

TOTAL ECONOMICS

HOW TO PROSPER LIKE A MOBSTER™

To understand our solutions - we need to teach you everything there is to know about economics in 12 minutes. *Everything.*

To start, no matter how pro-corporate profits we are (and we are MASSIVELY pro-corporate profits), you can't think about profit. It's secondary. Maybe even thirdary. Focusing on profit is like focusing on buying a great scale in order to lose weight. The scale is a measurement device. It in no way contributes to weight loss.

The same applies to profits. Why? Because no one ever makes a profit by an all-consuming focus on making a profit. For my purposes the following statement by a wildly illiterate bigot is more important than Milton Friedman's entire canon. The guy's name is Henry Ford:

"Business must be run at a profit; else it will die. But when anyone tries to run a business solely for profit then the business must die as well, for it no longer has a reason for existence."

You need to understand that: **PROFIT IS AN OUTCOME, NOT AN INCOME.** Profit is a measurement, an output determined by a variety of inputs. As such, to talk about profits generically is a concentrated waste of time.

So, if profit is an outcome, we first need to seek the elemental source of profits. Regardless of what they taught you at the University of Yada Yada, there's only one definition of the source of profits that gets us closer to the essence.

BUSINESSES CAPTURE AS PROFIT A PORTION OF THE VALUE CREATED FOR THE CUSTOMER.

Boom! Straight outta Brew Town, y'all. Alright, since value is the source of profits, the first thing we need to understand with perfect clarity is what is value? Value is only one thing / one thing only.

VALUE IS THE CUSTOMER'S PERCEIVED BENEFIT FROM THE USE OR CONSUMPTION OF YOUR PRODUCT OR SERVICE.

Value has nothing at all to do with your product itself. Just with the benefit the customer derives from utilizing your product. The oft-stated exemplary:

Black & Decker doesn't sell quarter inch drills (PRODUCT). They sell quarter inch holes (VALUE).

You think you sold them a drill but what they actually bought and paid for was the hole. That's *all* that matters to them. Your profit is based entirely on the hole, not the drill. As we said, profit is a portion of the *value* created for the customer and so ultimately your

profit is simply a share of how much PLEASURE the hole brought your customer. Nothing else.

There's a quantum difference between value and product. Great example of the timelessness of this fact:

One of the most beloved entrepreneurs in American history is Peter Revson, who started Revlon Cosmetics in 1932. It is arguably the worst year of the Great Depression, perhaps the worst year in U.S. business history.

And he's selling the most extravagant, frivolous product imaginable - nail polish. His polish is red, at the time a color associated only with prostitutes. He sells his polish for fifty cents a bottle compared with his competitors' ten cents a bottle. Again, a severe depression is going on and he adds a 500% premium.

For this price you'd expect quality. At first, the red nail polish not only didn't last very long but actually often very quickly turned to sickly yellow. If all this isn't enough, he only has \$300 to start so he's borrowing money from New York loan sharks, and on a good day the vig is only about 2% a month.

And yet, Revlon builds a billion-dollar international business. Another one of those God Bless America deals. How you might ask, did he do this?

His competitors were in the nail polish business (PRODUCT) while he understood from Jump Street that he was in the fashion business (VALUE). He was in a much better business. Here's how smart he was, understanding the difference between value and product:

"In the factory, we make cosmetics. In the drugstore, we sell hope."

It's ALL about the customer's perceived benefit. Always has been - since the Noah Boat Company in 2200 BC. All elite companies and especially successful entrepreneurs focus on value (the customer's benefit) not products.

Like economists, we will refer to customer value as UTILITY. We measure the benefit in units referred to as UTILS. Think of utils as little portions of happiness. At the very upper end of the scale, certain bedroom activities are exactly 214.7 utils.

At the lowest end of the scale, having to utilize Twitter / X is actually -92.3 utils. Yes, negative utils are indeed possible. It is the opposite of utility. Referred to as DISUTILITY.

We get it, maximize the utils. But the problem is, despite what we just told you, as important as value / utility is, it's not everything. In fact, **VALUE IS DEFINITELY NOT EVEN THE MOST IMPORTANT THING**. Oh boy. Give you an example:

Let's imagine you could build a contraption that you call a jet that would convey 516 people from New York to Los Angeles traveling at 550 mph. It is magnitudes quicker, cheaper, and safer than any other mode of transportation. Think steamships. It's a quantum leap in value.

Massive utils, right? Probably as good an example as any in economic history. Yet historically no one made ANY money doing it. Oops! Not only was there zero capture of the enormous value they were creating for their customers, but they also mostly lost money providing this extraordinary utility.

