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The efficiency effect: how four companies shaped up for a new era

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Short Briefings on Long Term Thinking – Episode 40

Leo Kelion (LK): Sometimes to advance, you must first retreat. Take Amazon in 2017-18. The firm shut several of its struggling stores, including diapers.com, and here in the UK, Amazon Tickets. It put the brakes on meal deliveries, cut investment in its Chinese marketplace, and automated tasks previously handled by human managers. Founder Jeff Bezos also cracked down on bureaucracy, warning executives that complexity is the silent killer of growth. Some of the resulting cuts were painful, but as the firm's unofficial biographer Brad Stone wrote, they unlocked the most fertile period of growth in Amazon's history.

Welcome to Baillie Gifford's *Short Briefings on Long Term Thinking*, our podcast exploring the importance of taking the long view when investing.

I'm Leo Kelion, and I'm joined by Gary Robinson, a manager in our US equity growth team. Gary's also co-manager of the Baillie Gifford US Growth Trust, a manager of the American Fund, and a partner in the firm. In this episode, we'll discuss how recent efficiency efforts by some of his portfolio companies could unlock further growth. But first, a quick reminder, as with all investments, your capital's at risk and your income is not guaranteed.

Gary, welcome to the podcast.

Gary Robinson (GR): Pleasure to be here.

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LK: So this is your second time on the show. Before we dive into the topic, can you just remind us how you got into investing and particularly to specialise in North American companies?

GR: I got into investing completely by accident. I studied biochemistry at university and I realised about halfway through my degree that biochemistry wasn't going to be my future. I was pretty good at the theory, but I was not very good at the lab work. And as you progress through academia, that lab work becomes a much bigger part of your day-to-day routine. So I didn't really know what I was going to do with my life. And I went along to one of these careers fairs at university. And when I stumbled across Baillie Gifford, the head of HR who was there, persuaded me to apply for an internship program that we were running at the time.

So I came up to Edinburgh in the summer of 2002, spent eight weeks with the firm, learned about Baillie Gifford, learned about investment management. And after that experience, enthusiastically applied for a grad scheme and started in 2003. For the first five years at the firm, I spent some time on our Japanese Equity Team. I did a couple of years on our UK Equity Team, a couple of years on Europe. And then in 2008, I moved over to the US equity desk, mainly because I think we'd had one departure from the team to a firm outside Baillie Gifford, and then we had one internal move and our US team needed people. That was my start on the team. That's now going 16 years ago. And it's a market that I just really take into and enjoy working on.

LK: Why do you enjoy it so much? What is it about American companies?

GR: I mean, I'm biased. So you have to take what I say with a pinch of salt. But I still think that America is by far the most innovative and dynamic economy in the world. And as a long-term growth investor, it really is the most fruitful place for looking for investment opportunities.

LK: So we're going to explore efficiency improvements in this show and why the markets sometimes underestimate their long-term impact. I gave an example from Amazon's past at the start, but you also draw inspiration from an earlier period, don't you?

GR: Yeah, I can see parallels with what's going on today in the technology sector and what I observed in the consumer and industrial sectors coming out of the global financial crisis. So right at the start of my time on the US Equity Tteam. So obviously, during the global financial crisis, there was a very significant drop off in demand. And companies were caught flat footed by that drop off in demand. And their margins came under pressure. So they were forced to take a look at their cost bases, their

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organisational structures, their priorities during that period. But what actually happened in the end was they ended up coming out of the financial crisis a lot stronger than they went in and they went on to generate profit margins that were much higher than what [Wall] Street was expecting. So one example would be a company like a United Technologies Group which makes airplane engines and lifts. It was generating significantly higher operating margins in 2011 than it was in 2008. And yet its sales were below where they were in 2008. You fast forward to today, and I think we're seeing a similar pattern play out in the technology sector.

The circumstances were a bit different but there are parallels. So you know this relates to Covid and the locking down of and opening up of the economy. What happened with Covid, as I'm sure a lot of people are aware, is, you know, when the economy opened up again after lockdown, we saw a big shift in demand. You know at that point demand was mostly online because people were at home most of the time. But post-lockdown, demand shifted from being mostly online to a mixture of online and offline. And for companies that were geared towards the internet, ecommerce companies, digital entertainment companies like Netflix, there was a similar effect to what we saw during the financial crisis. So their revenues come under pressure, their growth rates come under pressure, and their margins come under pressure. And some of these businesses actually even went from making profits to making losses.

