



Efficiency of Work

How Good People Are Made Better by Good Systems

Overview

Good people are hard to come by and expensive to keep. Good systems make their lives more efficient and remove grunt work.

This accomplishes two things:

1. Reduces the need to expand head count;
2. Improves efficiency by allowing people to do what they do best instead of grunt work.

Improves Efficiency and the Reduces the Need to Expand Headcount:

Given constrained budgets, it is important to consider the cost savings that can be enjoyed by staying lean on people. This leanness can only be accomplished by giving the current employees the best possible platform and set of tools to work with.

This paper will use the example of a start up opportunity fund which has just raised its capital and is beginning to have some success.

Just because the company has started to enjoy more success and increase in work does not mean that it is best to start hiring a lot of “processors.” “Processors” tend to cost the company a lot in return for modest returns. They increase the size of an organization and the larger an organization is, the slower it tends to run as more processes are forced on people. The original members begin to feel lost in the bigger organization as their contributions start to go unnoticed and their say on direction declines.

On the other hand, a strong centralized system can perform much of the work which these ‘processors’ would have performed:

- Creation of asset summary reports,
- Keeping a deal pipeline up to date
- Emailing the group when a loan closes or is about to close,
- Giving management weekly updates on the status of the entire portfolio
- Etc.

and the huge tendency for 1 off questions:

- “How many of our loans have Circuit City as a tenant?”
- “Which loans of ours are in Zip Codes/MSAs which are highly reliant on business conference travel which will be significantly reduced in the near term, and what kind of NOI/NCF cushion exists on these properties to let them weather this issue?”
- “What loans are maturing in the next year and need to be closely monitored?”
- “Would we break through covenants (DSCR, LTV, Property Allocation) on our credit line if we buy this big portfolio of 100 loans from a failing bank at a huge discount?”

Without a system, these questions take hours for an analyst to answer. With a system they take minutes.

It is safe to say that a company will free up **50% of its peoples time** (we have heard people claim even higher efficiency gains with systems such as Rockport, but for the sake of a conservative estimate we will assume 50%).

Given this a company that would be 10 people would gain a time savings of 5 people.

For a shop of 20 people, it would be 10 people.

This means that a small (20 person) firm would only need to be 10 people if they used a centralized and efficient system.

Assuming a very conservative total compensation of \$100,000/yr that is a **yearly cost savings of \$1,000,000**. If their salaries were higher (probably) this 1,000,000 would increase even further!

Talented People Shouldn't Do Grunt Work:

- How many times is someone asked to retype the same information?
- Why should you manually create an Asset Summary Report in Microsoft Word when all of the data is already available in the Underwriting Model?
- How do we put together a portfolio data tape – is it, “click a button and it’s there” or “put a team of analysts on it for a week”?
- Should we put someone on Pipeline duty which means that they spend ½ their day once a week just trying to reconcile information from all the different producers or should we have it updated in real time every time a deal changes?
- How does the closing group double check that the legal documents match the last iteration of the business terms?
- How are the statistics compiled for the quarterly board meeting- manually or leveraging powerful analytic tools?

These are only a few of the dozens of examples of simple tasks which are done manually by firms which do not have centralized, powerful internal systems. These tasks do not make them more efficient, and are not enjoyable. They are the epitome of grunt work and Rockport’s opinion is that they should not need to be done manually.

Our suggestion is to hire the best and the brightest and give them the best possible tool to do their job. With this not only will they do the best job possible and do it quickly, but they will appreciate the lack of grunt work. This kind of company can achieve results which will be something to behold.