How is that possible? What's missing? Well, the essential dilemma was there were roughly six or seven airlines providing *the exact same utility*.

Pay attention. **ALL OF BUSINESS IS CONSTRUCTED FROM NOT ONE BUT TWO FOUNDATIONAL BUILDING BLOCKS - UTILITY AND SCARCITY**. You know what utility is. Scarcity refers to the inability of competitors to effectively duplicate your utility.

Yeah, you're thinking of differentiation but differentiation ain't scarcity. Not even close. I mean, let me guess - your competitor comes out with a blue toothbrush so you come out with a yellow one?

True scarcity is never cosmetic or superficial. It's not just that what you offer is different, it's that others can't provide the pleasure that you can. Or more importantly, even an approximation of it.

For example, Uber offers tremendous utility. Phenomenal. But because others can provide that exact service (think taxis / Lyft), they've lost tens of billions of dollars in their ride-sharing business since inception.

For years every time they gave somebody a ride, they lost a ton of money on that trip. Kind of the opposite of what we're going for, the more people purchased their product the more money they lost. As they say, when you sell below cost it's awfully hard to make it up on volume.

They have competition in every country in the world that they operate. Scarcity? Zippadeedoodahday. By the way, it was Lyft who first came up with the idea of people using their own cars concept.

But don't be alarmed, you don't need international scarcity like Uber does. Just in the geographic territory you occupy. For example, there may be a few other companies in the country that offer deep-fried Pepsi and deep-fried sticks of butter for four bucks apiece. But at the Indiana State Fair one vendor has complete scarcity and as a result, complete joy.

Demonstrate how important scarcity is, we're going to give you a tragic example of just how much more important scarcity is than utility. It's also a classic example.

Water is certainly in the running as having the most utility of any product ever devised. Diamonds, conversely, have some, but not much, meaningful utility. Certainly, little in comparison to water.

Yet the one whose utility literally keeps you alive has essentially been free and the comparatively useless one costs more goats than Rudy Guiliani's favorite hookah. All because scarcity is far more important than utility when it comes to profitability.

Listen carefully:

A COMBINATION OF UTILITY AND (ESPECIALLY) SCARCITY IS THE ONLY THING THAT EVERY SINGLE SUCCESSFUL BUSINESS IN HISTORY HAS IN COMMON.

EVERY. SINGLE. ONE. EVER.

Literally, they all offer customers value that can't easily be found elsewhere and as a result are *guaranteed* an economic profit.

UTILITY AND SCARCELY ALONE DICTATE THE FATE OF EVERY COMPANY IN THE ENTIRE HISTORY OF CAPITALISM.

WE CALL IT UTILITY.

It takes both unless you're a monopoly like Microsoft, who peddled the worst products in American history for decades and yet made a fortune. Let's look at an example of a company who had tremendous scarcity and virtually no utility. At least in a meaningful way.

You know those motorized Segway transporters? Machines the founder said, "will be to the car as the car was to the horse and buggy." The technology is indeed extraordinary, resulting in basically total scarcity. But ultimately, what's the utility?

At least with the consumer version, how are they in any way necessary or even all that valuable? Especially at several thousand dollars apiece? Now, we get the fact that the new owner of the company plunged 80 feet off a cliff while riding one and killed himself didn't help. But they have been a near total failure due to a lack of real customer benefit.

But the point is, utility and scarcity dictate the fate of every company in history. There are NO exceptions. You cannot thwart the laws of utility and scarcity. Cannot escape their gravitational pull. Again, unless you're a monopoly.

Utility and scarcity are far more important than supply and demand in understanding business success in the 21st century. There is actually no comparison. Don't care what your experience is or how educated you are. Don't care how many goats you own or how many research assistants you have.

Utility and scarcity explain the fate of every business in history and *nothing else does*. Explains for example why Amazon did over a half a trillion dollars in business before they made a dime in profit while Whole Foods was profitable by 3:00 on its very first day in business.

Which leads to the essence of business. All businesses have to find their own essence. It's different for everyone. And we know exactly where that is.

YOUR ESSENCE IS THAT PLACE WHERE UTILITY AND SCARCITY INTERSECT.

It is at that EXACT LOCATION that you will find perfect harmony. And nowhere else. Discovering your intersection is quite frankly the entire point of all this. Everyone resides at an intersection, some are far more valuable than others. For example:

It's 1997 and Apple is perhaps three months at most from declaring bankruptcy. Literally gonna go out of business. Steve Jobs shows up and he's of course a Super-Freak. He's a Super-Freak because he knows *exactly* what we know about utility and scarcity.

