provider to see what Amazon is doing with the entry point of healthcare.

I have not watched it, but everybody raves about Ted Lasso. Here is a LinkedIn post I saw on the 12 lessons from the mythical coach:

1. Believe in yourself
2. Doing the right thing is never the wrong thing
3. All people are different people
4. See good in others
5. Courage is about being willing to try
6. Vulnerability is a strength not a weakness
7. Tell the truth
8. Winning is an attitude
9. Optimists do more
10. Stay teachable
11. Be a goldfish – if you see something wrong do not let it define you. Forget it – like a goldfish – within 10 seconds
12. Happiness is a choice

Good quote from Scott Galloway: *“The strongest brands in the world — MIT, Apple, Hermès, the U.S. — are built on the artificial choking of supply via rejectionist admissions, pricing strategies, production, and visas.”*

I would short McDonalds. Not sure what is going on with their “cooking process” but the food just isn’t that good anymore. I can only have so many cold quarter pounder w cheese.

Does Ron Desantis wear boots to make himself taller? That is the argument of some in the press. He is about 5’9” which is the average of American men but voters like male candidates to be taller. *“Every president since Jimmy Carter (5’9.5”) has been 5’11.5” or taller. We haven’t elected a president smaller than the average man in nearly 130 years, when short king William McKinley won his election.”* [ron-desantis-shoes-boots-high-heels](#)

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