

COMPETITION IS FOR LOSERS

OCTOBER 7, 2014

OUTLINE

1. capturing value
2. lies people tell
3. how to build a monopoly
4. last mover advantage
5. history of innovation
6. psychology of competition

CAPTURING VALUE

A business creates **X** dollars of value and captures **Y%** of **X**.

X and **Y** are independent variables

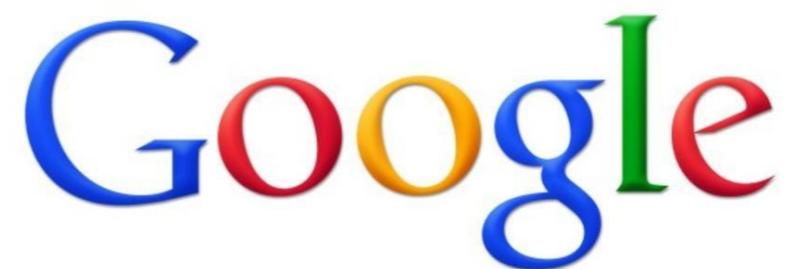
BIG PIECE OF A SMALL PIE

All United States airline carriers combined

2012 revenue: \$195.6B

2012 profit margin: 0.2%

Market capitalization:
\$112.4B

The Google logo is displayed in its signature multi-colored font. The letters are arranged in a slightly curved, lowercase style. The colors used are blue for 'G', red for 'oo', yellow for 'o', green for 'g', blue for 'le', red for 'e', and blue for the final 'l'.

2012 revenue: \$50.2B

2012 profit margin: 21.0%

Market capitalization:
\$393.8B

PERFECT COMPETITION

pros

easy to model

efficient in a static world

politically salable

cons

psychologically unhealthy

irrelevant in a dynamic world

preempts question of value

MONOPOLY

pros

incentive to innovate

stable, long-term planning

deeper project financing

symptomatic of creation

cons

lower output, higher prices

price discrimination

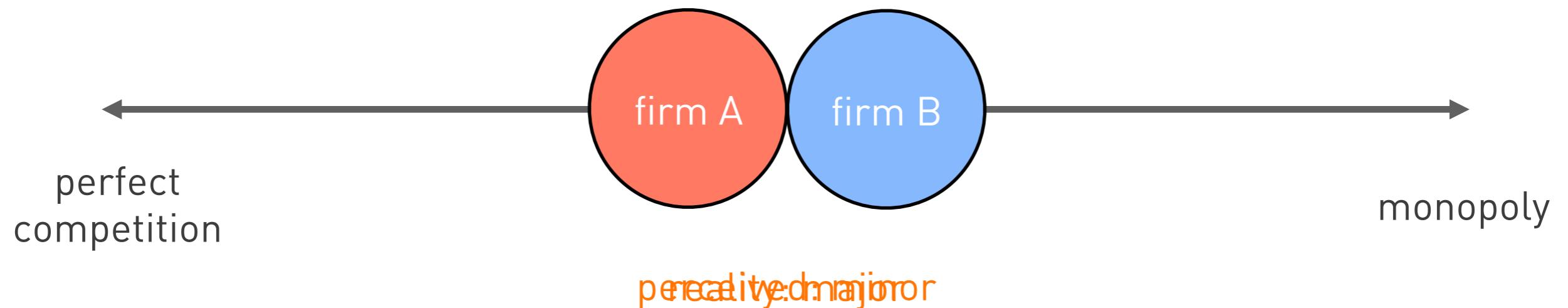
stifle innovation

tying

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DIFFERENCES UNDERESTIMATED



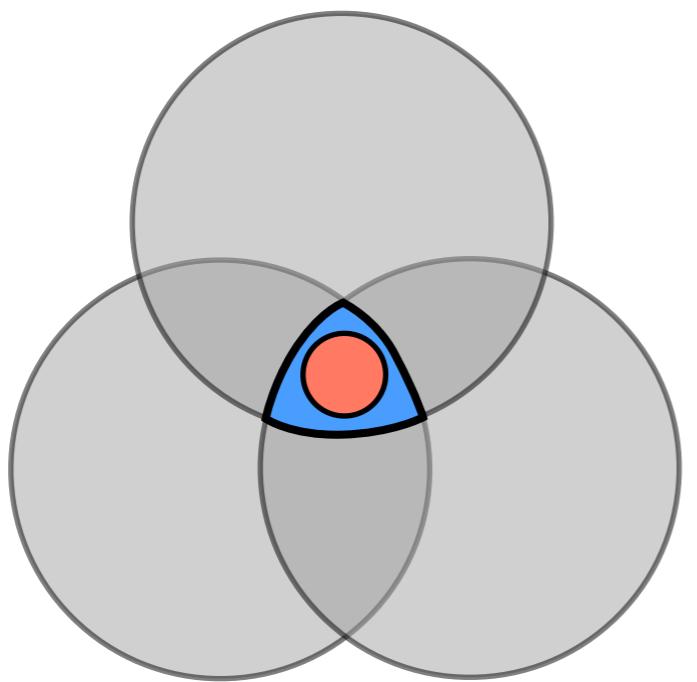
NARRATIVES

non-monopolies

“we’re in a narrow market”

relevant market:

$$A \cap B \cap C$$

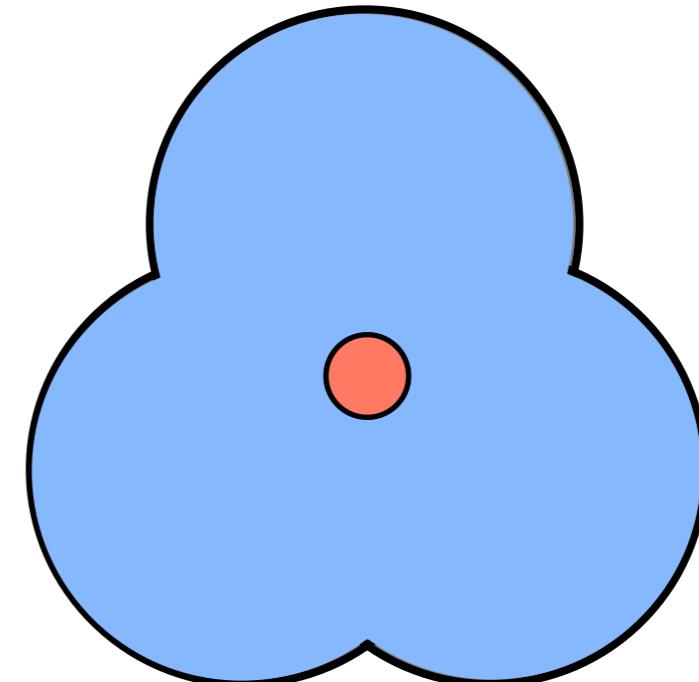


monopolies

“we’re in a huge market”

relevant market:

$$A \cup B \cup C$$



BRITISH FOOD IN PALO ALTO

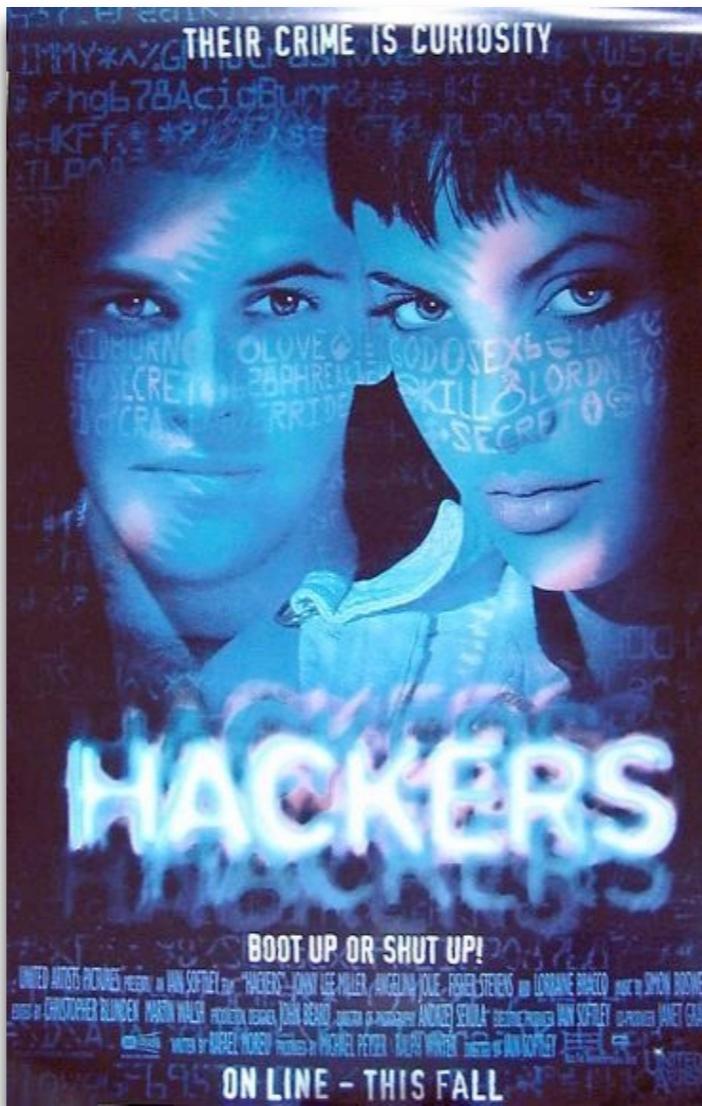


BLOCKBUSTER MOVIE

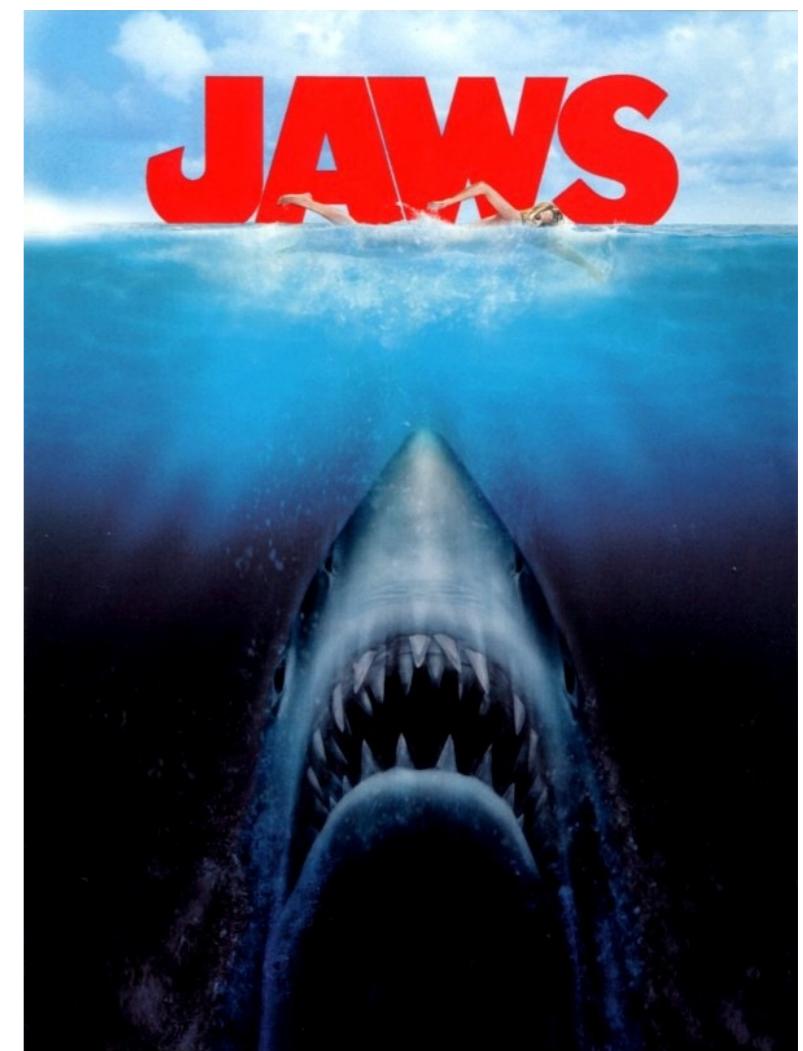