So Amazon's retail business went from being profitable to being unprofitable. Shopify, the provider of software for merchants to run their businesses online, that went from being profitable to unprofitable. And it forced these companies to take a real serious look again at their organisational structures, their cost bases, their priorities. I think what's happening right now as we emerge from the other side of that is these businesses have gone through that process and are actually coming out the other side of it stronger than they went in. And not just stronger in terms of more profitable and with more profit margin potential, but I think more nimble, more adaptable, more resilient. And I don't think that the market's completely caught up with this yet.

LK: So was this to a certain extent that during Covid times, some of those companies overhired, slimmed back afterwards, but have discovered in doing so, that they're more efficient, because they don't always need the same amount of people or the same amount of engineers on the team, for instance?

GR: I think that's right. I think some of it was over hiring during Covid. That's definitely a piece of it. Some of it is just, I think, a lot of these innovative businesses that we invest in have been growing at very high rates year after year for many years. It's hard to do that and to optimise for efficiency at the same time.

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So it's inevitable, I think, in these sort of hyper growth businesses, that you will have a bit of fat building up inside these organisations. Your structures will be somewhat patched together, your processes won't be fully optimised, and the number of sort of side projects will build over time. And so, I think part of what happened in the last 12-to-18 months with some of these restructurings was companies addressing overhiring during Covid.

But also I think what happened was just that this gave the companies the impetus and the license to actually have a think from first principles about what the businesses ought to look like. And they're coming out of that process a lot more efficient than they went into it.

LK: And obviously there's a human cost to making some of these efficiency cuts but presumably if you're running a company and you put that off the danger is that the cuts that you have to make it end up being a lot worse later on?

GR: I don't think any of these companies wanted to be in a position where they had to reduce the number of staff. What's key in an unfortunate scenario like this is that the process is handled well, that the staff are treated fairly. And as you say, if companies weren't making these changes and sort of future-proofing their businesses, then there's a chance that they won't be around in 10 or 15 years.

LK: And the other thing that happened was ChatGPT and generative AI and people within those companies deciding that the direction of the companies needed to change as well?

Yeah. I mean, this is a big topic and we could go in a lot of different directions with it. And I think we're only just scratching the surface with regards to AI. We can talk about the potential for AI to make companies more efficient. We can talk about the potential for AI to help companies improve their products and to generate more revenues. We can talk about the potential for AI to help companies improve their products and to generate more revenues. We can talk about the excitement of the AI companies themselves.

One notable example that's maybe worth mentioning in this context is Shopify again. And Tobi Lütke, the founder of Shopify, is an incredibly thoughtful individual. And I think he's very paranoid about Shopify becoming bogged down in bureaucracy or slowing down. And he's always stated that his aim with Shopify is to build a company that lasts 100 years, and we're about 20 years into that.

And he says that the reason why large companies slow down isn't usually because they get large. It's because they accumulate what he calls side quests. You know, a main

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quest is the sort of core purpose of an organisation. And side quests are projects that maybe aren't as aligned with the core purpose. They're more 'nice to haves' rather than 'need to haves'. And he says when a company is successful and it starts to get big, it has more resources, and it starts to build up these side quests. But I think that's fine for business during a period of economic strength and where the backdrop is relatively stable. But when you go through a paradigm shift, companies that have lots of side quests alongside their main quest are often less adaptable than companies that are a lot more focused.

And so Tobi Lütke thinks that we're going through one of these paradigm shifts right now with the emergence of AI. And he doesn't want Shopify to be caught flat-footed with that. And so, he's been on a process of trying to reorientate Shopify around its main quest and tackle side quests. So one of the things that happened on the back of this was Shopify disposed of its logistics business. It was trying to build the infrastructure necessary to enable its merchants to send packages to their customers through Shopify rather than through third parties. And this was very much in the category of nice to have rather than the need to have for Shopify.

With AI coming along, he realises that actually this is much bigger. The nature of what is possible for Shopify as a product now has completely changed with AI. And at this point in time, it just makes sense for the company to reorientate its business around this opportunity.

