Strategy #11: Bloated margins

Covered in this section:

<u>How some companies make more money</u>

- Margins = Profit (Product price - Production cost)
- New industries have larger margins because there is less competition
- “Zero to One” - Peter Thiel:

  "Companies should try to become monopolies so they can keep their margins high"

- Market erosion means the margins are getting smaller
- Bloated markets are markets where there is a mismatch between what you should see and what actually exists
- Casper is a company that makes mattresses
  - They sell only one type of mattress that can be easily and cheaply shipped
  - It's delivered directly to your home by mail
  - Mattresses usually sit in the store for a long time before they get sold - Casper fixed this problem
  - Their mattresses are usually a lot more expensive than it costs to make them (these are bloated margins)
- Square is a company that makes a card reader that you can put into an iPhone and it turns it into a credit card register
  - This came from the observation of a bloated market
  - Verisign machines were dominant in that market, but it's very expensive to use them, they are big and a pain to deal with
- Look at any industry you're interested, look at the value chain, and ask yourself:
  - Do any of the sections make significantly more money than the others?
  - Are the margins justified? If not, those are bloated market opportunities