He knows that Apple's utility is to make perfect and exquisite consumer products and more importantly their scarcity is that they can seamlessly weld hardware and software into virtually any product. And no one else can do this.

IBM can't. Hewlett-Packard can't. Microsoft certainly can't. Music. Phones. Tablets. Watches. Whatever. Like it matters? Hell no, they own an intersection.

You have no choice but to determine what value you provide that can't easily be found elsewhere. For both your company and especially for you as a person. For businesses, the search for this intersection consumes elite organizations. They devote their best people and the bulk of their resources to it. Actually, that was a joke. Most big companies don't know squat.

So, why is this intersection so important?

BECAUSE IF YOU FIND THAT EXACT INTERSECTION OF UTILITY AND SCARCITY IT IS THEN, AND ONLY THEN, THAT YOU DEFY THE CONVENTIONAL LAWS OF ECONOMICS AND MAKE EXCESS PROFITS.

As an aside, we're WAY into excess profits. Not for the reason you think. At that intersection you don't chase profits, profits chase you. Excess profits exist nowhere else in this spectacular universe of ours but at this exact intersection. We can prove it. Without any doubt. In fact, the only thing you need to know from classical economics.

"If desire of good increases while it's availability decreases, it's price rises."

Taqi ad-Din Ahmad Ibn Taymiyyah, Muslim economist, 1300.

Thanks Taqi. Did you notice the year? 1300 A.D.? Apparently, this is not news. Utility increases demand. Scarcity reduces supply. The only place on the planet where excess profits are absolutely guaranteed.

All this time they've been telling you it's about supply and demand. But what that really means is from time immemorial it's been about utility and scarcity.

This intersection is the most valuable place imaginable because **WHEN YOU COMBINE UTILITY WITH SCARCITY ONLY ONE THING EMERGES: PRICING POWER.**

Profits don't just show up by chance. At their most basic, they are measured as the difference between price and cost. The greater the difference, the greater the profit. The only way to generate excess profits is to sever the connection between price and cost. And there's only one way that happens.

When you have scarcity, **PRICE IS BASED NOT ON COST BUT ON VALUE.** What we refer to as "True Value". Consumers pay *exactly* what your value is worth to them at that moment. A quick example of epic pricing power and the importance of scarcity over utility.

There have been times in the history of the film industry that popcorn sold in theaters was the only thing keeping them in business. The dynamic is simple - since theaters don't provide outlets for you to plug in your own popcorn popper, they basically have complete scarcity when it comes to supply of popcorn during the viewing of a movie.

Now the popcorn they sell isn't that much better than the popcorn you eat at home. Not more valuable or possesses superior utility. But due to scarcity it is indeed more expensive.

And (true story) since historically some theaters actually connected an exhaust fan from the popper into the theater, well, demand is based on desire, not price (and certainly not cost).

As a result, a large cup of popcorn typically contains eight cents worth of popcorn kernels and is sold for \$9.50. A roughly 11,000% markup. And *that* is pricing power - charging exactly what the utility is worth to the consumer and having no relationship to the cost because of scarcity. Hence, profit is maximized.

Without scarcity, price is based entirely on your cost. The result? Think penis cancer.

Competition artificially forces prices down, so consumers pay less, in many cases a lot less, than your value is actually worth to them. It's not that your product is any less valuable, it's just *less expensive* to acquire.

There is a local sub sandwich place that has the best subs in the world. My Suburpia Miles Standish turkey sub costs \$5.20. I would gladly pay 100% more than that for one. But I don't have to, not because it's not that valuable to me, it's extremely valuable. But because of the close competition making the price far less than I would be willing to pay.

I've had many a \$90 poached salmon with dill sauce dinners, and I would have absolutely preferred a Suburpia - actually, for that price, eighteen of them. It's now how I measure all restaurants, how many Suburpias are they worth?

This example is important. Without some scarcity, prices are not based on the consumer's pleasure at all, but on just how low your stupidest competitor is going to charge above or even below their cost.

THE ONLY PROOF THAT YOU HAVE TRUE UTILITY AND SCARCITY IS PRICING POWER.

When we say all successful businesses have something in common - utility and scarcity, what we're really saying is that **ALL SUCCESSFUL BUSINESSES HAVE ONE THING IN COMMON - PRICING POWER.**

The following example is about a man many had believed to be the best corporate manager in American history. Most people now think he's a putz (myself very much included). But at the time he built the most valuable company in history. Based on seriously simple stuff. Our stuff.

It's 1981 and John Francis Welch Jr. takes over General Electric, a sprawling conglomerate with over 150 unrelated businesses. Welch is a smart guy and knows what we know but realizes on day one that with 150 companies he doesn't really have the time to delve into the things we care about like utility and scarcity.

