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E12 Moats: Sustainable Competitive Advantages

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If you are an employee, have you ever wondered why your company is so hyper-competitive?

If you are an entrepreneur, have you ever asked yourself why it is so hard for you to make money?

We've discussed a lot about the "philosophy" of investing; today, we'll talk about the "tactics" — the most critical judgment in understanding a business: does this company have a moat?

The book *7 Powers* mentions seven competitive advantages. Using this as a framework, I will expand on my understanding of each advantage and analyze whether it can constitute a company's moat. I hope this will help you better answer the three questions above.

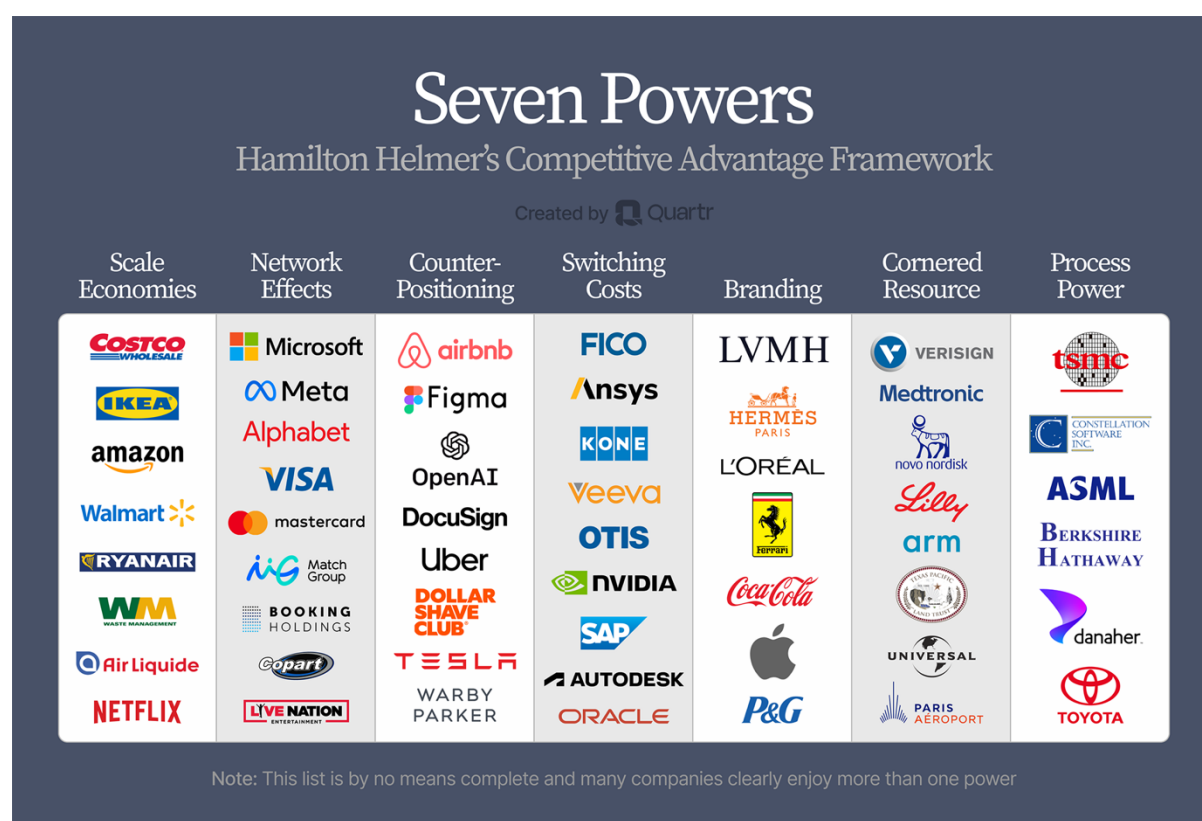


Image Source: Diving Deep Into Helmer's 7 Powers Using Company Examples

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Introduction: Why understand business?

Hello everyone, welcome back to *Slow is fast*. I'm Patrick, long time no see. I recently heard that Jay Chou is releasing a new album, so I hurried online to record an episode.

Today, we are going to start talking about how to understand a business. Because earlier we repeatedly talked about the "philosophy" of investing, which means doing the right things and not speculating. Speculation relies on luck, while investing relies on understanding the business. Understanding a business falls into the category of "doing things right" in investing, which is the "tactics" of investing.

Many people might think: I didn't study economics or finance, and the business world is extremely complex, so I don't need to figure it out. But actually, everyone should understand a bit of business and try to understand how it works. Even if you don't invest, if you want to start a business, you absolutely must understand business model design; you can't just think, "I just need to make a good product." Even finding a job requires understanding business. If you get a job at a company with a poor business model, low-quality hyper-competition is likely unavoidable, and your job happiness and satisfaction won't be very high. So, I think learning how to evaluate a business is helpful for anyone.

Many of my previous livestreams were about the basic principles of value investing, like buying a stock means buying a company, and buying a company means buying its discounted future cash flows. A good company has a good business model, a good culture and team, and a good price. To understand a business among these, the most important is the business model, and a good business model requires a moat. If you've researched and analyzed companies yourself, you might have felt this: the most important and difficult part of understanding a business is seeing whether it actually has a moat, and whether that moat is solid enough.

What is a true moat?