LK: What are some of the practical uses of AI that we've seen them put in place already that their clients can make use of?

GR: It's very early days right now. So the products are still, I mean, they're powerful, but they're rudimentary relative to where they'll be in two or three years' time. The main one for merchants is a product called Sidekick. And Sidekick is almost like an assistant that you can ask questions of, and it will help you build your shop.

One of the challenges with software or traditional software, sort of pre-generative AI, is the learning curve, right? So you start using a piece of software for the first time. Where do you even begin? The way the software is structured is, you'll have lots of sort of drop-down menus and lots of commands. And it's in a format which Tobi Lütke calls sort of imperative. There are things that you can set the software to do in the hope that you will achieve an outcome, but it's an indirect way of achieving that outcome. And you have to understand the software and you have to understand what's possible.

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Shifting towards the sort of generative AI model of this, instead of actually having to move up this steep learning curve of learning everything that a piece of software can do, and then understanding it in a way which enables you to use it to achieve your goal, you just ask the AI assistant. You say, 'AI assistant, I would like to grow my business in Europe. What would be the best way to do that?' And it will make suggestions for you, rather than you having to come up with all of the steps in that plan. So that is where we're ultimately going to with this. But right now, Sidekick is an assistant that can give you tips on how to use the Shopify software platform and really get the most out of it.

LK: And Lütke's concern was that if they didn't do this at speed, they could be disrupted themselves. Is that right?

GR: I think that's it. Yeah.

LK: One of the other things that Lütke talks about in interviews is how he tries to apply the engineering mindset, not only to the products that it offers to the clients, but also to Shopify itself. How much consideration do you give to that as an investor?

To the culture of the business?

LK: Yes, to doing things. I think they've got an internal software system, for instance, that collects data about the business and then suggests that the resources and skills needed to complete the projects efficiently. So he's bringing in engineering systems to make the company work more efficiently.

GR: Shopify has lots of cool things that they do internally they have a sort of bird's eye view system for looking at all the projects that are going on inside the business that look and some of his lieutenants can look at and check where they're on track where they're off track and have this sort of holistic view of all of the missions that are going on across Shopify and how they map towards the main mission. They've built internal software to enable their employees to pick how much of the compensation comes from restricted stock versus just cash compensation, cash bonuses.

They've built their own software for doing marketing, which actually incorporates some AI tools. So he approaches the task of building a company from first principles and draws upon his experience as a programmer and gets to solutions that way, rather than working backwards from what exists already. And I think this is a feature of all the best companies. And that's why, you know, a colleague of mine observed once, and I don't know if this was a quote from someone else or not, but all of the worst companies look the same, but all of the best companies look different.

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And it's because all the best companies are, in my opinion, run by these sort of first principle thinkers who approach the task with a blank sheet of paper and ask, how ought it to be done, not how is it done?

LK: And do you think it matters that he's a founder doing this in terms of being able to carry his staff with him, but also investors as well?

GR: It's incredibly important. I think this is one of the most powerful features of founder-run businesses. If the market backdrop is relatively stable, then I think there are some advantages to businesses being founder-run versus not founder-run. They're significant, but they're not massive. But if you're in an environment where the backdrop is changing, where, say, we're going through a paradigm shift, for example, the shift from desktop to mobile, which Shopify navigated successfully. Or the shift that we're going through right now towards AI. Then having a founder is really, really powerful because during these paradigm shifts, in order for companies to navigate them successfully, they need to pivot fast and they need to redirect the resources inside the organisation away from the core towards what at that point in time are often sort of satellite efforts. And the political capital inside these organisations is usually with the core.

And the reason founders are much better at this than non-founder managers is that founders have the moral authority to do that, to cut through the politics, to make those bold decisions and to make sure that these pivots happen.

LK: We've discussed how Shopify is optimising its business. Let's turn now to Meta, the owner of Facebook, Instagram and WhatsApp. Founder leader Mark Zuckerberg called 2023 its year of efficiency and as part of that cancelled some projects. But that doesn't signal he's becoming any less ambitious, does it?

