

TECHNOLOGY ACQUISITION UPDATE

Time Traps and Opportunity Cost

by Thomas V. Metz, Jr.

In a previous newsletter, we discussed the cost of leisure time and concluded that it was the same as the cost of work time. In this article, we compare the cost of time spent on different types of work. It is easy to fall into the trap of "I can, therefore, I should." In the end, you should spend your time where you can add the most value.

Time traps are pernicious. While I was writing this article, I got a phone call from the contractor who was remodeling my kitchen. He inquired whether I wanted him to take on an additional project – installing new baseboard molding. I thought his price was a little high and considered doing the project myself.

Now I am handy enough and could probably do an OK job. Then the irony hit me. Just because I can does not mean I should. My time is much better spent on other tasks. I have hobbies that I much prefer doing than installing molding, and if I chose to spend that time working, I could create much more value in my business than the cost of the molding installation. The moral of this story: our time should be spent where we can add the most value.

We are surprised now and then by CEOs and a few venture capitalists who don't subscribe to this concept. Several VCs we know opted to attempt to sell a portfolio company themselves rather than bring in outside help. Even if they were investment bankers earlier in their careers, they should spend their time on their highest and best use – seeking out and nurturing emerging companies, not getting involved in mergers and acquisitions. Mergers and acquisitions can take hundreds of hours to bring to completion; you don't just make a few

phone calls to your contacts. The fee they save will almost always be of less value than the value of their time.

The same is true for presidents and CEOs of companies. They can add the most value by building their companies – increasing revenues, expanding distribution channels, boosting marketing efforts, making strategic decisions, and hiring capable people. Mergers and acquisitions take lots of time. Sure, they may save a fee, but they could have created much more value by functioning as CEO of the company.

OPPORTUNITY COST

What is going on here? Well, as an armchair economist, I discovered that the concept we are discussing is opportunity cost – the opportunity cost of your time. Actually, a very sound economic principle underlies this argument.

What exactly is opportunity cost? Opportunity cost is the highest valued alternative that was sacrificed for the option that was chosen. To put it another way, the cost of using a scarce resource (your time) for a particular purpose is measured by the benefit forgone -- by not using that time for an alternate use. The opportunity cost of something is what you sacrifice for it.

LIMITED RESOURCES

Life is time constrained. Choosing to spend a slice of time on one activity means you can't spend that same segment of time on another activity. You are always trading off one use of one resource for an alternative use. Time is no exception. Be wise with your time; spend it where you can add the most value.

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