# The Forces of the Business Cycle

## I. The Cumulation of Prosperity
1. Conditions at beginning of revival.
   a. Considerable unemployment.
   b. Small volume of business.
   c. Labor and management efficient.
   d. Low raw material, labor, and interest costs.
   e. Debts liquidated.
   f. Accumulated shortage of goods.
2. Favorable outlook for investment construction.
3. Volume of construction increases.
4. Volume of general business increases.
5. Prospect of rising markets stimulates forward buying.
6. Diffusion and cumulation.

## II. Prosperity Contains Seeds of Depression
1. Labor fully employed at high wages.
2. Efficiency of labor and management decreases.
3. Cost of doing business increases.
4. Selling prices increase, but not enough to maintain profit margins.
5. Stocks of goods become large and markets are overbought.
6. Investment construction falls off.
7. Tension in the money market increases.

## III. Liquidation and Crisis
1. Profits decline.
2. Goods forced on market at reduced prices, buying restricted, volume of business decreases.
3. Retrenchment becomes general, unemployment grows.
4. Liquidation spreads and cumulates.
5. Prices decline more rapidly.
6. Credit strain increases, volume of business decreases.
7. Failures increase, crisis or panic follows.

## IV. Depression Breeds Prosperity
1. Credit strain is reduced.
2. The volume of business low, buying for immediate requirements only, wages fall, efficiency increases.
3. Prices and cost of doing business decline.
5. Merchandise stocks reduced, shortage of both producers' and consumers' goods gradually accumulates.
6. Credit entanglements straightened out, interest rates continue to decline.
New platform/standard created

New competitors challenge incumbents

Margins and prices are pushed down

Price drops attract more users; more consumer applications developed

Winners on the new platform leverage scale to dominate industry

Entrepreneurial talent moves to the new markets

Demand builds for a new alternative to the incumbent platform

Startups struggle to create value in the shadow of incumbents

Information Technology Cycle

Tubes
Transistors
OS
Apps
Mobile
**Historical Market Cap Indexed to 100**

- Hollywood Index
- Silicon Valley Index

**Current Combined Market Cap**

- Hollywood Index: $502,946
- Silicon Valley Index: $5,516,103

~11x higher
A Brief History of 20th Century Media
I. New Tech ➤ Product Innovation

1. Fires publishers
2. Buys magazines
3. Publishes himself
4. Creates the Cliffhanger
A Brief History of 20th Century Media

1. New Tech Product Innovation
2. Stable Products  Business Unit Definition

Publishing
Content: 
Distribution: 

Film
Content: 
Distribution: 

Television
Content: 
Distribution: 

Music
Content: 
Distribution:
2. Stable Products  Business Unit Definition

Publishing
Content: Books, Newspapers, Magazines
Distribution: Presses, delivery

Film
Content: Motion Picture Production
Distribution: Exhibition, regional and platform rights

Television
Content: Programming and Advertising
Distribution: Broadcast, Cable, Satellite

Music
Content: Recordings and Performances
Distribution: Replication, Delivery
3. Business Unit Definition  M&A

**Number of corporations that control a majority of U.S. media:**

(newspapers, magazines, TV and radio stations, books, music, movies, videos, wire services and photo agencies)

- 1983: 50
- 1987: 29
- 1990: 23
- 1992: 14
- 1994: 10
- 1996: 6
- 2004: 5
4. M&A Oligopoly

**Walt Disney Company**  Disney Pictures Buena Vista Pictures Touchstone  ESPN ABC  WDIG Disneyland Parks

**Time Warner**  HBO Warner Bros Turner Networks Warner Music New Line (formerly) AOL

**Viacom**  CBS  Paramount  MTV Networks  Showtime Nickelodeon BET CMT Comedy Central

**News Corp**  FOX FX Networks  FOX News Foxtel Wall Street Journal NY Post London Times DIRECTV

**Comcast/NBC Universal**  Comcast Cable NBC MSNBC CNBC Universal Parks Telemundo USA Bravo

**Sony**  Columbia  Tri Star  Sony Pictures Sony Music  Sony Computer Sony Electronics
Foundation: Constrained Supply

Walt Disney Company  Disney Pictures Buena Vista Pictures Touchstone  ESPN ABC  WDIG (Internet Group) Disneyland Parks

Time Warner  HBO Warner Bros Turner Networks Warner Music New Line (formerly) AOL

Viacom  CBS  Paramount  MTV Networks  Showtime Nickelodeon BET CMT Comedy Central

News Corp  FOX Companies FX Networks  FOX News Foxtel Wall Street Journal NY Post London Times DIRECTV

Comcast/NBC Universal  Comcast Cable, NBC, MSNBC, CNBC, Universal Parks Telemundo, USA Networks, Bravo

Sony  Columbia  Tri Star  Sony Pictures Sony Music  Sony Computer Sony Electronics
When Digital Unlocks Supply...
DOWN BY 50%
New platform/standard created

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WEB I PROMISE

Always On
Low Friction
Low Latency
Content

One Global
Audience

E-Commerce
“By 2005 or so, it will become clear that the Internet’s impact on the economy has been no greater than the fax machine’s.”

- Paul Krugman, 1998
  Nobel Prize-winning economist
WEB 1 KEY TECH

TCP / IP
Transmission Control Protocol / Internet Protocol

URL
Uniform Resource Locator

HTML
HyperText Markup Language
WEB I SUCCESS

Source: Capital IQ as of 4/5/23
When asked if Netflix was a threat:

It's a little bit like, is the Albanian army going to take over the world? I don't think so.

- Jeff Bewkes, 2010
CEO, TimeWarner
New coding frameworks enable User Generated Content

Social media creates new forms of advertising and content

Facebook and Instagram = 4.95 billion monthly active users

Apple’s 2007 iPhone release: touch-screen mobile at scale

App Store = “App Economy”

6.84 billion smartphones: ~85% of global population

New tech enables users to post long form and live stream videos, enabling the rise of YouTube and Twitch

New codecs allow cable-quality, long-form IP video streaming at scale

“Random Access” TV enables binge watching and the “Platinum Age” of television

WEB 2 KEY TECH
JavaScript, CSS3, HTML 5

Mobile

Social Media

Streaming
Historical Market Share by Smartphone Platform

Historic Market Cap

Historical Subscribers (mm)

CAGR: 23.57%

Historic Market Cap

Historical Active Users (mm)

CAGR: 17.60%

Historic Market Cap

Historic Market Cap

Historic Market Cap

Historic Market Cap

Historic Market Cap

Historic Market Cap

Historic Market Cap

Historic Market Cap

Historic Market Cap
WEB 3 PROMISE

- Metaverse
- AI
- NFTs
WEB 3: BETTER GOALS

- Deeper Simulations
- Data First
- DTC Economies
Conclusions

2. Web2: Content licensing v. market cap.
4. Tech: Outsource the risk = outsource the reward
Let’s discuss!

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