

An Equity Note

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Equity Note: 1stDibs (DIBS) & The 7 Powers Framework

Here's a secret. Most business "strategy" books are horseshit. You're better off using the pages as fire kindling than applying any "lessons" gleaned from the text.

This is *especially* true for newer business strategy renditions. The author likely uses 90% of the book to hype some online course or \$40,000 "strategy hack" retreat.

Hamilton Helmer's [7 Powers: The Foundations of Business Strategy](#) **isn't** one of those books. Heavy hitters like Peter Thiel, Reed Hastings, Daniel Ek, and Mike Moritz swear by it.

Written in 2016, Helmer's *7 Powers* offers a framework for analyzing a business's competitive advantage.

In short, it helps describe what businesses have moats, how they generate(d) those moats, and what they can do to protect them from competitors.

The *7 Powers* aren't new inventions. You've probably heard a few of the below powers:

- **Scale Economies**
- **Network Economies**
- **Counter Positioning**
- **Switching Costs**
- **Branding**
- **Cornered Resource**
- **Process Power**

Don't worry if you don't know what they mean. We'll dissect each in detail later.

The best way to review a book is to apply its framework to *real-life* examples. That's what we're doing this weekend.

Inspired by Packy McCormick's [The Dao of DAOs](#), we'll dive deep into each of the above *7 Powers* through the lens of 1stDibs (DIBS), one of our Standby companies.

DIBS is the leading online marketplace for luxury design items. Its mission is to dominate the \$2,000 online transaction.

What's Inside:

- *7 Powers Framework Analysis on 1stDibs (DIBS)*
- *Trade Updates*

Companies Mentioned:

- *1stDibs (DIBS)*
- *Amazon (AMZN)*
- *FarFetch (FTCH)*
- *Etsy (ETSY)*

You can read our thoughts on DIBS [here](#).

We'll score DIBS in each of the seven powers on a 1-5 "Helmer Scale." The higher, the better.

There are a couple of benefits to this exercise. First, *7 Powers* gives us another mental model to force-rank a company's competitive advantage. Over time, we'll have a list of the highest/lowest "Helmer Ranked" companies on our watchlist.

Second, the exercise helps us understand DIBS's ability to generate a *sustainable competitive* moat on a deeper level.

Let's get after it.

Scale Economies: 3/5 Helmers

Define: *A business in which per-unit costs decline as production volume increases.*

When we think of Scale Economies, we usually think of manufacturing companies buying heavy equipment and/or factories in preparation for future demand.

It's easy to explain *those* Scale Economies, where costs are spread in proportion to the number of widgets produced by said new equipment.

DIBS isn't all that different.

Instead of heavy machinery, DIBS invests in Sales and Marketing (SG&A). Let's use a (very) rough example to show how DIBS benefits from similar Scale Economies.

Suppose DIBS had 100 users on its platform last year and spent \$250 in SG&A. In this example, DIBS spread its \$250 of SG&A across 100 users, or \$2.5 per user.

Let's assume 90% of last year's users stay with DIBS. Let's also assume DIBS grabs another 100 users the following year and spends the same \$250 in SG&A.

In this example, DIBS spreads its \$250 in SG&A spending across 190 users, or \$1.32 per user.

That's the power of Scale Economies in the DIBS business model.

More users allow DIBS to spread its SG&A costs (marketing, advertising, etc.) across a more extensive customer base, reducing its *per customer* SG&A costs.

Why does this matter? The bigger DIBS gets, the more they can spend to acquire customers at *lower incremental* unit costs. Reaching customers at lower incremental costs leads to higher LTV/CAC ratios and greater ROIs.

Network Effects (or Network Economies): 4.5/5 Helmers

Define: *The value of a service to each user increases as new users join the network.*

DIBS is a classic two-sided marketplace where network effects reinforce both sides of the marketplace.

More sellers mean more (and unique) inventory for potential buyers. More expansive inventory also incentivizes buyers to browse, as there's a greater chance of finding what they want. Finally, more buyers on the platform incentivize sellers to list *more* goods. This provides a greater chance of selling to a willing buyer.

Why give a 4.5/5 rating when DIBS possesses such strong network effects? The buyer side.

The more buyers you have, the greater the odds that *someone else* will end up with the item you wanted. This is especially true now that DIBS has introduced its *Auctions* feature, where prospective buyers wage war with their wallets.

More buyers actually allow for more efficient *price discovery*, which benefits all buyers in the name of heightened price-to-value transparency.

Counter-Positioning: 5/5 Helmers

Define: *A newcomer adopts a new, superior business model which the incumbent does not mimic due to anticipated damage to their existing business.*

DIBS is an excellent counter-positioning. The company built everything it has with the mindset of owning the \$2,000 online transaction. At first glance, DIBS appears to play in a highly competitive space. After all, there's AMZN, FTCH, and ETSY, just to name a few competitors.

DIBS counter-positioned itself on two planes:

- **Luxury**
- **Price**

DIBS is *known* for selling the most luxurious items on the internet. Where else can you buy a \$4M white gold, diamond, sapphire, South Sea Pearl chess set?