College football star...

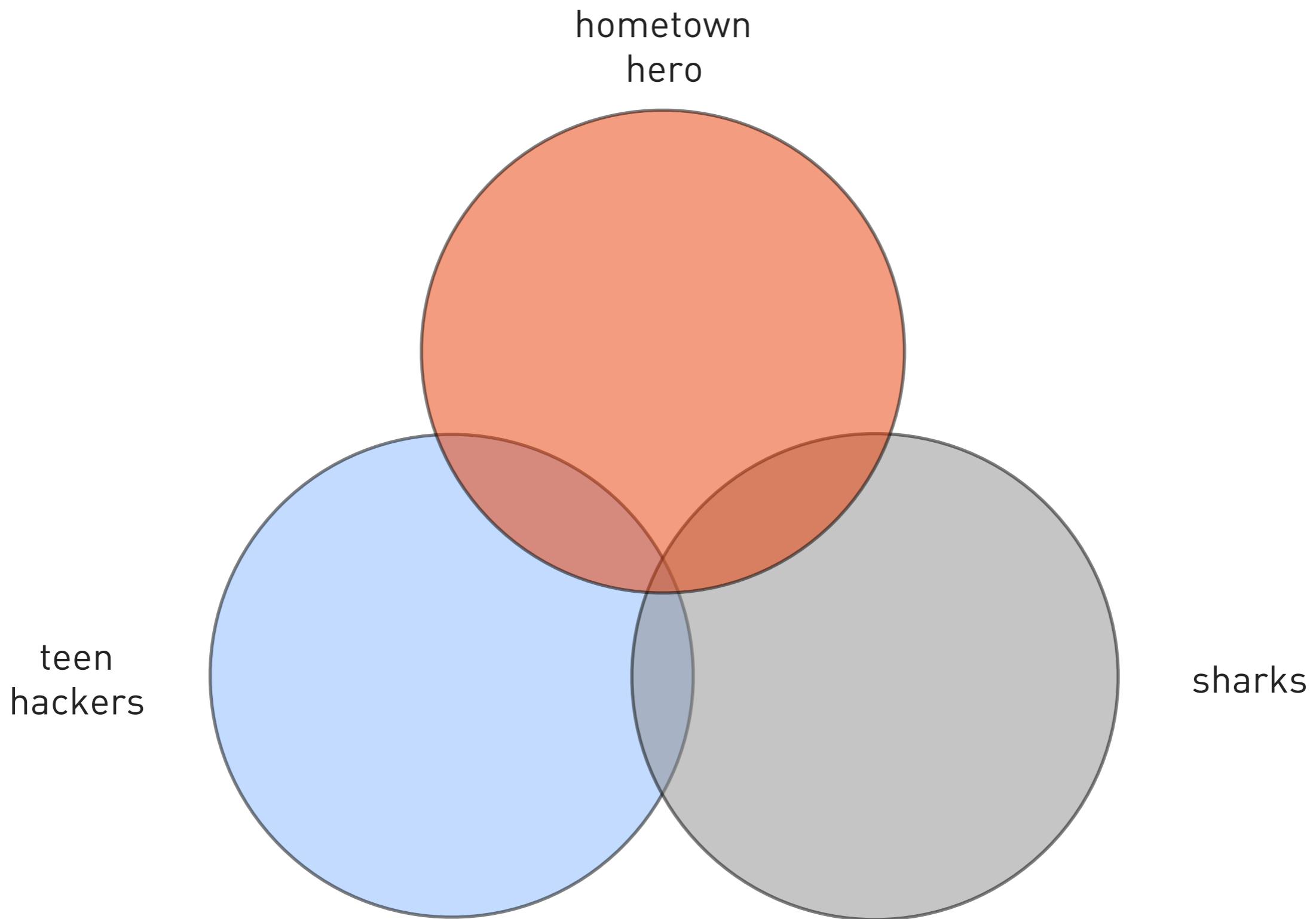
joins elite
group of hackers...



...to catch the shark that
killed his friend



IS THE INTERSECTION VALUABLE?