GR: No, I think there are parallels here with what I discussed with Shopify, in terms of main quests versus side quests. And Mark Zuckerberg puts it differently in his own words. But he said that when organisations get big, they take on a lot of additional projects. And those additional projects on the face of it may look relatively immaterial. But whenever you spin up an additional project inside an organisation, you need to add HR resource, you need to add IT resource, you need a lot more operational support to deal with the increased number of projects. And when you grow these support departments like HR, like IT, the bigger these departments get, the less efficient they get. Smaller is better, smaller is more nimble.

And so there are indirect consequences for the core. I think one of the calls at Meta was just for refocusing of the business around what really matters to the business. This

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was not about retrenching or a lack of ambition. This was about how do we best execute on our core mission. That came alongside some other moves that were really intended not so much just to drive margins higher. I mean, Facebook's a very profitable business already, but to make the company faster and more agile. So another thing that they did alongside this was they flattened the organisational structure.

You know, they're trying to reduce the number of managers and improve the ratio of managers to individual contributors because the less layers of management that you have between these individual contributors and Mark Zuckerberg at the top of the organisation, the better the communication, the faster things get done. The other thing that they've done is deepen their investment, like Shopify, into artificial intelligence.

LK: More than a third of the world are already using at least one of Meta's products. How does spending more on artificial intelligence benefit them? How does it move the dial?

GR: We actually only bought back into Meta last year. We sold out a few years ago. We had a few concerns at that point in time, which, when we bought back in last year, most of those concerns were in the rearview mirror. But the more positive reason for buying back into Meta was that we thought the company was relatively well placed to leverage AI to improve its operations and to improve its products and its business. And that's really a function of the scale and resources of Facebook and the just incredibly valuable data asset that it has.

I mean, one of the ways that Meta has used AI to improve its business is just that it's much harder to target advertising around the web now because Apple made some changes where you're not allowed to track customers as they move over third-party sites. That would have been called 'deterministic targeting', when you know exactly what a consumer is up to. And we've had to move away from that and move towards more sort of probabilistic targeting, where we're taking just a lot of data and trying to sort of impute what the consumer has been doing from all of these sort of data breadcrumbs it can find.

The bigger your data set, the more powerful your machine learning models, the better you're likely to be at that. And I think, you know, Facebook has actually pulled ahead of a lot of others in the advertising world on the back of these changes because it's been able to leverage AI in a way which has enabled it to really do that targeting, that probabilistic targeting more efficiently than its competitors. That's one example. But it's been used across the business in lots of different areas.

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Another is improving the recommendation algorithms on products like Reels. And that's helping, you know, Facebook is quite a mature business when you look at it from the perspective of the number of people who are using the product. But they're still managing to grow engagement now. And I think AI has been a real tailwind for that as it's serving up content that's helping to drive greater usage of these products.

LK: The artificial intelligence also has potential to help them monetise WhatsApp and messaging in a way that they haven't done to date, or at least not on the scale that's possible. Can you tell me a little bit about that?

GR: Yeah, I mean, again, this is quite early stage, but the vision here is WhatsApp's got the potential to be a very powerful customer service channel. The challenge with using it for customer service is just that if you're using human agents to do that customer service off of WhatsApp, it just gets very expensive very quickly. Where AI could play a role here is in a world of AI agents, rather than having to hire hundreds, thousands of people to do that customer service for you, Facebook could provide you with AI agents necessary to do the customer service, and then you can serve those customers through the WhatsApp platform, and Facebook monetises it that way.

LK: So we've discussed two of your longer-term holding Shopify and Meta. Let's move on to a newer one next, Block. Listeners who aren't familiar with it will probably know its co-founder and principal executive officer Jack Dorsey, who was one of the founders of Twitter. Can you give us a brief introduction to what Block does?

GR: Yeah, sure. There are two main parts to it. So Block used to be called Square. And the first part of the business is Square, which if you've ever sort of paid for something at a small offline merchant in the US, there's a good chance you've used Square. So Square provides the hardware and software that micro merchants and small merchants need to accept payments and run their businesses. So initially it started as a little dongle that you plugged into your iPhone.

Consumers would come in and they'd be able to swipe the card on the dongle and the merchant could accept payments with nothing more than an iPhone and this very, very cheap dongle. It's become a little bit more sophisticated than that over time, but the basic principle of Square is that it enables merchants to get up and running and accepting payments offline a lot faster than they would have been able to do with legacy products.

