

ARMCHAIR ECONOMIC PERSPECTIVE  
“Where’s The Opportunity”  
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The biggest question in America today seems to be, “What the heck is going on out there?!?!?” Some folks may think the biggest question is “When are we going to see a turnaround?” But without knowing the disease can we accurately determine the cure and the time it will take to get healthy again?

My recent suggestion as to the cause of our current economic problem is that we are experiencing a “technology hangover”; disruptive technologies are running amok in our economy. Earlier I described the disruptive technology tools as the PC, fax machine, cellular telephone and the Internet. If these are the tools, what is the disruption they have caused?

**“Almost everyone in the world today has instantaneous access to virtually all the information that man has generated in his entire existence. And in addition, we have the ability to share, debate, research, collaborate and innovate with all this information... instantaneously.”**

It might be worthwhile to read the above a few more times. It is likely a force much more powerful than we understand. How many other periods of change has man been through this disruptive? Fire and wheel for sure. Printing, electricity and autos, likely too. But maybe not many others.

Of course we all know what we have today. Access to all this information and the ability to share it instantaneously is part of our daily routine. But what we may have yet to fully consider are its ramifications.

One of the many lessons we are learning today is the law of unintended consequences. There is no input without output. There is no production without waste. There is no “change” without unintended consequences. These consequences are unintended because we don’t know what we have not yet experienced. And quite probably, **the more disruptive the technology, the more severe the unintended consequences.**

What might be the unintended consequences of our current disruptive technologies? What is our “technology hangover”?

**“Technology is destroying jobs faster than our natural economy can replace them.”**

Why is this happening?

**Resource allocation productivity all over the world now seems to be improving at an ever increasing rate of speed.**

We can’t create jobs fast enough to keep up with the speed with which they are being destroyed.

Look back at “job growth” from 2000 to 2007. It now looks like nothing more than an aberration inspired by a giant financial Ponzi scheme. Not knowing we were even in a giant Ponzi scheme sort of acknowledges that **bubbles can be created when disruptive technologies run past man’s ability to understand how to efficiently use them.** We started using a large sharp rock to pound and process Woolly Mammoth hide. Then we figured that rock was good to crack our neighbor’s skull so we could steal his personal stash of already processed hides.

Without this giant Ponzi scheme we would have had much lower job growth from 2001 to 2007 in homebuilding, construction products, consumer products, retail, restaurant, consumer services, financial services and every other field that serves these industries.

Goodness gracious! What would our economy look like if we had NOT let disruptive technologies run past our ability to understand how to use them? Certainly unemployment would have been much higher over this period. And now going forward?

My “day job” is dealing with employment, so I pay very close attention to it. I must know where the jobs are going to be so I can get my business in front of that wave. Today people are calling me from all over the country asking, “Where’s the opportunity?” Where the jobs are, or where they are going to be, is also likely where investment opportunity resides. So far, here is what I have determined.

**“Every forest fire produces fertile ground for the next forest.”**

Mother Nature rules in spite of all man’s effort to control her. We are now living through one gargantuan economic forest fire. So where is the opportunity while the forest is burning down? And where will the opportunity be when the fire is finally out?

The easiest answer is that during every forest fire we need more firemen. Today those jobs are in the government or in roles that perform bankruptcy, turnaround and restructuring services. In addition, we need people to sell off the burned down trees...auction houses. Private market opportunity should exist within legal, accounting and consulting practices that work on bankruptcy, turnaround and restructuring services. Auction and auction services businesses should also do very well.

The challenge with firefighting opportunities is time horizon. Most recent economic contractions have been short term in nature, making it hard to find a sustainable opportunity. At this point in time though, if you had taken a job or made an investment in the firefighting space at its nexus, you would be about eighteen months into the cycle. And right now since that cycle doesn’t look to be ending any time soon you would be commanding a high premium for your services or your investment.

Is it too late to enter and then exit the firefighting space with some worthwhile value? Only time will tell but probably not, as this forest fire appears significantly different than any we may have seen in our lifetime. Technology’s disruptive force is still quite alive and active.

There is another place to be while the fire is burning. Firemen need tools. They need services. Where are these opportunities? Look to the government stimulus. Where can we expect the government to throw their firefighting effort? Renewable energy for sure. Engineering services that support infrastructure development and maintenance. Expanded health care and social services. Construction companies that build and maintain infrastructure. Government services that help people with the checkbook make their decisions. Paying attention to the coming stimulus package should reveal opportunity.

While this fire is still burning there are at least two other places to find opportunity.

One would be in what might be called “price economizers”. These are companies that sell basic goods and services everyone will purchase during both expansions and contractions. The easiest examples of this are grocery stores and WalMart, where today sales growth is still solid. Consumer purchases are going to leave the high margin luxury goods market in favor of the lower margin necessity market. McDonalds and Taco Bell will be winners while fancy food restaurants will be losers. Consumers always need to find ways to reward themselves, but until we get back to “the good ole days” they will spend much more modestly on vacations, entertainment, general leisure and gifts. Look for “price economizers”.