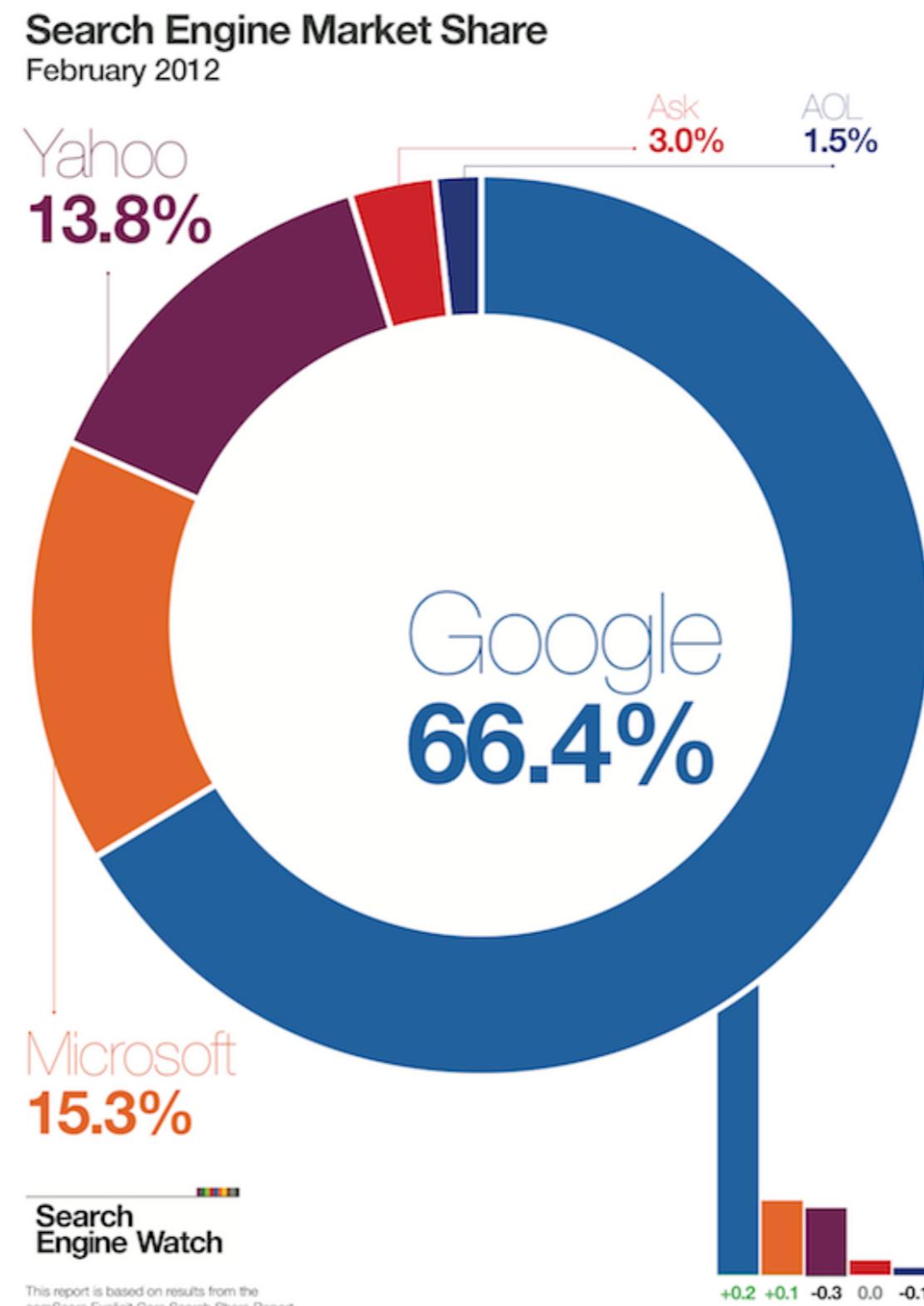


STARTUP VERSION

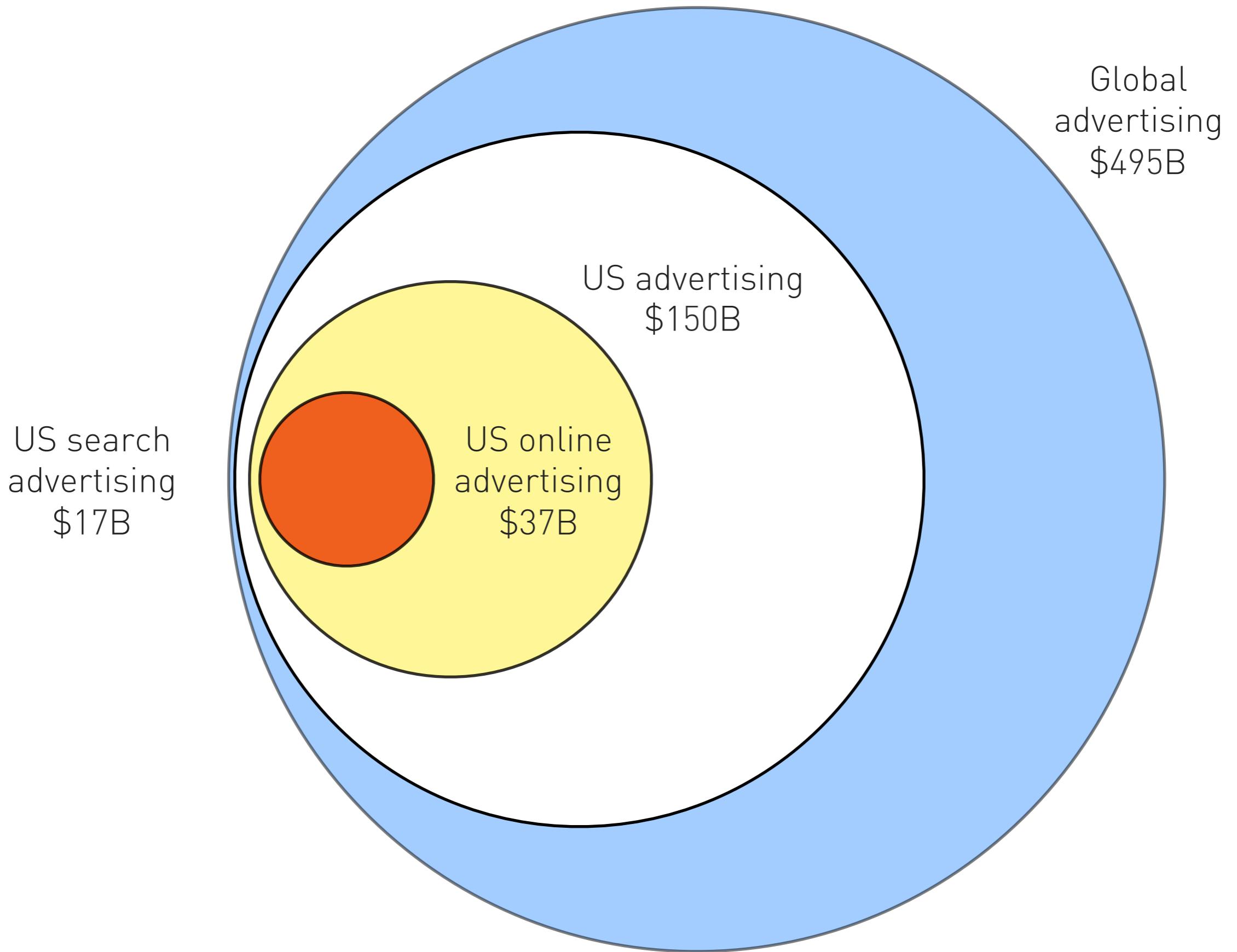
Sharing.
Mobile.
Social.
Apps.

Sharing mobile
social apps.