Jane Doe isn't selling her homemade trinkets on 1stDibs. She's using ETSY, and so are her prospective customers.

More importantly, DIBS becomes a social signaling tool for wealth that other online marketplaces like AMZN, ETSY, or FTCH can't match.

Then there's the price dimension. AMZN has dominated the low-dollar online transaction. And ETSY has carved a decent niche for itself in the homemade \$30-\$100 transaction.

Here's the good news. Nobody else can compete with DIBS in the \$2,000 transaction space because nobody wants to build a business around a \$2,000 online transaction. It takes too much time and requires *severe* levels of trust between the buyer, the seller, and the platform.

By counter-positioning on two planes (luxury and price), DIBS insulates itself from its more prominent (and more capitalized) competitors.

Switching Costs: 2/5 Helmers

Define: *The value loss expected by a customer that would be incurred from switching to an alternative supplier for additional purchases.*

Online marketplaces aren't prone to high switching costs. Customers can simply choose to shop at whatever site she wishes.

If there are *any* switching costs involved, it's in the *quality* and *type* of products offered on DIBS versus other platforms.

As we mentioned in counter-positioning, there aren't many online marketplaces offering the type of goods DIBS offers at the higher-end price points.

A former Business Development employee at DIBS mentioned that ~1/3rd of DIBS's products are available elsewhere (emphasis mine):

“Most of the stuff we sell is not online on other channels, but we just did a sample and we think that about a third of our items are available on other websites.”

So yes, customers could switch from DIBS to FarFetch or Restoration Hardware. But you might not find what you want. And DIBS’s goal, of course, is to shrink that 1/3rd to 1/5th or 1/10th over time.

Sellers, on the other hand, have actual switching costs. DIBS heavily vets its sellers before adding them to the marketplace. This means sellers *work* to get the privilege to sell on DIBS.

Suppose DIBS finds out that a seller offers similar goods on different marketplaces (or a seller-owned website). In that case, they’ll ban that seller from their marketplace.

It’s like Harvard. Once you’re in, you want to do everything to *stay* in.

An interior designer buyer explains the switching cost dynamic (emphasis mine):

*“I think that they're scared of being removed from the platform, scared of getting caught. I don't really know. **They just won't do it. And frankly, I don't really know if I want to do it either.** Like I was saying the perks that come with it are great. **Most of the purchases that I make are insured through 1stdibs.**”*

Branding: 5/5 Helmers

Define: *The durable attribution of higher value to an objectively identical offering that arises from historic info about the seller.*

DIBS has an unrivaled branding advantage in the online luxury design space. Sellers apply to have the *privilege* of selling on the platform. Buyers know that anything for sale is of the highest quality.

A California Gallerist put it simply (emphasis mine):

“1stDibs is really about curating a selection of dealers and being very selective of what dealers they allow”

Achieving such strong branding took time. 1stDibs was founded in **2000** by Michael Bruno as an online luxury marketplace for antiques after he visited the Marché aux Puces in Paris, France.

In other words, DIBS has had 21 years to perfect its brand as the leading destination for luxury design on the internet.

Cornered Resource: 3/5 Helmers

Define: *“Preferential access at attractive terms to a coveted asset that can independently enhance value.”*

There are two potential Cornered Resources in DIBS’s business:

- Unique Sellers
- Unique Items

DIBS constantly curates its seller list, ensuring that its platform only sells the best items from the best sellers.

In short, DIBS has the potential to corner the market of the world’s best stuff sold by the world’s most unique artists and designers. They strengthen this Cornered Resource with each new seller they add to the platform.

Process Power: 2/5 Helmers

Define: *“Embedded company organization and activity sets which enable lower costs and/or superior product.”*

DIBS is slowly increasing its Process Power. It took DIBS *years* to switch from a classifieds business to a marketplace model.

This year, they snagged low-hanging fruit by adding non-English language websites, an *Auctions* feature, and an NFTs platform.

The Final Helmer

How’d DIBS do? DIBS scored a 24.5 out of a possible 35. That’s a passable 70%.

Here’s why I love the 7 *Powers* framework. We can explicitly see *where* DIBS fails from a competitive advantage standpoint.

This allows us to closely track those weak points to see if a) they improve over time or b) they worsen and create entry points for the competition.

I hope you enjoyed this new Framework concept. We’ll run the rest of our Standby companies through the Helmer Test to see where DIBS ranks among the group!

Portfolio Updates

Buys

- **BUY** Alphamin Resources (AFM.TSX) Third Leg

Sells

- **SOLD** Full Position in XP, Inc. (XP)
- **SOLD** Full Position in Westlake Chemical Partners, LP (WLKP)
- **SOLD SHORT** Ethereum (ETHUSD)
- **SOLD SHORT** Nvidia, Inc. (NVDA)
- **SOLD** Half of our long Soybean Oil position
- **SOLD** Half of our long Corn position
- **SOLD** Half of our long Natural Gas position
- **SOLD** Half of our long US Dollar position