In my perspective, a moat is a sustainable competitive advantage. In plain terms, it means you can do what others cannot, and you can maintain this position continuously. That is to say, a moat should possess both exclusivity and longevity.

You can casually ask any AI to list the competitive advantages of a company you're interested in, and it can list a whole bunch for you. But in reality, the competitive advantages that truly determine whether a business model is good or bad are very narrow in scope. They are about the foundation of the business model, not the strategic or tactical levels of the company, nor a specific product, and absolutely not the company's latest developments. When we analyze a moat, the hardest part is determining its "sustainability," which is why I specifically emphasized in the definition that a moat refers to a sustainable competitive advantage.

In reality, truly good companies are very rare; most so-called competitive advantages are actually unsustainable. The most common script in the business world goes like this: a newly public company performs flawlessly at the beginning and is highly sought after by capital; but after a few good years, its return on capital or growth rate slowly begins to decline. Then, these companies start blindly investing in low-return new projects, slowly drifting towards mediocrity or even destruction.

This is actually very normal in the business world; it's called mean reversion. Because a profitable business will inevitably attract competition. If you don't have a very powerful competitive advantage, you simply have no way to consistently outperform your competitors; you don't actually have a moat. Many seemingly exceptionally stunning companies slowly regress to the industry average.

Of course, a few great companies do possess strong moats. Their external financial performance shows sustained, high-level returns on capital; this high-quality growth can even last for ten, twenty years, or more. But generally speaking, companies with true moats are quite scarce. The moats analyzed by AI, or the ones many people talk about, mostly deserve to be strongly questioned and challenged because they are not sustainable.

The 7 Powers Framework

If we are to systematically discuss competitive advantages, we need a reasonable framework. The most classic book on competition is Michael Porter's *Competitive Strategy*, which you can read if interested. However, I found a much better framework for dismantling business models, from a book by Hamilton Helmer called *7 Powers*. The core logic of this book is very simple; it summarizes the 7 most common competitive advantages, serving as a very well-rounded framework.

Today, I will mainly use his framework to talk about my understanding of sustainable competitive advantages. The 7 powers he mentions are: 1. Scale Economies; 2. Network Effects; 3. Counter-Positioning; 4. Switching Costs; 5. Branding; 6. Cornered Resources; 7. Process Power. Let's break them down one by one.

1. Scale Economies

The first competitive advantage is scale economies, a classic economic term. It refers to the unit cost differences arising from the size of the customer or user base. The core fact it reflects is: as the customer base grows, the marginal cost of serving each unit customer gradually decreases. As the customer volume gets larger, my overall costs can be compressed extremely low, at which point I can choose to either lower prices to hit competitors or increase my own profit margins.

Different industries naturally achieve vastly different levels of scale economies.

For example, the apparel industry: if you make clothing, the main costs are actually variable costs, not fixed costs. Fixed costs might just be sewing machines, textile machines, and other equipment; but the core cost mostly comes from fabrics. So even if you sell one more piece of clothing, the total average cost won't experience a disruptive plunge just because of higher volume. Therefore, the apparel industry inherently doesn't have very high scale economies.

In contrast, look at the other extreme—the software industry: software is primarily a fixed cost. Once a piece of software is developed, the marginal cost of selling each additional copy is essentially zero. So the software industry is clearly an industry with massive scale economies.

Caught in the middle is, for instance, the current new energy electric vehicle (EV) manufacturing industry: it has relatively large fixed costs, such as factories and the expensive machinery and equipment inside them; of course, its variable costs are also very high, namely the cost of batteries, chips, and other components in the cars. So as its vehicle production scale gradually increases, its factory construction costs, sales channel costs (dealerships), and even R&D costs will be significantly diluted by the growing sales volume, causing the average cost to slowly decline.

The most typical example of using scale economies as a competitive advantage is Walmart. Walmart pushed scale economies to the absolute limit; its market cap now exceeds a trillion dollars, which is indeed a massive achievement for a retail enterprise. Its core strategy back then was "regional density": taking the US as an example, it would select a regional distribution center and densely open stores radiating around it. Through this strategy, it not only avoided building too many cross-regional distribution centers but also achieved a very high store density, maximizing logistics efficiency while significantly diluting marketing and management costs. Through this regional density strategy, Walmart was able to squeeze out four or five percentage points of profit margin over its competitors. And Walmart's core business design was that instead of keeping this saved money, it passed all of it onto consumers in the form of price cuts, realizing "Everyday Low Price."

China also has typical enterprises that grew through scale economies, such as Mixue Ice Cream. Rather than a tea drink brand, Mixue is essentially a supply chain company. By building factories directly at the source of fruits like lemons, and through intensive procurement and processing, it has driven the raw material cost of making a cup of milk tea to an industry low, achieving extremely high efficiency. Meanwhile, on the consumer-facing store side, it opted for an extremely dense network of stores, which further massively dilutes the costs of logistics, transportation, and supervisory management.

So it's obvious that scale economies are essentially an extreme optimization and elevation of efficiency. If the technology or resources required for an industry's development are not hard

to obtain, then in this industry, everyone ultimately pursues the extreme optimization of efficiency. And the endgame of efficiency optimization usually leads to extreme low prices—whoever has the highest efficiency can drive prices low enough to drive out and eliminate inefficient competitors.