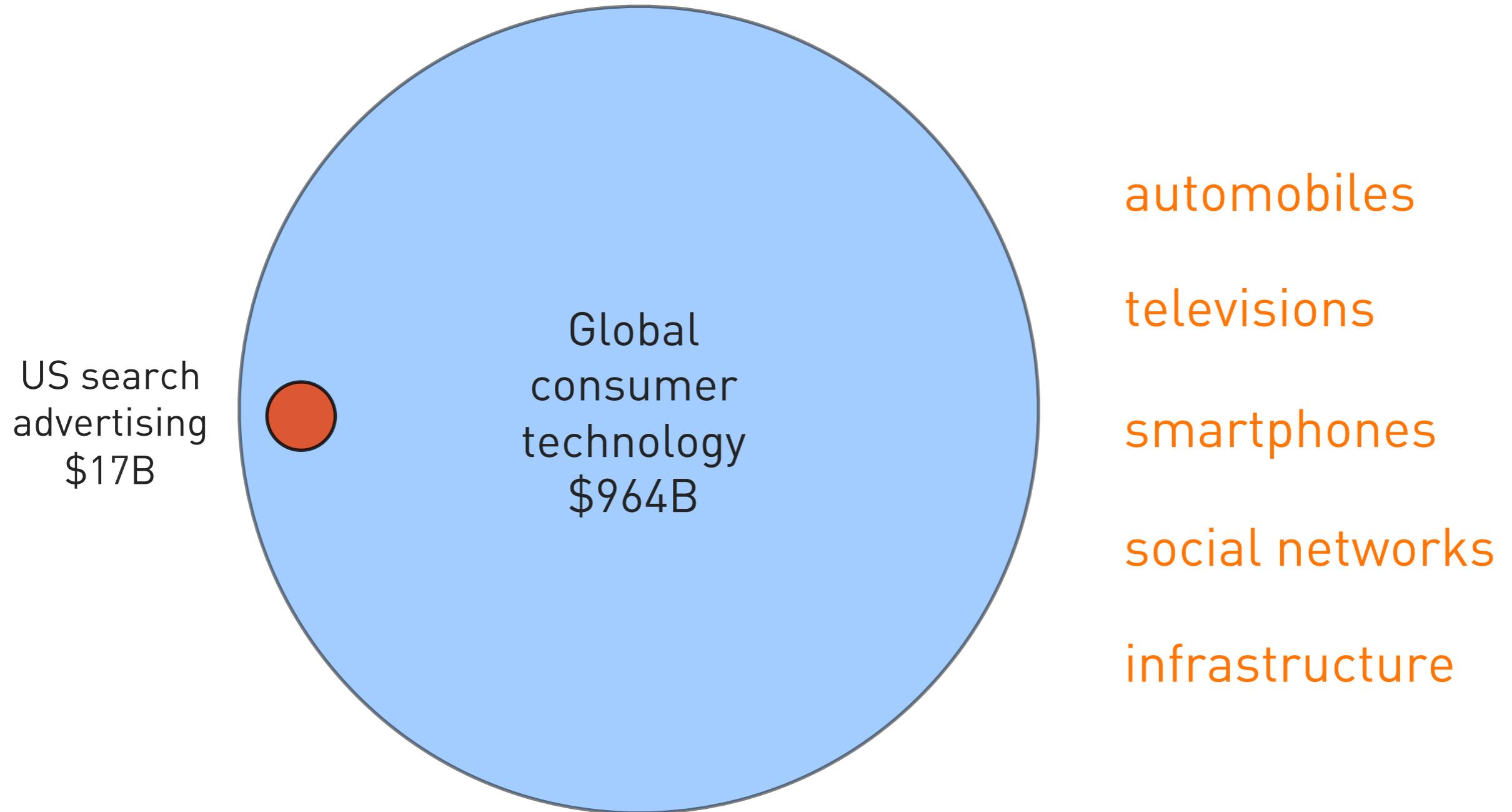
THE SEARCH MARKET



THE ADVERTISING MARKET



THE TECHNOLOGY MARKET



“The Internet is incredibly competitive, and new forms of accessing information are being utilized every day.”

---Eric Schmidt

EVIDENCE OF NARROW MARKETS

	cash	gross margin
Apple	\$98B	40%
Google	\$45B	65%
Microsoft	\$52B	78%
Amazon	\$10B	14%

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THE RIGHT SIZE

start small and monopolize

it's easier to dominate a small market than a large one

if you think your initial market might be too big,
it almost certainly is

START SMALL AND EXPAND



"We believe there's a tremendous opportunity ahead across the \$5 trillion retail market globally."

- Jeff Bezos

START SMALL AND EXPAND



Buy.com
Rakuten Group

Overstock.com®

amazon.com

“Build a platform – prepare for the unexpected...you’ll know you’re successful when the platform you’ve built serves you in unexpected ways.”

