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Musings

#237: Musing September 4, 2023

Leaders need to focus on the gray economy (a new “golden bachelor” show is coming out). The US population will actually start declining soon as fertility rates remain below the replacement rate. As a result, the distribution continues to skew more to older adults. The standard discussion on labor shortages assume no change in “the model.” Good article by Rishad Tobaccowala which introduced me to the concept of “fractional employees” where every year you could ask an employee how much they want to work and allow you to tap into the huge volumes of talent that don’t want to work full-time. *“Imagine if one could get both the continuity and loyalty of a long-term employee with the flexibility of cost management of a part time employee and the expertise of a free-lancer and do so in a way that both grows employees and retains them in the long run. This is the **Fractionalized Employee**. Every employee in the company is given a choice to work 100%, 75% or 50% of their time. (In the US one needs to be working 50% to be eligible for health and other benefits). They get to select this at the beginning of every year or can adjust to a different level when a life event occurs (health, birth of a child, need to take care of a parent, a passion that needs to be attended to or other life issues).”* [the-fractionalized-employee](#)

Great leadership comment from a successful PE partner. He was lamenting junior staff coming to him and asking “what do you want to do.” You want to create a culture where that is unacceptable. As a leader, you can’t let developing executives avoid the tough judgment calls. Push back and make them figure it out. You obviously need some guardrails on their decision rights but you want a culture where they make decisions. Just like you don’t want to be a helicopter / lawnmower parent, being nice can actually hinder your team’s development.

I think it is important to build a “cost mindset” into your organization. Constantly be looking at how you can reduce costs. Costco is famous for its’ \$1.50 hot dog and Pepsi deal. The former CEO once said he would kill someone who suggested raising the price. Here is a quick q&a with him showing the mindset: (from Seattle Times)

Q: How long have they been \$1.50? **A:** Since we started. Well, we were open a year and a half before we put a hot-dog stand in at the original downtown location. It’s been a buck-fifty for a hot dog and a coke.

Q: If that price ever goes up, what will it mean? **A:** That I’m dead. It’s amazing how creative we have been to figure out ways to keep the price down. It was a Sinai hot dog, and now it’s a Kirkland Signature hot dog. It’s actually 4.4 ounces, so it’s slightly bigger than a quarter pound now. It’s a drink and a free refill on the drink for a buck fifty. We used to sell the soda in a can, and we put in soda machines, which took the price down. We improved the cost of the condiments, we’ve purchased better on buns and things like that. It’s the same quality hot dog, all beef, the best ingredients that you can imagine. I know it sounds crazy making a big deal about a hot dog, but we spend a lot of time on it.

Bookings or sales are the leading indicator of your revenue line and ultimately your profitability. A key managerial question is how best to calculate the booking metric. Some companies use total contract

value (TCV) while others use only annual contract value (ACV). I think the key is to strip out one-time revenue and really understand the revenue you have booked for the future. Manage the salesforce to TCV so they are incented to go for longer terms and have finance manage ACV so they can accurately predict near term revenue.

The decline of church attendance is well-documented and part of our drifting society IMO. Churches need to realize they are in a consumer business. I know many strong faith people will disagree but most people can't tell you the difference between Methodist, Presbyterian or Episcopalian. Church leaders should take on the consumer lens — provide more time flexibility (imagine if all stores were only open Sunday morning), encourage casual clothing, update the music, and have a robust streaming platform. There is a reason nondenominational mega-churches are thriving while mainline fail.

The federal government sued SpaceX for only hiring US citizens and permanent green card holders. Must say I didn't realize this was illegal. From NPR: *"The department alleges in the lawsuit filed Thursday that between September 2018 and May 2022, SpaceX violated the Immigration and Nationality Act by discouraging refugees and asylum recipients to apply for available positions in their marketing materials, rejecting or refusing to hire them and hiring only U.S. citizens and permanent residents."* I think prosecutors have enormous discretion in what cases they bring. Is this the right use of government resources?

Covid cases are on the rise. I pray we have learned our lessons from some of the past mistakes during the pandemic. No research shows masks really matter (unless a perfectly-fitted N95). We are just scratching the surface of the harm done to our youth by keeping schools closed. *"A June report showed that national average test scores for 13-year-olds plummeted during the 2022-23 school year when compared with pre-pandemic levels. On average, this age group scored the lowest they have in math since 1990 and the lowest in reading since 2004, according to the National Assessment of Educational Progress."* This is despite huge amounts of money given to schools. *"Between March 2020 and March 2021, Congress authorized \$190 billion in funding for K-12 schools – roughly six times what they receive from the federal government in a normal year."* We have to figure out how to get kids caught up. *"Schools will need to add a significant amount of instructional time to help students close the learning gap – which some districts are attempting to do through tutoring, extending the school year or offering intense summer programs, for example."* [school-covid-pandemic-aid-learning-loss](#)

The concentration of wealth is driving a lot of the strain on our society. *"In the year 2022, three multibillionaires own more wealth than the bottom half of American society – 160 million Americans. Today, 45% of all new income goes to the top 1%, and CEOs of large corporations make a record-breaking 350 times what their workers earn."* [the-us-has-a-ruling-class-and-americans-must-stand-up-to-it](#). I think NY Times columnist David Brooks was right in suggesting the "ruling class" has led to the Trump dynamic among the "working class." From his article: *What if we're the bad guys here? On anti-Trumpers and the modern meritocracy: "The ideal that we're all in this together was replaced with the reality that the educated class lives in a world up here and everybody else is forced into a world down there. Members of our class are always publicly speaking out for the marginalized, but somehow we always end up building systems that serve ourselves. The most important of those systems is the modern meritocracy. We built an entire social order that sorts and excludes people on the basis of the quality that we possess most: academic achievement. Highly educated parents go to elite schools, marry each other, work at high-paying professional jobs and pour enormous resources into our children, who get into the same elite schools, marry each other and pass their exclusive class privileges down from generation to generation. Daniel Markovits summarized years of research in his book "The Meritocracy*

Trap”: “Today, middle-class children lose out to the rich children at school, and middle-class adults lose out to elite graduates at work. Meritocracy blocks the middle class from opportunity. Then it blames those who lose a competition for income and status that, even when everyone plays by the rules, only the rich can win.”

The government is trying to force a redistribution. The labor department is proposing a change in the laws around overtime. Currently, employers must pay time and a half for any hours over 40 for those who make less than \$35,000 or don't have a managerial position. The Feds want to increase that to \$55,000 which is basically the average salary for US workers. It is a way for the government to drive an increase in overall compensation.

Kind of interesting look at Stanford freshman (more schools saying “first years” to eliminate sexist reference) class. I would love to see this based on family income rather than race. We need to increase economic mobility.

Ethnic Diversity	Percentage
American Indian or Alaska Native	1%
Asian	29%
Black or African American	7%
Hispanic or Latino**	17%
International	13%
Native Hawaiian or other Pacific Islander	<1%
White	22%
Two or more races	10%
Unknown	<1%

Happy Labor Day!

jml