We see this in China's smartphone or EV industries as well. Once the core technologies or resources needed for development become less insurmountable, competitors will continuously flood in. But precisely because the entry barriers aren't that high, everyone pursues ultimate efficiency, making it easy to fall into homogenized hyper-competition. Because everyone's positioning on the consumer side is largely the same, and on the production side, they all rely on existing mature supply chains for procurement and assembly. Under this homogenized competition, enterprises that lack scale efficiency will inevitably be ruthlessly eliminated, like Meizu in smartphones or marginal brands in EVs.

From a macro perspective, the company itself is a product of scale economies, so theoretically, all companies should possess a certain degree of scale economies. It's just that scale economies vary in size: some industries naturally don't have very high scale economies, so they remain in a "small but beautiful" state; while other industries have massive room for efficiency optimization, allowing them to grow into behemoths. The inherent characteristics of an industry essentially determine the baseline strength of its scale economies.

Most industries are scale-driven, such as manufacturing, EVs, FMCG, the Internet, etc. But some industries inherently don't emphasize scale, the most typical being value investing (asset management) or consulting. In these industries, bigger isn't always better; they heavily depend on the intellectual assets of key individuals. Having more people or managing a larger scale doesn't mean the company will perform well; often, the top investment or consulting firms exist as "small but beautiful" entities.

There is another extreme that is actually "anti-scale economies," meaning the larger the scale, the worse the development. Typical examples are fine art and high-end luxury goods; they completely de-emphasize scale, even artificially controlling it and restraining growth, because scarcity is their lifeline.

Therefore, an industry's traits dictate whether scale economies can form a sufficiently powerful foundation. If an industry has extremely strong scale economies, the ultimate result is often a monopoly or oligopoly; whereas in industries with weaker scale economies, the typical endgame is full competition with many enterprises, none holding too large a market share.

So, do scale economies count as a solid moat? I think we must very carefully evaluate their sustainability in terms of exclusivity and longevity.

From the perspective of exclusivity: can scale advantages be copied? How hard are they to copy? It's actually hard to say. In some industries, the efficiency model is easy to learn; after being deeply involved for a long time, it's hard for anyone to have an absolute secret recipe. The scale optimization you achieve can also be achieved by other companies through accumulated time. So generally speaking, pure scale exclusivity is not that strong.

From the perspective of longevity: can you maintain this scale effect and optimize it indefinitely? This is actually very difficult because scale always has a ceiling. Walmart can

achieve a size of hundreds of billions, nearly a trillion dollars, but can it inflate indefinitely to 4 or 5 trillion? Very hard. Because in this complex system, physical factors naturally check scale. For example, the number of employees: the more you hire, the administrative difficulty within the organization rises exponentially; this is a process of increasing entropy, and it will eventually hit a limit of management efficiency.

Let's take another example of single-store management. Modern milk tea shops and chain stores usually adopt a franchise model; why? Because there are massive scale economies in the brand and supply chain, Mixue Ice Cream chooses to hold the brand and supply chain tightly in its own hands for centralized operation, fully utilizing the dividend of decreasing marginal costs to maintain its high gross margins. However, the act of opening specific offline stores inherently lacks scale economies. Opening a store requires finding a location, paying rent, and hiring a few employees for daily operations. Just because you open 1,000 or 10,000 stores, the employee salaries and base rent of any single store won't magically be reduced. Typical single-store operations do not enjoy scale dividends.

When the brand adopts a franchise model, a natural contradiction emerges: from the brand's perspective, since the supply chain and brand have scale economies, they want as many stores as densely packed as possible to maximize cost dilution; but if stores are too dense, franchisees will strongly object. If an identical store opens 100 meters away on the same commercial street, it will severely siphon the franchisee's own business. This inherent conflict of interest between the brand and the franchisee further restricts the infinite expansion of the franchise model. Reaching 10,000 or 20,000 stores in the Chinese market is impressive, but trying to reach 100,000 or hundreds of thousands will encounter massive physical resistance.

Therefore, the sustainability of scale economies as a moat is actually very subtle and fragile. If you are an enterprise in this industry lane, you basically can never stop to rest. Because the moment you stop optimizing efficiency and stop using your efficiency advantage to hit competitors, your competitors will catch up step by step, and they will also achieve the same scale economies. If a company's sole competitive advantage is scale economies, investors must remain highly vigilant.

Walmart's success back then superficially looked like it was due to scale economies, but I think at its core, it should be attributed to its excellent business model design. Instead of keeping the cost advantages brought by scale economies as its own profit, it chose to maintain extremely low profit margins, passing the saved costs unreservedly onto consumers. It pushed the "savings" aspect of the retail mantra to the extreme. If Walmart, keeping other conditions equal, had chosen to convert its scale advantages into high corporate profit margins, it definitely wouldn't have made it to today; it would have faced fatal snipes midway from Amazon or other sharp retailers. Walmart's true core moat was its total occupation of the absolute mindshare for "Everyday Low Price" among consumers, not just its large scale.