That takes time, thoughtful reflection, discovery and the man is under pressure to perform so his shareholders can buy many goats (as quickly as possible). As a result, the dude basically just says screw it. Let's straighten this thing out like in real time. They called him Neutron Jack. Tossed over 125 companies and sales go down by 30%.

Takes mucho grande cajones to watch revenue decline in a publicly traded corporation. But so what? He didn't have utility and scarcity with any of those companies so what good were they to him? Remember, nothing else matters. So that's why he got rid of. You know what he kept?

Only those companies that had what, class? Pricing power! Well, duh! Didn't matter how much money you made in profits, didn't matter if you were an iconic brand - nothing mattered but pricing power. And you want to know how powerful pricing power is?

In his first 20 years, revenue goes up by a paltry factor of four. Big deal, a Rhesus monkey could have done that and they're only as smart as your average 3-year-old. No, revenue doesn't increase much over this time. But the stock goes up by 5,000%. Yeah, increases GE's market valuation from \$12 billion to \$600 billion.

Most valuable company in the history of capitalism at that time. But what you gotta dig is exactly how he did it. Most of us watch the movie from the beginning. Not this guy. He's Michael Corleone and on his first day on the job, he's killing the heads of the Five Families. Like, screw a learning curve. I don't got time for that, ese. Like, we're gonna get pure from Jump Street. Tell the Don I'll be home for dinner.

By the way, every single thing Michael Corleone ever did - murder, bribery, extortion was all done to achieve what? Pricing power of course. And so Welch and Jobs and Michael Corleone basically did one thing. The exact same thing Warren Buffett has done. Ohh wait, we didn't mention Warren Buffett? The best investor in world history?

So, we'll let you in on a little secret. Shhhhh. You can't tell anyone. It's super-secret. Warren Buffett only invests in companies that have pricing power. That's it. That's why he's legendary for deciding to buy multi-billion dollar companies in typically 15 minutes or less.

I mean, he's just looking for the one thing. Nothing else really matters so it doesn't take him very long. Of course, you don't have world class management with extraordinary passion he's less interested.

But he can find that. Trust me. Don't care how much of that you have, if you don't have pricing power you sure as heck don't have Uncle Warren's money in your pocket. Sorry. Take it on down the road. Vaya con dios.

And based on this one single thing he's built the fifth most valuable company in America. It's possible that only about 12 people in the world know about our stuff. Not really a surprise that he's one of them.

Well, you now know what Warren Buffett knows. In total. Together these three guys had built over several trillion dollars in market value. And one hell of an olive oil business. Just a thought, but perhaps they may have some insight. Just saying.

Although, you want a simpler example? A more rudimentary example of pricing power based on scarcity and utility that results in consumers paying *exactly* what the ability is worth to them?

The retail price initially of one dose of Viagra at Walgreens was \$60. Their cost? Less than a penny. Yeah, I know, development costs. Trust me, those were paid off ages ago. As in, bring the world pleasure. It will erupt.

Next? Gotta keep digging.

THE ENTIRE POINT OF ALL OF CAPITALISM IS TO GET PAID IN FULL FOR WHAT YOUR VALUE IS ACTUALLY WORTH TO THE CONSUMER. THAT'S IT.

NOTHING IS MORE IMPORTANT. NOTHING MORE YOU CAN DO. GET FULLY PAID FOR THE PLEASURE YOU DELIVER.

IT SEEMS OBVIOUS AND COMMONPLACE BUT IT IS ACTUALLY QUITE RARE.

THE VALUE OF ANY BUSINESS IS SIMPLY DEFINED BY THE EXTENT OF ITS PRICING POWER - LITERALLY, THE SUM TOTAL OF IT'S ENTIRE WORTH.

SUMMATION:

UTILITY reinforced with meaningful **SCARCITY** results in **PRICING POWER** which is the **ONLY THING** that results in **EXCESS PROFITS** and the purchase of **MANY, MANY GOATS**.

A close reader might say that all sounds great - utility, scarcity, pricing power, especially excess profits. But WTF? You haven't really told us ANYTHING. Where does all this come from? For starters, tell me what *specifically* is at this MYTHICAL intersection of utility and scarcity?

At the intersection of utility and scarcity you're probably thinking there's a product, right? I mean that's what micro-economics has taught us, correct? The supply and demand of a PRODUCT intersect at its price.

You're kidding, right? A product? That's ridiculous. Here it finally is. The most important component in all of capitalism and economics. What no one can challenge us on.

BENEATH THE BEDROCK, AT THE VERY CORE OF ALL OF CAPITALISM STANDS ONE SINGLE THING. A UNIQUE CAPABILITY.

