

The Finite Market Approach

BY BRIAN BETKOWSKI

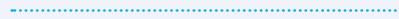
Right now your market is finite. Act that way.

More than 17 years ago, Larry Page and Sergey Brin began collaborating on a search engine called BackRub. Two years later, Google was incorporated and the rest is history. Over this short time, Google has shaped our world in ways that we never imagined possible. Most importantly it has given us structured insights into a seemingly boundless frontier: the 40+ billion web pages on the internet.

Larry and Sergey had a fundamental belief that the challenge of finding useful information on the internet strewn across millions of computers around the globe is a finite problem that can be tackled in the same manner as a less complex problem. They created bots to scour and index the entire web using thousands of inexpensive networked computers that could then quickly locate the information based on text searches on google.com. I know that sounds oversimplified, but at its core that is what Google did, and as a result, they have since created a \$300B business around it!



Abstract Market Approach



Finite Market Approach

Little is known and assumptions (aka guesses) and models are created to predict behaviors and outcomes.

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The Finite Market Approach suggests that at any given point in time, the market (or problem at hand) is finite. It doesn't suggest that the market (or problem) will not grow or morph in the future or that our dreams, aspirations, and potential as humans are unnaturally bound in some manner by a higher power. It simply suggests that right now, most of our core business problems are finite and can be quantified, measured, understood, and recognized for what they are without being abstracted, impersonalized, or overcomplicated. It doesn't mean that it is easy or trivial, simply that it can be done and, in many cases, should be done to succeed.

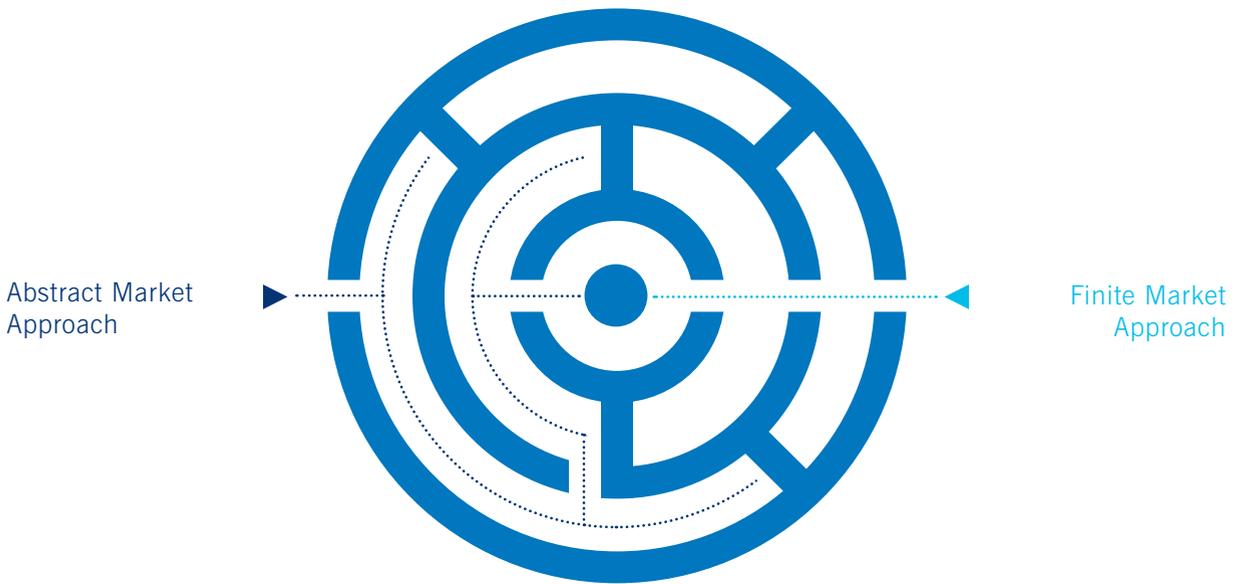
The antithesis of the Finite Market Approach is the **Abstract Market Approach in which little is known and assumptions (aka guesses) and models are created to predict behaviors and outcomes.** In practice, few problems are purely abstract (i.e., you know nothing for certain about the problem at hand) or purely finite (i.e., you know everything about the problem at hand). Therefore, the Finite Market

approach can usually be applied to some element of all problem-solving. However, many strategic thinkers tend to default to an Abstract Market Approach for several reasons:

1. They are in total control of the assumptions, model, and therefore the strategy
2. It is harder to prove them wrong, since, by definition, it is abstract, and based on assumptions
3. It is the easiest way to get started, since a finite approach relies heavily on data and facts which may be hard to find
4. It can seem limiting and stifling of one's creativity to treat it as finite

We can't argue with human nature when it comes to genetics, but what is overlooked by many is that, although the Finite Market Approach is not often our instinctual approach, it is actually the approach that creates the strongest buy-in because it is based mostly on tangible reality.