If a company blindly views scale economies as its only moat, it can easily stray down the wrong path of pursuing scale to be big and all-encompassing; because fundamentally, if a company is purely scale-driven, it often spells disaster. We can easily find counter-examples: many companies managed to build unique moats precisely because they did the dirty, heavy lifting that had "no scale economies." For instance, the reason JD.com could build its barrier was Liu Qiangdong's crucial step to overrule objections and build their own logistics network. From a cost and efficiency perspective at the time, building their own logistics was

absolutely a scale-diseconomic, asset-heavy decision, because the market already had low-cost couriers available. Spending such massive investments to build a huge logistics network themselves was certainly uneconomical in the short term. But it was exactly this seemingly uneconomical decision that pushed the "speed" of retail to the extreme, thereby constructing JD.com's core differentiated moat.

Therefore, evaluating scale economies requires looking very closely; you must deeply investigate whether it truly possesses exclusivity and longevity. Otherwise, assuming a company is indestructible just because it's large and efficient would be a very dangerous investment judgment.

2. Network Effects

The second competitive advantage is network effects, which is actually a higher-level, more powerful form of scale economies. As the number of users or customers increases, the dividend it brings is no longer simply lower costs, but rather an improved product experience for existing users. Network effects can be simply divided into two-sided and multi-sided networks.

The reason network effects are far more powerful than ordinary scale economies is that they have a built-in, self-circulating growth flywheel.

For example, e-commerce is a typical two-sided network: buyers on one side, sellers on the other. The more buyers there are, the more sellers want to do business on the platform; and the more sellers there are offering a rich supply of goods, the wider the choices for consumers, drawing in even more buyers. This flywheel propels the entire network to grow and snowball on its own.

Take ride-hailing apps (like Didi) for instance: this is also a two-sided network; the more drivers there are, the faster passengers can get a ride, leading to more passengers; and the more passengers there are, the easier it is for drivers to get orders, leading to more drivers.

However, when deconstructing two-sided networks, we must introduce a crucial detailed metric called the "same-side negative effect."

What does this mean? Using ride-hailing as an example, subconsciously, any passenger dislikes having more passengers hailing rides at the same time. Because if everyone is trying to get a ride simultaneously, they will face the dilemma of not being able to find a car. So on the passenger side, there is inherently a negative effect. E-commerce is similar; on the seller side, no merchant likes having more competitors in their same category flooding the platform to siphon off traffic.

If a two-sided network possesses this strong same-side negative effect internally, its network effects are often greatly diminished. Because this same-side repulsion acts as a natural braking mechanism, limiting absolute monopoly. This is why, despite having network effects, e-commerce simply does not enjoy the monopolistic glory days of "not being able to see competitors even with a telescope." Because sellers always dislike hyper-competition on a single platform, they will naturally keep an eye out for and seek other emerging platforms. This is why giants like JD.com, Pinduoduo, and TikTok continually emerged in the market; achieving a true winner-takes-all monopoly in this lane is impossible.

However, some network structures completely lack this same-side negative effect, the most typical being social networks (like WeChat).

The more users on WeChat, the happier you are, because the number of people you can contact and the network you can expand grow larger; you don't feel negatively impacted by others using WeChat. Because this same-side repulsion friction is completely absent, the stickiness and barriers of social networks are far stronger than those of e-commerce or ride-hailing.

From a mathematical model perspective, the Internet itself is a multi-sided network without same-side negative effects; the value of the network is proportional to the square of its number of nodes. The more nodes there are, the total value of the entire network experiences explosive, exponential growth.

Another industry that everyone frequently uses, but might not realize its terrifying network effects, is the financial payment network, like VISA and Mastercard.

Taking VISA as an example, it is a perfect two-sided network: millions of merchants accepting VISA payments on one side, and hundreds of millions of consumers holding VISA cards on the other. There is absolutely no same-side negative effect or repulsion on either side—having more merchants accept VISA cards brings no harm to me as a merchant; rather, it facilitates more business; and having more cardholders using VISA globally has zero negative impact on consumers. Therefore, the moat of this core payment network is actually far more formidable than that of e-commerce or ride-hailing apps.

Because network effect enterprises possess this winner-takes-all Matthew effect, once a player establishes an absolute lead early on, it grows exponentially larger, making it nearly impossible for new startups to break through head-on later. This is why the world's top social networks eventually narrowed down to just WeChat, Facebook, and Instagram, and the top global payment networks consist only of VISA and Mastercard. Conversely, in the relatively weaker e-commerce or ride-hailing lanes, which harbor same-side repulsion, concentration isn't as high and competition remains fierce.

If a company possesses a network effect with zero same-side negative effects, that is indeed an incredibly solid, top-tier moat. It is impeccable in both exclusivity and longevity; for a startup to build a new social network or payment network from scratch is practically unrealistic in the real world. Because your social network holds all your relatives, friends, and work connections, it's hard to casually escape; and since consumers all use VISA cards, merchants are forced to support VISA payments, which in turn forces consumers to get a VISA card.

Of course, there are no absolutely indestructible moats in the world. Even something as strong as a top-tier social network faces natural risks like "network aging" and generational user shifts. For instance, Facebook is now often seen as a previous-generation social network, facing disruptive pressure from younger generations and the evolution of new content formats like Douyin and TikTok.

3. Counter-Positioning

The third competitive advantage is called Counter-Positioning in the book. The classic example the author uses is Netflix.