The place that provides the best of all opportunity are companies still pouring fuel on the fire. “Huh? Pouring fuel on the fire? What?” Although current technology may have changed many markets, there are likely numerous industry niches that have yet to be re rationalized. Book retailing has already been changed by Amazon. Music sales by iTunes. DVD rentals by Netflix.

Amazon just reported excellent growth and earnings. Circuit City just filed for liquidation. Can we expect Amazon to hire those 30,000 people getting let go by Circuit City? No way. With Circuit City gone does that leave clear sailing ahead for Best Buy? Probably not. Just about everything Best Buy sells can now be purchased over the Internet. For Best Buy it likely is only a matter of time before they too go way of the buggy whip. They likely have over allocated resources to bricks and mortar retail stores.

The consumer space seems to have been the first re rationalized by our current disruptive technologies. Could the commercial market still hold opportunity? Maybe it is time to reconsider all those B2B companies that were started in the late 1990’s and crashed early this decade. Those companies had visions of radically changing and improving the productivity of their markets. Maybe those ideas were just ahead of their time. Back then their markets may not have been mature enough to embrace the new technology. A local Houston company, Salvagesale, is a good example.

Salvagesale started out in the late 1990’s as a disposal channel for “things” insurance companies inherited after paying off accident claims. Salvagesale was set up to dispose of these “things”

using the Internet. In a way they were a commercial eBay. Now with lots of bankrupt companies liquidating, on line commercial auction services could be right place right time.

It might make sense to look at any surviving B2B companies that were started in the late 1990’s. All of these companies were founded with the premise of increasing productivity in their market. If they are still alive today, their business model may have proven out, or evolved to find sustainability. If their niche is now ripe, these companies may be ready to reap the rewards their original investors, long ago diluted, first expected.

Some industries with re rationalization opportunity might be protected by lobbying influenced regulation. But the genie is out of the bottle, so there’s only so much time before these dams of inefficiency are broken. Simple examples here might be Realtors and Medical Records.

Where is an industry ripe for re rationalization? That’s the place to find opportunity. It may seem like an unpatriotic thing to do but this genie is not going back in the bottle. The circle of life is not going to stop. **Schumpeter’s creative destruction is running with a full head of steam and quite possibly at the speed of Moore’s Law.**

Firemen, auction houses, firefighting services, government stimulus, “price economizers” as well as companies pouring fuel on the fire are all places to find opportunity while Rome is still burning. But where is the opportunity when the fire is out?

**“Every forest fire produces fertile ground for the next forest.”**

Why is this ground so fertile? Obviously because all the fallen trees fertilize the ground with lots of organic matter. In addition, the more trees that fall the more sunlight is available to nourish what is left in the forest. Economic translation - lower input costs and less competition. So, where is the opportunity?

You want to be in seeds (startups), seedlings (small companies left standing) and existing trees (companies) that didn’t get totally destroyed by the fire.

Ideally you want to be in efforts that have the ability to keep pouring fuel on the fire. They will enjoy the most robust and rapid success. You also want to find the not terminally seared trees that will enjoy an enviable position with lower input costs and less competition. But you might want to be careful of picking a seared tree in part of the forest that has yet to be disrupted by today’s technologies. There are still many companies like Best Buy that sooner than later will be re rationalized by the new world order.

One more trend that is likely to gain momentum and provide opportunity during and after this fire is “Made in America”. Washington is currently debating on whether to make “Made in America” part of the next stimulus package. Whether “Made in America” is or isn’t part of the language in this legislation will not change the fact that more and more people and companies are going to grow their patriotism. Find a “Made in America” company. The tide will be rising for them for quite some time.

In every market there are opportunities. The perspectives above look at opportunities we should consider during the current economic fire as well as after it has burned itself out. But there are still more questions to ask and answer.

What policies should the U.S. take to best manage through this situation? Certainly this question is currently inspiring lots of debate. But we may not possess the knowledge base or skill set to truly understand the alternatives and best path. And the best answer is likely to just get out of the way and let Mother Nature do her thing. **Today it seems the free market is nothing more than an aspiration during an expansion because we certainly don’t want one during a contraction.**

We would definitely benefit from knowing what catalyst might put us back into economic expansion. Where are those next disruptive technologies and how can we position ourselves to benefit from them? I’ll be thinking and hopefully writing about them soon.

Sitting at my little desk, banging on my keyboard, trying to figure out these Big Questions and Big Answers is kind of an isolated lonely endeavor. The only think tank I have to support me is you, so please don’t hesitate to debate, disagree or inject perspectives that might help sharpen my focus. Much thanks for sharing your mind width with me.



Douglas A. Leyendecker  
713-862-3030