And then the second part of the business is Cash App. And Cash App is a peer-to-peer payments network that initially gained traction with the underbanked and unbanked in the US. But it's grown to be a very significant financial platform now that goes well

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beyond just peer-to-peer. And it offers customers cards, savings products, investment products, and so on.

LK: How does Block then fit into this theme of being focused and disciplined?

I think Block, like a lot of Silicon Valley-based companies prior to Covid, was optimising for growth. And there was some attention paid to the bottom line, but it was definitely much further down the list of priorities than growth. coming out of the other side of Covid volatility. Block is another company that's really, for reasons that go beyond just cost and driving margins up, actually starting to run its business in a lot more of a disciplined and focused way than in the past.

So the company has rationalised the number of projects it's working on. It's really focusing in on the core areas and the growth priorities of the business. It's also capping the number of employees. One of the things with employee numbers is that they can start to run away from you as an organisation. I don't know if you've ever read the book, but there's a satirical but very insightful book called *Parkinson's Law and Other Studies in Administration* by Northcote Parkinson, I think is the name of the author. Anyway, in this book, he says that the rate of growth of employees in an organisation is driven by the number of people in the organisation who would like to have subordinates. And then that in turn drives demand for more employees in the organisation because those subordinates need to be managed.

And then the flywheel starts spinning. And so left unchecked, employee growth can get a bit out of control. And I think that's what happened with Block, where the employee numbers tripled in a relatively short number of years. And so they've put in place this cap at 12,000 employees, and they're going to manage the business under that cap until it becomes a real constraint on growth, which Dorsey doesn't think is going to happen for years.

So this has gone from being a business which was growing very fast but unprofitable pre-pandemic to one which could be very seriously profitable within a year or two, but without compromising on that growth. Actually, there are a lot of benefits coming on the back of this sort of restructuring in terms of the agility and innovative capacity of the organisation.

LK: And in doing this, Dorsey's centralising more of the decision-making in the company so that more reports go through him. How does that benefit Block in the longer term?

GR: I think every great company grapples with the tension between decentralisation and centralisation. I think most great companies are probably tilted towards being

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decentralised, but I think Block probably took that a bit too far to the point where the individual business units at Block were focused on what they were doing more so than the overall mission of the company.

So it's an attempt to just bring the pendulum back a little bit in that direction towards centralisation, but this is still going to be a decentralised company. The reason why Block wants to do this, or one of the reasons why Block wants to do this, I mean, this is a very long-term aim, but there's the potential for Block to build what we call a closed-loop card network. A closed-loop card network is a network where, like Visa and MasterCard, where the transaction is running across the same infrastructure from the point the consumer pays to the point the merchant receives the payment.

And the trouble with building one of these closed-loop networks, there haven't been that many over time beyond Visa and MasterCard. You've got American Express, you've got Discover in the US. The challenge is there's the chicken and egg. You can't sign up merchants to accept your payment product until you've got scale on the consumer side. But consumers aren't going to sign up to use your product until you've got merchant acceptance, unless there are lots of merchants that accept the card. You don't want to walk into a store with a credit card and be a 50% chance that the store is not going to accept your credit card.

So because Block has built this merchant business and the cash app business independently of each other it's actually got significant scale on both sides of the network. What it needs to do now is bring these two functions closer together and start to tie them up a little bit more to make this more of a seamless closed-loop network rather than two independent businesses. And that requires a little bit more centralisation than in the past.

LK: And have you had a chance to talk directly to Dorsey about his ambitions?

GR: Yeah, yeah. We spoke with Jack Dorsey a few months ago over a video call. I came away from that conversation feeling like he's really engaged with the business at the moment. He's set out a very clear strategy for what he wants to do and he's been a lot more public facing than he's been in the recent past. I think that's great. I think what it's doing for Block is it's really giving the organisation, and what has been a challenging time, it's reminding people of the purpose of the organisation and driving alignment around these sort of long-term goals.

LK: Let's return to Amazon. I mentioned at the start Jeff Bezos' historic efficiency drive. More recently, his successor's CEO, Andy Jassy, has made changes of his own.