He believes Netflix's success back then was because it adopted a completely misaligned positioning opposite to the market giant at the time, Blockbuster. Both companies started in the offline DVD rental business, but Netflix later took an unconventional path, shifting completely from early mail-order DVDs to online streaming on-demand. Because streaming on-demand and Blockbuster's traditional offline store model were in completely misaligned competition, and it conformed to the future trend of the Internet, Netflix ultimately sent Blockbuster into history entirely.

From a competitive strategy perspective, a new entrant in the business world must take an unconventional approach to break through. In other words, a startup must find a niche market that the leading giant looks down upon or doesn't understand to cut in. As long as this angle is sharp enough, meets the fundamental needs of consumers, and aligns with the development trends of the future era, the giant will often tolerate your existence at the beginning, feeling you aren't threatening its core interests. And once you cut in correctly enough, you can grow larger and larger on this soil.

The most brilliant part is that even if the incumbent giant suddenly wakes up later, sees that streaming is the future, and wants to change, the strategic hurdles it faces internally will be massive. This is the classic *Innovator's Dilemma* described by Clayton Christensen.

In its later stages, Blockbuster actually realized that streaming on-demand was the inevitable future, but asking a massive commercial empire whose core profitability relied on operating thousands of physical stores globally and collecting late fees to completely cripple itself, close all stores, and pivot to online streaming is extremely painful and difficult at the organizational interest and shareholder levels. Incumbent giants are often weighed down by massive sunk costs; even if they want to change, they simply cannot.

Therefore, counter-positioning is an excellent strategy for new entrants. But I personally feel that counter-positioning is more of a brilliant "competitive strategy" rather than an all-in-one "long-term moat." Because the new entrant, as the dragon-slaying youth, will eventually grow into a massive dragon itself. Today, Netflix itself has become the behemoth of the streaming lane, and somewhere in the world, there must be younger startups using even sharper, more counter-positioned strategies trying to kill Netflix.

However, if we further extend the concept of "counter-positioning" to the level of differentiation, it can constitute a solid competitive advantage. Because for any company, strong differentiation is the survival foundation of a good business model. If you cannot differentiate yourself from your competitors, the endgame of the business will inevitably devolve into a brutal war of attrition over costs and prices.

And differentiation itself also varies in quality:

First, truly high-quality differentiation must be consumer-oriented. This is highly related to industry characteristics. For products in some industries, consumers naturally do not care about any degree of differentiation; they only value the purest functional value. The most typical example is the photovoltaic solar panel industry often mentioned by Mr. Duan Yongping, or when we buy a pair of extremely simple plastic slippers. People buying solar

panels don't care if they look good or if your brand story is moving; the only thing they care about is whether the unit power generation cost is cheap enough and if the energy conversion rate is high enough. In such industries with extremely strong functional attributes, doing more superficial differentiation is futile; ultimately, everyone can only compete on ultimate costs.

Looking at the various AI Chatbots currently in an explosive growth phase, the differentiation displayed by various large models at the application layer is actually not high enough right now. Although you might be slightly ahead in technical parameters this week and surpassed the next, overall loyalty among general consumers is very low. As long as another platform offers a slightly better experience recently, or hands out free perks like free milk tea, users will switch to another Chatbot without hesitation. Because although it's very difficult for large models to fulfill users' complex intellectual functions, what most users are consuming is still its pure functional value, making current brand differentiation barriers quite vulnerable.

What we call high-quality, high-value differentiation means that consumers, while paying attention to the baseline functional value, start to strongly value the attached emotional value or even asset value.

For example, Pop Mart: when consumers buy an art toy, they don't care at all about the material cost of the PVC plastic or vinyl itself; what people are buying is that momentary dopamine release and the value of emotional companionship.

For instance, Moutai has extremely strong asset value and cultural attributes; it gets more fragrant with age and can even appreciate in value, so people have long stopped treating it as a simple bottle of ethanol.

In these industries that can naturally extend into emotional, spiritual, and asset dimensions, the ceiling for differentiation a company can create is very high, and its moat will naturally be more solid.

At the same time, differentiation must be evaluated by its difficulty to imitate. Everyone knows the iPhone is great to use because it is backed by an exclusive, closed iOS ecosystem; even if competitors know the benefits of this differentiation, attempting to invent and successfully run an OS with a better experience than iOS out of thin air is monumentally difficult. As another example, in the OTA (Online Travel Agency) ticket booking sector, Trip.com's core differentiation lies in the highly detailed, considerate, and efficient offline fulfillment service network it has built for high-end business travelers like Diamond and Black Card users. This kind of differentiation requires years of continuous optimization and iteration to solidify as organizational capability. Even facing low-end hotel and travel incursions from cross-boundary giants like Meituan, Trip.com's mindshare moat among high-net-worth business travelers remains extremely hard to shake.

Therefore, if we extend counter-positioning into high-quality differentiation, as long as it truly aligns with consumers' underlying rigid demands and possesses a towering imitation barrier, it stands perfectly valid as a moat.

4. Switching Costs

The fourth competitive advantage is called high switching costs. Regarding high switching costs, the most classic case in business history is the Bloomberg financial terminal, which Mr. Li Lu once deeply analyzed.