- Pierre Omidyar

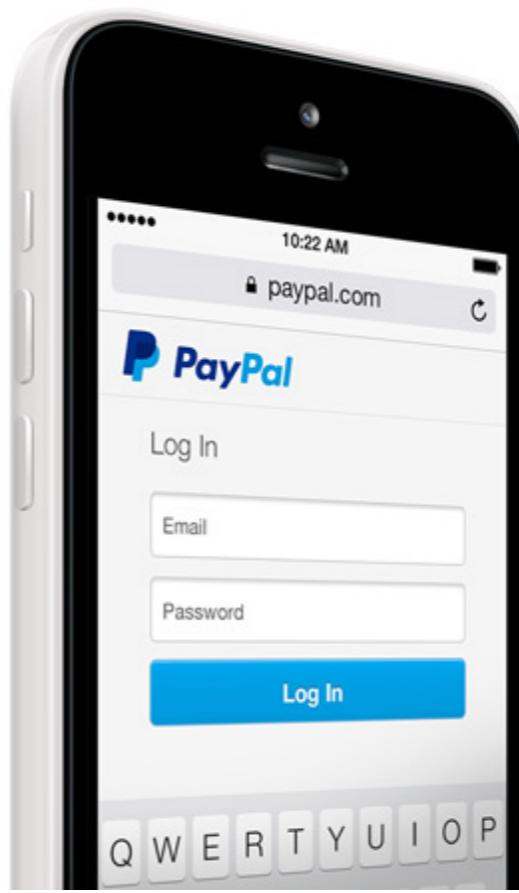
START SMALL AND EXPAND

PayPal™

THEN



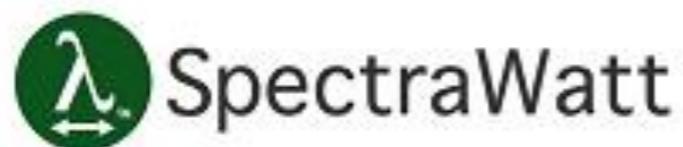
NOW



148mm active accounts

\$1 in \$6 spent on e-commerce globally is spent with PayPal

START BIG AND SHRINK



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CHARACTERISTICS OF MONOPOLY

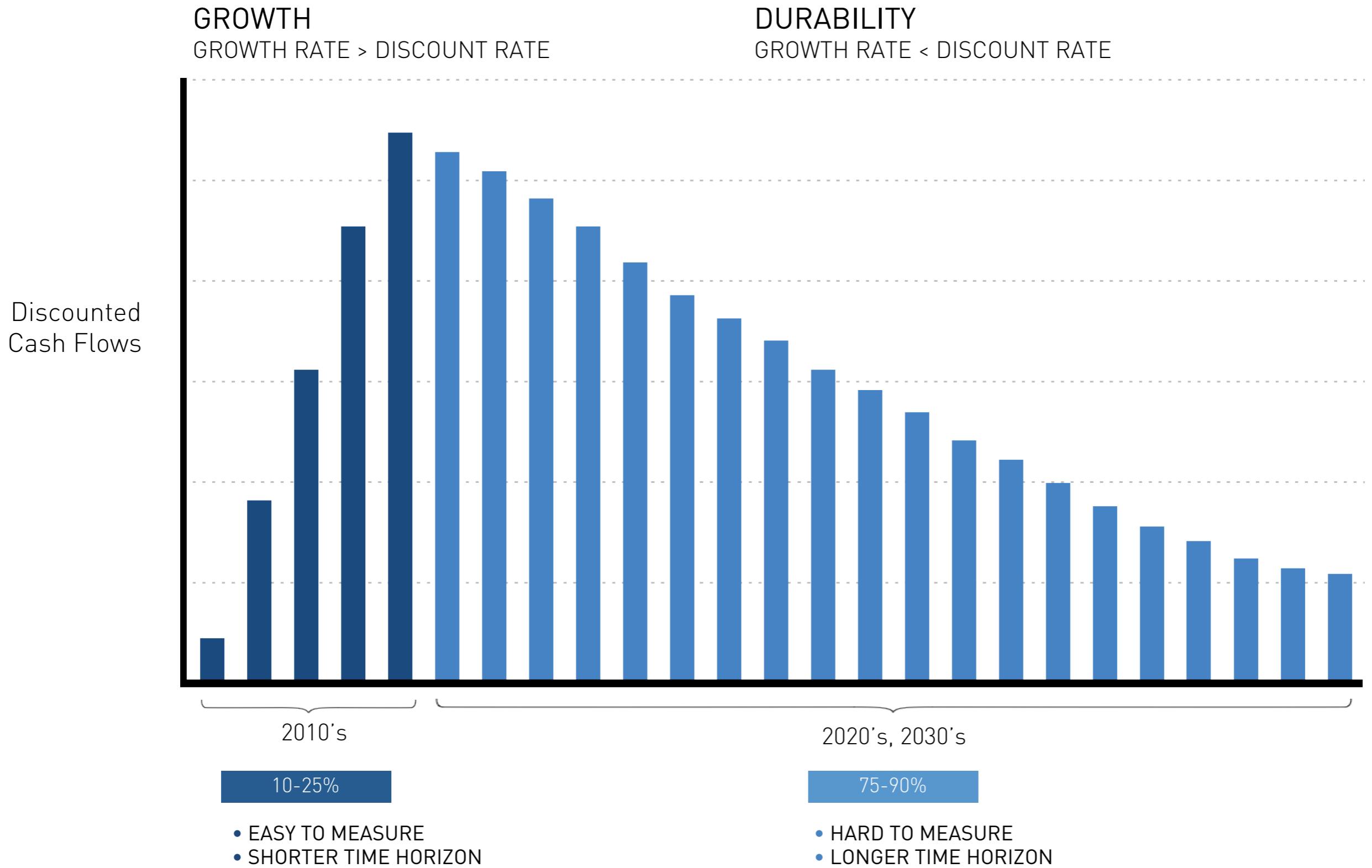
proprietary technology

network effects

economies of scale

branding

VALUE OF THE FUTURE



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TECHNOLOGICAL INNOVATION

1712 Steam engine
1764 Spinning jenny

18th

19th

20th

21st

1800 Battery
1804 Railway locomotive
1838 Morse code
1856 Refrigeration
1876 Telephone
1877 Phonograph
1879 Light bulb

1902 Air conditioning
1903 Airplane
1923 Electric refrigeration
1945 Atomic bomb
1947 Transistor
1969 Man on the moon
1971 Microprocessor
1973 Xerox graphical user interface
1975 Internet protocol suite
1984 First mobile phone
1991 World Wide Web
1996 Deep Blue

2004 Facebook
2007 iPhone
2012 Tesla Model S

SCIENTIFIC INNOVATION

1745 First capacitor (von Kleist)
1751 lightning is electrical (Franklin)
1763 Bayes' theorem
1787 Law of ideal gas (Charles)
1789 Conservation of mass (Lavoisier)

1913 Model of the atom (Bohr)
1915 General relativity (Einstein)
1927 Big Bang Theory (Lemaître)
1928 Penicillin (Flemming)
1951 First cancer line (Gey)
1952 First polio vaccine (Salk)
1953 Double helix (Watson & Crick)
1994 Fermat's Last Theorem proof
1997 Dolly the sheep cloned