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They include the biggest round of job cuts, about 30,000 posts at this point. But that's not the full picture, is it?

GR: No, I mean, I don't think any company would want to be in the situation that Amazon found itself in as we were coming out of lockdown. The bottom line is that they overinvested in the business and the expectation that Covid-level demand was going to persist when the economy opened up, it didn't. What we saw in the US was that the online penetration actually having spiked during the pandemic drifted back down to its long term trend. And Amazon ended up with this inappropriately large cost base.

The retail business was profitable pre-pandemic, actually dropped into a loss. What we ended up with this inappropriately large cost base. As retail business was profitable pre-pandemic, it actually dropped into a loss. You know, what we're seeing with Amazon right now is a lot of that infrastructure that it built out, none of this is subject to obsolescence risks. So the company's growing and filling up the capacity and as it's doing so, it's doing so at a very significant incremental margin. Alongside this, you know, Andy Jassy has driven Amazon to be a little bit more focused, a little bit more disciplined. And so the margin profile of the business is this year potentially going to be a lot stronger than it was even pre-Covid before it started to make these investments and ultimately ended up overinvesting in the business.

But the bigger picture with Amazon really is going beyond the efficiency side of it, it's just the growth side of it. And Amazon's retail business on the face of it is relatively mature. It's a pretty significant share of ecommerce. But ecommerce is still only 20% of retail sales in the US.

But beyond that, Amazon has a number of quite significant and very profitable lines of business that are growing faster than its core ecommerce business. One of those is advertising. Advertising is something like a $60-$70 billion revenue run-rate business for Amazon at very high margins. You know, Amazon's almost like the perfect platform for advertising now, especially post these Apple changes that have made it difficult to track consumers around the internet because the Amazon platform is one where the advertising and the transaction happen in the same place, providing that very powerful sort of information feedback loop.

Another business that's very exciting at Amazon is Amazon Web Services, which is the cloud computing business. And, you know, that, again, is, I think, very early on and tapping into its long-term growth opportunity. It's already a massive business, but I think the scope for that business to be a lot bigger in the future than it is today.

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GR: And presumably by finding those efficiencies, again, it gives Jassy that leeway to do more investment and one of the areas they're investing in again is artificial intelligence both in terms of chips and also the software development. I know they've talked publicly about the idea of having something like a supercharged Alexa their voice assistant that they might be able to charge customers for. But presumably the bigger opportunity is AWS selling generative AI services to others. How big a market could that be?

GR: I mean, it could be massive. We've had sort of cloud computing 1.0 over the last 10 plus years. Prior to Amazon Web Services coming along, if you wanted to have compute power in your organisation, you needed to build a data centre and then buy equipment, and install that equipment in your data centre, and then hire people to run the equipment. It was a big upfront cost and you needed to predict how much of it you were going to use in advance without real knowledge of what your utilisation of that was going to be. So there was always excess, there was always waste, and you bought for peak capacity rather than average needs. What AWS enabled was customers to get access to compute power on demand over the internet as and when they needed it. That was transformational, but that was a multi-hundred-billion-dollar opportunity.

The next wave for cloud, I think, is probably an order of magnitude bigger. This is where you're taking processes which are currently manual and inside organisations and making those processes digital and running them in the cloud. So, automating processes and using AI in order to do those for you in a digital manner.

LK: Can you give me an example?

GR: Anything routine that can be done by a human could potentially be done by a computer. This is where generative AI could be drafting legal contracts for you. They'd probably still be reviewed by a legal expert at the end of the process, but a lot of the work is actually being done on silicon rather than by a human. All of the time and all of the effort that goes into doing a lot of the routine work right now eventually gets digitised. All of that's going to be running inside data centres.

LK: And that presumably means you then see further efficiencies go more widely through the economy and productivity go up as a consequence.

GR: Absolutely. I think the productivity implications of this are potentially quite profound.

LK: It's amazing that, for a company of Amazon's size, there's still so much headroom for it to grow. This has been fascinating, Gary. Before we wrap up, one of the things

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we like to do on the podcast is ask our guests what they're reading. So what's on your bedside table at the moment?

GR: Well, I've just finished reading it. It's a book called *How Big Things Get Done*. And that's about how big projects get done.