For people in the financial circle, investment banking, and the investment world, everyone's daily work deeply relies on the Bloomberg terminal. Not only because all your historical work habits and charting data are on it, but more centrally because of its highly specific shortcut key setup and its built-in Bloomberg Chat social feature. All top traders and institutional investors chat, match trades, and sync information within this closed network, having already established inseparable working social connections. At this point, even if a new terminal appears on the market that is half the price and has a more modern interface, the combined switching cost of migrating historical data, relearning shortcuts, and even abandoning your original trading circle is unimaginably high. It is exactly through these terrifying switching costs that Bloomberg fortified its high-margin moat.

In today's tech world, the soaring Nvidia actually also showcases the elegance of high switching costs. Many people think Nvidia's barrier is merely the strong computing power of its hardware graphics cards, but its deeper barrier actually lies in its CUDA software ecosystem platform, laid out over a decade ago in advance. Millions of engineers and scientists worldwide doing deep learning and cluster computing programming grew accustomed to using CUDA software for programming and optimization starting from their university labs. If you suddenly ask a team to switch to hardware from AMD or other chip manufacturers, all underlying software, operator libraries, and development habits would have to be scrapped and rebuilt; this time cost and R&D risk constitute a massive switching barrier.

In enterprise-level products (the B2B ecosystem), high switching costs are a very common and powerful moat. Examples include deeply embedded ERP software, CRM systems, or core financial software. Because these systems directly participate in and lock in an enterprise's daily workflows. Even if the software raises its price every year, or occasionally has a minor bug, the company's management would absolutely not easily entertain the idea of replacing the system. Because migrating decades of historical financial data and retraining all employees' system usage habits carries compliance risks and potential upheaval costs that are simply too high.

However, in the consumer sector (the B2C ecosystem), relying on high switching costs to build a moat is an extremely rare and difficult feat. Because individual consumers are usually fickle, preferring the new over the old; there are always countless competitors in the market using extremely subtle, considerate angles and benefits to tempt and flatter them, making the cost for a consumer to turn and leave often very low.

But in the consumer sector, once a company successfully builds high switching costs, it will definitely become a dominating giant. The most perfect example is Apple. Through incredibly clever hardware-software integration, Apple created a closed-loop "family bucket" ecosystem. When a consumer buys not only an iPhone but gradually adds an iPad, MacBook, Apple Watch, and AirPods, they are effectively locked into Apple's ecological web. Photos sync automatically via iCloud, earphones switch seamlessly between devices, and family members even set up shared accounts. At this point, if they want to unilaterally switch their phone to an Android system, not only would many of their own historical ecological experiences be totally severed, but even their family members would urge them to switch

back to Apple because "photos can't be shared, and notes won't sync." The invisible switching costs brought by this ecosystem are Apple's top-tier business barrier.

5. Branding

The fifth competitive advantage is branding. The word "brand" is actually the ultimate aggregation of many complex business elements over a long period of time; it's not a simple, tangible, visible single aspect. My personal understanding of a top-tier brand moat is straightforward: using the best product, accumulated over years, to build an incredibly strong user mindshare in consumers' hearts.

Previously, when discussing See's Candies in that episode, I deeply deconstructed the power of this mindshare: over a long period, See's Candies has become absolutely equated with "love, holidays, and the best wishes" in consumers' minds. In specific scenarios like Valentine's Day or Thanksgiving, gifting a box of See's Candies to your loved one represents the most orthodox and sincere love. If you try to save a few bucks by buying a box of unknown, ordinary candies, the recipient might feel you don't care enough. See's Candies has monopolized that beautiful specific emotional scenario in mindshare.

Similarly, Coca-Cola, through over a century of accumulation, has become synonymous with "happy nerd water" and cheap joy in the hearts of all humanity; Moutai has become the absolute embodiment of "the best liquor, a high degree of respect, and no headache after drinking" in Chinese social settings; Apple is synonymous with high-end, exquisite industrial design, and ultimate experiences. Without exception, these top-tier brand moats eventually bind their names tightly to some very beautiful, rigidly demanded human emotion or scenario through long-term, flawless, and top-notch product experiences.

When we discussed LV, we also mentioned the anti-scale mechanism of luxury brands. For top-tier luxury brands like Hermès and Ferrari, they represent absolute wealth, taste, and social status. Because they deeply understand that the lifeline of brand mindshare lies in "rarity increases value," they artificially control production and restrain expansion. If some luxury brands, bowing to short-term financial pressure, enter mass e-commerce platforms on a large scale and excessively consume their exposure, the top-tier brand mindshare symbolizing nobility and scarcity in consumers' hearts will face the danger of collapse.

As consumers, we can try to reflect on why we develop extremely high loyalty to certain specific brands. You choose a brand usually not because of its "high cost-effectiveness," but rather because it has a unique tone that spills over functional value. Even if it is more expensive, and even if it raises prices every year, you are still willing to consume it. This is because it satisfies your irreplaceable emotional value or spiritual demands.

Interestingly, as a moat, besides lofty luxury positioning, branding can also birth great brands at the opposite extreme—like Pinduoduo. Within retail's value proposition of variety, speed, quality, and savings, Pinduoduo took the words "savings" and "the thrill of browsing" to the absolute extreme in human commercial history. When you shop on Pinduoduo or Temu, due to the internet's lowest prices and extremely straightforward after-sales guarantees, an ordinary consumer can experience an incredible dopamine rush of "shopping without looking at price tags, clearing out the shopping cart blindly like a billionaire." It similarly provides irreplaceable emotional value for the mass class on top of functional value, which is also an exceptionally strong brand mindshare.