ALL OF CAPITALISM IS CONSTRUCTED FROM THIS ONE SINGLE STRAND OF DNA.

ULTIMATELY, IT'S NOT JUST THE MOST VALUABLE COMMODITY ON PLANET BUSINESS. IT'S REALLY THE ONLY THING OF SIGNIFICANT VALUE ON PLANET BUSINESS.

LITTLE ELSE MATTERS BUT A UNIQUE CAPABILITY.

One final example. It's 1997, Welch and GE are as usual, the most valuable company in the country. Buffett's Berkshire Hathaway is close behind. Vito Corleone's Genco Pura Olive Oil Company is right there.

On the opposite coast, on the opposite end of the galactic spectrum from this colossus conglomerate stands a relatively young man who also knows what we know.

Knows what Welch knows. Knows what Buffett knows. Definitely knows what Corleone knows. Actually, knows stuff even they don't know. Which is good, because like the rest of us he doesn't have pricing power, but it turns out he does have the one ingredient that it's constructed from.

As we said, it's 1997 on the left coast and Apple Computer is 90 days away from declaring bankruptcy. For the two usual reasons. Their somewhat fancy products don't have much utility and none of them have any meaningful scarcity. Normally it would be time to turn off the lights.

Which is just the way it works. No shame there. Without a shred of utility they had simply outlived their usefulness. And "creative destruction" would simply purge them. But Steve Jobs shows up and he is of course a Super-Freak. He's one of the twelve people that know.

And so his very first thought is, let's first take out back and shoot the MBAs the clown former CEO brought in. With their dissociated product cycle fragmentation troughs and their customer devolved zero optimization refraction sets ... Geez, you're wearing me out. And not in a good way, either.

I mean really, Jobs just wants to do one thing - put a dent in the freaking universe. Good luck finding that in your MBA syllabus. So where does he start? Well, he can't do what Welch and Buffett have done. He doesn't have any businesses (or products) with pricing power and no money with which to purchase some. And loves olive oil but Corleone has that thing cornered.

None of that matters. Does the Welch thing anyway.

First thing, he gets rid of 80% of his product line. Basically, on Day One. Which is hilarious when you think about it right? They're going out of business, and he takes a chainsaw to revenue.

But he had no utility, no scarcity, certainly no pricing power with any of these products, so why the heck not? These products weren't doing him any good. And he knew it. What's really interesting, knowing him, he probably wanted to get rid of all 100% of the company's products.

I guarantee he thought really, really hard about the possibility. But that's probably a bit too much, even for him. You know, a Fortune 500 company without any products. So, he reluctantly keeps the few that are least embarrassing.

But the thing he gets from Jump Street with crystal clarity is he ain't in the computer business. Because that's a product and he's way too smart to think conventionally. No, he's thinking exclusively about one thing - what can we do of value that no one else can do. Which is of course a search for the intersection of utility and scarcity.

He knows that Apple's utility is to make perfect and exquisite consumer products and more importantly their scarcity is that they can seamlessly weld hardware and software into virtually any product. And no one else can do this. What Jobs calls the "whole widget".

No one else can do that. IBM can't. Hewlett-Packard can't. Microsoft of course really, really can't. Apple owns that.

Yep, exactly what we've been telling you about. He isolated Apple's single *unique capability*. The only place in the universe they belonged, where they could prosper the most. And tossed everything that didn't conform to this intersection.

And by the way, that included manufacturing. Why *on earth* would he do that? Had absolutely no utility or scarcity with that. Certainly no unique capability. So, he changes the name from Apple Computer to just Apple Corp. Music. Phones. Tablets. Watches. Whatever. Like it matters? No, they own an intersection.

Welcome Home Apple.

Trust us, like Apple, there is a place for everyone in the economic universe. A place just for you.

A SUMMATION:

1. The objective of business is to maximize wealth – defined in any way you want.
2. You begin with developing a unique capability (an attribute that separates Guys Making Fries from all that is joyous).
3. From this single component, a product or service is assembled that contains some combination of utility and scarcity.
4. With sufficient utility and scarcity, one is able to establish a price based upon value and not cost.

5. When price is predicated on the value to the consumer you have pricing power.
6. Pricing power is the only phenomenon that enlarges the difference between cost and price and results in excess profits.
7. A significant portion of this excess profits needs to be continually reinvested in developing, discovering, nurturing, encouraging, expanding, acquiring, and reinforcing additional unique capabilities.

And then the virtuous cycle begins anew. That is capitalism. In its entirety. In all its glory. A truly exquisite symphony.