18th

19th

20th

21st

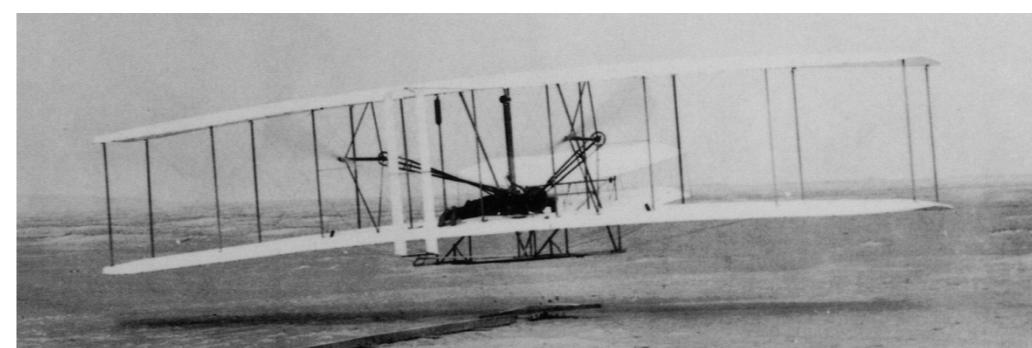
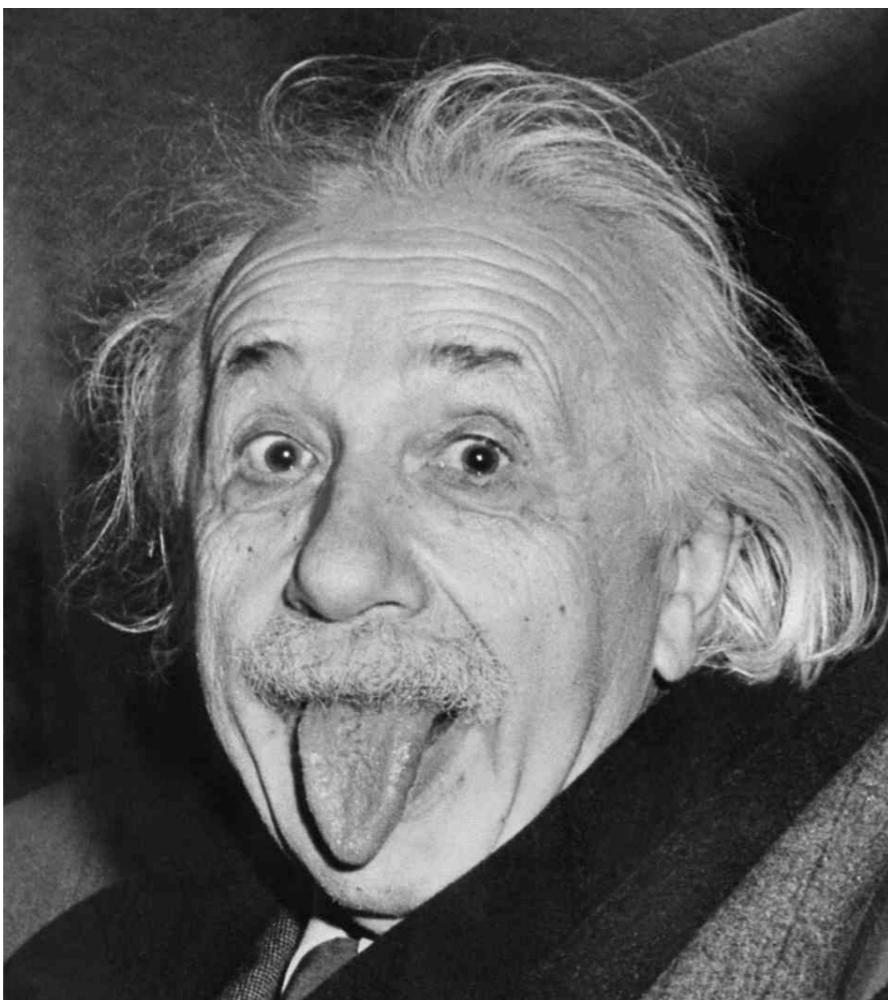
1804 Morphine (Sertürner)
1843 Law of Conservation of energy (Joule)
1848 Absolute Zero (Kelvin)
1859 Evolution (Darwin)
1865 Laws of inheritance, genetics (Mendel)
1869 Periodic table (Mendeleev)
1895 X-rays (Röntgen)

2001 Human genome mapped
2006 Existence of Dark Matter
2008 Water on Mars

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SUCCESS CASES

Vertically integrated complex monopolies

Ford, Standard Oil, Tesla, SpaceX

Software

economies of scale, low marginal cost, high adoption rate

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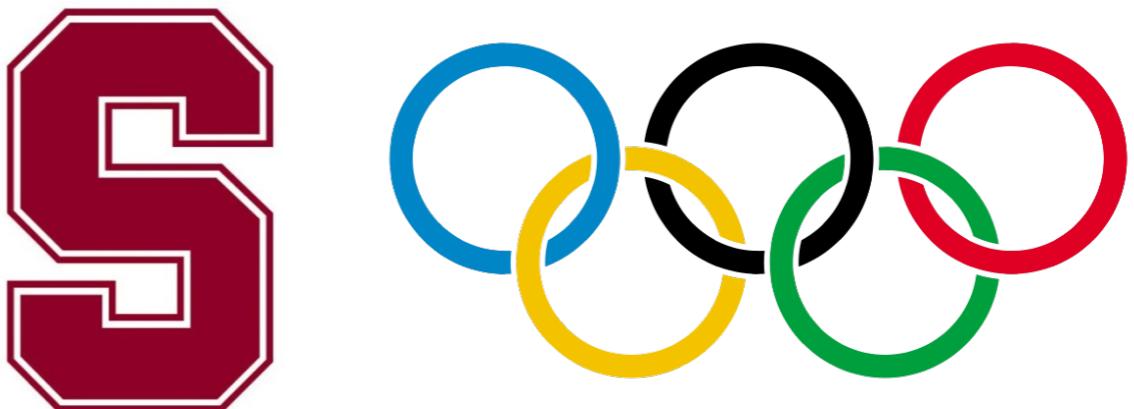
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MIMETIC PREFERENCES



COMPETITION AS VALIDATION

education

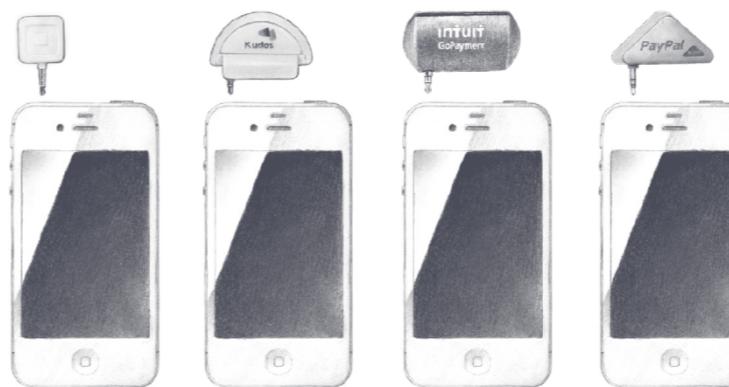


career paths



investments

business decisions



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