The sustainability of a brand as a moat is usually exceptionally strong; it inherently possesses extremely high exclusivity and longevity. Because a top-tier brand image is not built by running ads for a few days or doing a few massive marketing campaigns. It is the crystallization of a company's extreme focus, restraint, avoidance of principled mistakes, and even a paranoid pursuit of perfection above profits over ten, or even decades, combined with the right timing and people. For a newly established startup brand to quickly go head-to-head with an old empire that has settled over decades to seize the consumer mindshare consensus is extremely difficult. In business history, once a brand has proven historically evergreen (like Moutai or Coca-Cola), it is highly likely to remain evergreen for decades to come. Therefore, for the vast majority of ordinary investors, investing in top-tier consumer goods enterprises that truly possess an extremely strong brand mindshare is often the wisest, most worry-free choice with the highest win rate.

6. Cornered Resources

The sixth competitive advantage is called cornered resources. In plain terms, some businesses have extremely high barriers; if you want to join the table to play, you must have an "admission ticket." By legally cordoning off certain extremely critical and scarce resources into their territory early on, incumbent companies build a high partition wall, blocking new entrants and allowing themselves to sit back and enjoy the rich profits brought by monopoly.

Cornered resources mainly manifest in the following forms in reality:

Heavily regulated industry entry licenses: for example, in special industries critical to the nation's lifeline like coal, oil, electricity, and finance/banking, the franchise operation licenses issued by the government are the most natural and solid cornered resources for enterprises; without this license, you don't even have the qualification to enter.

Heavy-asset resource monopoly: such as the current AI large model industry, which is turning into a brutally fierce arms race. If you want to research and launch the top large models, you must have thousands of Nvidia's most advanced computing graphics cards in hand. Because tech giants locked up and cornered these core computing resources early on through massive financial power, it built an almost despairingly high computing resource barrier for late-coming startups. Similarly, in the biopharmaceutical industry, the R&D of a global innovative drug requires billions of dollars and a decade of continuous investment; this massive capital threshold is also a competitive resource cornered by giants.

Effective naturally scarce resources: there is a US public company called Verisign, whose core business is to exclusively manage and operate global Internet generic top-level domains (like .com and .net). Because generic top-level domains on the Internet are absolutely limited and non-renewable in their underlying space and consensus. It cornered the ownership of this core scarce resource early on, forming an unsolvable moat; today, any premium .com domain can sell for astronomical figures on the market.

Another very era-specific category of cornered resource cases involves private data assets—such as the US community forum Reddit, or some veteran content communities in China. Looking merely at the technical architecture, a community forum doesn't seem to have profound network barriers, but over the past dozen years, it has authentically accumulated a massive amount of corpus data of real human daily conversations, rants, and discussions. In today's AI large model training era, these long-accumulated, exclusive, high-quality private

data assets that cannot be publicly scraped from the Internet have become the scarcest hard currency. By cornering these private data resources and selling them at high prices to large model companies, an originally traditional community business is upgraded into a very sexy, top-tier business model.

7. Process Power

The final competitive advantage is called process power. Process power means that a company has evolved and designed a unique, highly efficient production operation process or organizational SOP internally, thereby achieving a plunge in costs or a surge in quality that is extremely difficult for competitors to replicate in a short time.

The most classic textbook case of process power is Toyota's Lean Production and Just-In-Time (JIT) manufacturing system. In an era dominated by veteran European and American auto giants, Toyota thoroughly revamped the assembly line and the collaborative flow of the entire supply chain at the ground level, squeezing inventory costs and production friction to the absolute limit, allowing vehicle production efficiency and cost-effectiveness to leap forward. Even if European and American giants sent people to visit and study Toyota's factories every day, it was extremely difficult for them to truly implement and run this precise process system back within their bloated organizations. Relying precisely on this unique organizational process advantage, Toyota ultimately established its dominance in the global automotive industry.

In the modern consumer sector, process power is still visible everywhere. For instance, the massive franchised milk tea companies we mentioned earlier; the surface of their competition is branding and new products, but their underlying core strength is actually the organizational SOP process for managing huge numbers of franchisees. How do you standardize daily hygiene compliance across ten thousand stores? How do you guarantee the taste of every cup of milk tea is exactly identical? How do you ensure franchisees have a high probability of making money and are willing to follow the platform? This entire set of precise franchise operations and supervisory norms is the core process prowess of the brand. If your processes aren't well-managed, once stores exceed a few thousand, severe management loss of control and food safety scandals will erupt, and your scale economies will completely collapse.

Exclusive patented technologies and technical barriers can also be categorized as process power in a broad sense. For example, ASML's Extreme Ultraviolet (EUV) lithography machines, or those innovative pharma giants holding twenty-year statutory patent protection periods. This kind of process advantage can lock in an extremely lucrative golden period of high gross margins for a company through legal and physical technologies.

Aside from these industrial and managerial processes, the investment world also harbors a highly unique, intangible case of process and cultural advantage—that is Berkshire Hathaway, helmed by Warren Buffett.