LK: Yeah, that's by Professor Bent Flyvbjerg. What have you learned from it?

You know, when you look at the sort of big projects that have been tackled, most of them are spectacularly over budget. One of the solutions to this, it seems almost too simple to be true, but it's just like we'd be much better at estimating the cost of big projects if we just looked at the base rates. If you're going to build a 10-story building in America, what people do most of the time is they'll look at the costs of labour, they'll look at the cost of equipment, and they'll come up with an estimate of what that building is going to cost, cost of equipment, and they'll come up with an estimate of what that building is going to cost.

That is far less accurate than just looking for the actual base rate data, which is what are all the 10-story buildings that have been built in America over the last 20 years and what did they cost? And then you can adjust that up or down a little bit based on the unique aspects of your own project, but most of the time that's actually counterproductive. Just look at reality as your reference point, not your own estimate. And I think there's some lessons for us to take away from that for investing.

LK: Gary, it's been a pleasure talking to you. Thank you for coming on the podcast.

GR: Thanks, Leo.

LK: And thank you for joining us for this conversation. You can explore more of Gary's investment thinking in articles and videos on Baillie Gifford's website. I highly recommend his recent paper, *Lessons From Evolutionary Biology*, where he explores the importance of adaptability. You can find a link to that and some of his other work in our show notes.

We've also included some of the podcasts and articles I used to prepare for the conversation, including interviews with Shopify's Tobi Lütke and Meta's Mark Zuckerberg.

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Show notes

Sometimes, you have to take a step back to leap forward. Over the past couple of years, Meta, Amazon, Block and Shopify are among the growth companies to have made efficiency cuts following the pandemic. Gary Robinson, an investor in Baillie Gifford's US Equity Team, says that's made them more agile and resilient – qualities that will let them take advantage of artificial intelligence and other opportunities to drive long-term growth.

Background:

Gary Robinson is joint manager of the Baillie Gifford US Growth Trust, a manager of the American Fund and a partner in our firm. In this episode of S*hort Briefings on Long Term Thinking,* he explores how four leading internet-focused firms have streamlined their operations and reallocated resources to become more adaptable during a period of rapid change.

Robinson draws a parallel with companies that made cutbacks after the global financial crisis to suggest that the markets may have underestimated how much growth can be unlocked by leaders taking a hard look at their firm's spending, organisational structure and business priorities.

Robinson suggests that recent efficiency drives will help Shopify, Meta and Amazon pursue AI-related opportunities that could meaningfully increase their earnings. And at Block, efforts to bring two products closer together could help the firm challenge Visa, Mastercard and American Express.

Resources:

Behind The Tech: Tobi Lütke: CEO and Founder, Shopify

Dwarkesh Podcast: Mark Zuckerberg – Llama 3, Open Sourcing $10b Models & Caesar Augustus

Bent Flyvberg: *How Big Things Get Done*

Cyril Northcote Parkinson: *Parkinson's Law, and Other Studies in Administration*

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More from Gary Robinson:

Lessons from evolutionary biology

Why companies should embrace chaos

Companies mentioned include:

Amazon

Block

Meta

Netflix

Shopify

Timecodes:

00:00 Introduction

01:40 A background in biochemistry

02:55 The appeal of American companies

03:30 Parallels with the global financial crisis

04:40 Post-Covid efficiency efforts

06:25 Addressing overhiring and patched-together processes

07:40 Future-proofed businesses

08:00 The potential of AI

08:10 Shopify and the distraction of side quests

10:45 Shopify's Sidekick assistant

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12:50 Engineering Shopify's internal operations

14:20 The authority of founder-leaders

16:00 Meta's 'year of efficiency'

18:00 How AI can drive further growth at Facebook and Instagram

20:10 Business chatbots on WhatsApp and Messenger

21:15 Investing in Block

22:30 Capping employee numbers without compromising growth

24:40 Square and Cash App's potential to rival Visa and Mastercard

26:35 Meeting Jack Dorsey

27:40 Discipline and focus at Amazon

29:00 Amazon's fast-growing advertising business

30:20 Generative AI's trillion-dollar opportunity for AWS

31:25 Offloading routine tasks to artificial intelligence

32:25 Book recommendation

33:40 Outro

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