Finding the Solution



There are three guiding strategies to the Finite Market Approach:

1. The default approach to every problem should be to assume that it is finite and to treat it as such. You must convince yourself that it is abstract, not the other way around. Keep it simple.
2. If you convince yourself that a problem is abstract, constrain it into smaller finite problem sets. Then, tackle them one at a time, focusing on the 80:20 rule: 80 percent of the value often comes from 20 percent of the market. The outliers are often the abstract problems that take all our resources and brain power with little relative return.
3. If an abstract problem cannot be easily constrained into smaller finite problem sets, start experimenting to create your own data to then turn an unknown, abstract problem into a known, finite problem.

Another successful example of the Finite Market Approach is Amazon. Mark Bezos knew he wanted to create a world-dominating online retail company, but instead of trying to boil the ocean and model what everyone would buy, he started selling what everyone needed and were already buying — books. He knew the market well and could get his arms around it quickly, in a finite manner. Then, by methodically mining customer behavioral data and buying patterns, he was able to create his own data set to expand into almost every major retail sector in a finite fashion and create his multi-billion dollar empire. He even uses that data to help his customers create a more finite buying experience with his famous “customers like you also buy” recommendations, which are eerily accurate.

Let’s now explore these strategies with a much simpler example of the Finite Market Approach. Imagine you live in a town where all the residents live within a two-mile radius of each other. There are two major roads that crisscross through the center of town. It is summertime, and many people visit the





busy downtown intersection each day to buy groceries and conduct their business. You decide to set up an ice cream stand, but you need to figure out many things before your big launch, including key market insights about your customers, such as:

1. What flavors of ice cream to offer
2. How much to charge
3. How to let everyone know about your stand

What is your first reaction on how to tackle this problem? Can you take the Finite Market Approach or do you need to take an Abstract Market Approach? It is hard to decide without more information.

On one end of the spectrum, what if the town were in the Midwest with 100 residents with no transients? You could probably wrap your arms around that problem and take a Finite Market Approach to find out each person's name and occupation (and therefore their estimated income), price your ice cream accordingly, and maybe even interview or market directly to each of them on a personal basis. There wouldn't be any reason to abstract the market and hypothesize on the types of people who might live there and what they might do and then mass market to them in an impersonal manner. Simply take a finite approach from the beginning. This is the first Finite Market Approach strategy in practice — the default approach to every problem should be to assume it is finite and treat it as such.

On the other end of the spectrum, what if this "town" were actually lower Manhattan with 150,000+ full time residents plus hundreds of thousands of additional work commuters and tourists visiting Wall Street, Battery Park, the 9/11 Memorial, Little Italy, and the West Village on a daily basis? Your instinct might be to take an abstract approach to this problem because there are too many moving parts. However, you don't have to go there just yet. Utilize the other two key Finite Market Approach strategies:

- Constrain the abstract problem into smaller finite problem sets. Tackle them one at a time, focusing on the 80:20 rule. In this case, you may decide to focus on the Wall Street traders coming into work on the corner of Broad and Wall, with local pricing, messaging, convenience, and no cheesy New York marketing gimmicks. Develop repeat clients, understand who they are, learn their names and buying habits, and turn the abstract problem into a finite one. Then, move on to another market segment.
- In the absence of data, just start experimenting to create your own data to then turn an unknown abstract problem into a known finite problem. For example, you may not be able to find hard data regarding the flavors that New Yorkers love. Start with a broad array and then narrow as you interact with customers. Don't let yourself get into analysis paralysis, trying to figure out things that do not present a big risk to success — just go for it.

“Well, start with the A’s.”

– Warren Buffett, when asked about his approach to investing, on how he could possibly research all 27,000 U.S. public companies.

Let’s explore the “absence of data” strategy with another example. Imagine you are a company that sells services to homeowners when they are preparing to sell their houses, but have not yet listed them. There are 75+ million owner-occupied homes in the U.S. so marketing to each one at all times is not justified for your budget. Ideally, you would want to know the triggers that indicate when a person is about to sell their home and message to them at precisely the right time to maximize your marketing dollars. Let’s assume that the data required to do this is not available, hence this is an abstract problem. If it were available, you would be able to take this abstract problem and make it finite. However, you can make your own data and turn the problem into a finite analysis and associated strategy. You start offering discounts at home improvement stores on certain items that you speculate are common when preparing to sell a home like paint, dry wall repairs, plants, etc., or, you partner with a home improvement store to purchase this data if it is available. You then monitor whether those customers indeed listed their homes, and through data analysis, determine correlations between buying habits and their propensity to sell their homes. You have then turned your abstract problem into a finite one and can market to specific customers based on these triggers.

With the globalization and digitalization of commerce along with the onslaught of Big Data analytics, there is no surprise that our first reaction is to abstract our business problems and our market. Let’s face it, many businesses now and in the future never meet their clients in person, let alone see a picture of them or talk with them. As this trend continues, we must remember the Finite Marketing Approach:

1. Default to finite
2. If abstract, constrain to be finite with the 80:20 rule
3. If still abstract, experiment to create finite data

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