As a massive investment holding group, compared to other top private equity funds on Wall Street, Berkshire's core and most irreplicable process advantage lies in its unique methods and corporate culture for managing its subsidiaries and doing business. Buffett provides the excellent CEOs of his subsidiaries with extreme decentralization and full trust—a completely hands-off approach deemed inconceivable by Wall Street—allowing these management geniuses to run their businesses without distraction. At the same time, the top-tier

reputational assets across the entire business world that Berkshire has accumulated over the past half-century have woven an indestructible web of trust. When many excellent family business founders want to sell their companies and find a perfect home for their businesses, they are even willing to sell to Buffett first at lower prices and on stricter terms than others. This intangible process, settled through unique business methods and culture, constitutes Berkshire's deepest moat.

Regarding process power as a moat, we must very rationally see its limitations: many processes purely at the technical or managerial level are extremely susceptible to being imitated or even becoming obsolete over the long river of time.

Whether it's Toyota's JIT or some advanced process management, given enough time and peers willing to pay a heavy price to grind away at it, everyone will eventually catch up on costs, ultimately regressing once again to homogenized cost competition.

And on the side of exclusive technology and patents, technological iteration is extremely ruthless. Motorola once held an absolutely unrivaled exclusive process technology barrier in electronic calculators and early wireless communications, but with the advent of the smartphone and mobile internet era, traditional calculators and old tech routes were ruthlessly eliminated by the times; no matter how far ahead you were on the old tech route, it is to no avail. Even lithography machine tech as strong as ASML's is seeing imitators and latecomers slowly closing the gap at an unimaginable speed when facing targeted technical assaults from certain major powers utilizing whole-nation systems and investing epic resources. If the leader's own pace of evolution slows, pure technical process advantages cannot guarantee that you can rest on your laurels forever to maintain the barrier.

Therefore, within process power, only a "cultural process advantage" formed by the deep integration and harmonious blending of unique organizational culture, moral backbone in doing business, and brand goodwill (such as Berkshire's trust mechanism) is the ultimate moat in the entire business world, hardest to imitate and most capable of withstanding the wash of time.

Conclusion: Returning to the essence of business

The above are the 7 most classic competitive advantages summarized in *7 Powers*.

I think the summary in this book is highly suitable as an easy-to-understand introductory guide for everyone getting into business model deconstruction. It provides a clearly framed explanation of the underlying forces driving business. Although most theories are essentially still "hindsight 20/20" attribution summaries, it is indeed a very direct and handy cognitive toolbox.

If you are truly interested in business and want to understand businesses and do the right things on the long road of investing, you must deeply understand what exactly makes a truly good business and what can constitute a sustainable, hardcore moat.

But when specifically applying this framework, we absolutely must not fall into dogmatism or blindly apply formulas.

You cannot mechanistically think: I see Company A seems to have collected four competitive advantages, while Company B only has two, so Company A must be better than Company B. This kind of armchair strategy of counting labels is extremely dangerous.

We must ultimately strip away all esoteric terminology and return to the most fundamental essence of the industry, the company, and commerce.

The essence of commerce spanning thousands of years has actually never changed, which is: how to efficiently and continuously satisfy those diverse, dynamically changing real needs of consumers. For any enterprise, your primary calling remains to make the best product and build a solid, unique, and differentiated proposition in a fully competitive market. How sharp and deep your differentiation directly determines the thickness of your moat and the length of your enterprise's life cycle.

At the same time, you must profoundly gain insight into the underlying essence of the industry, because the industry's backdrop often pre-determines the survival ceiling of the moat right from the start. If you are in an extremely hyper-competitive industry like photovoltaic solar panels that purely values function and cost, no matter how many tricks you play with management processes, you are destined to struggle to build a brand-differentiated moat that lets you sleep soundly. But if you are in the e-commerce retail lane, you must deeply understand that what consumers eternally care about is "variety, speed, quality, and savings"; only by achieving world-stunning differentiation in one of these dimensions through extreme business design (like Pinduoduo's "savings" or JD.com's "speed") and unselfishly settling the dividends of scale economies into user trust assets, can you possibly extract the most lucrative and enduring online traffic land rent.

The real business world is extremely cruel and fully competitive, to borrow Amazon founder Bezos' most classic quote: "Your margin is my opportunity." As long as an industry has excess profits and money-making opportunities, capital and competitors will continuously flood in like sharks smelling blood. Competition is forever locked in an extremely cruel dynamic evolution, and this is precisely the most thrilling and fascinating part of observing and deconstructing the business world.

These two episodes of theoretical and practical dialogues on moats and business models can serve as a great cornerstone for upgrading your cognition and building an underlying analytical framework. But this is just the beginning; there is still a massive amount of internal work to cultivate—which is, when facing specific businesses, to sharply, objectively, and impartially judge just how high the probability of sustainability its competitive advantages possess.

Finally, I want to leave you with three highly thought-provoking open-ended questions for you to ponder deeply in your spare time:

Review the work you are currently engaged in or the company you are in: does your company actually have a moat? Does your personal capability, within the circulation of the company, also possess some unique process or switching cost advantage?

Try ranking these 7 competitive advantages in your mind; do you think there is a true hierarchy of superiority among them? In your investment philosophy, which type of moat do you most yearn for and find most perfect?

Step outside the framework of this book and think deeply: in this rapidly changing era, is there any other highly powerful competitive advantage that is completely not covered within these 7 categories?

Alright, we will stop here for today, see you next time, bye-bye!