



Stanford eCorner

Fractal Markets

Geoffrey Moore, *Mohr Davidow Ventures*

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Video URL: <http://ecorner.stanford.edu/videos/1323/Fractal-Markets>

Moore explains the concept of fractalization of markets when markets get out of the growth phase.



Transcript

What happens when markets get out of the growth phase? Well, the upper part of this diagram is intended to show in any given market which is the blue circle what happens during the growth phase. And what happens during the growth phase is you just grow, right? We call it the just shift part of the market. You just get more and more and more and more of the same thing out there. This is Henry Ford, you know, buy a Ford in any color as long as it's black just get there but by the time you get to number three, you got there. Now what, right? I mean there is a telephone in every house in America. There is a car in every garage. So let's get two cars or two phones but how would you do that? And that's where you start getting to diagram number four. You start saying, "Well, hang on." You know, maybe one size doesn't fit all. Maybe we need not just a car but we might want to have a sedan, or a coupe, or a station wagon, or if you go to number five, maybe we want to have an SUV, or a minivan, or one of these really large station wagons, or if you start seeing the thing we call fractalization or the market starts to get more and more granular around more and more specific offers which are targeted in the consumer market at tighter and tighter demographics, right? And in the enterprise market, at narrow and narrower vertical markets. So you start seeing systems for oil and gas, or systems for pharmaceutical, or systems for retail, OK? And in the demographics you see different demographics for systems for people who are 18 to 24, or soccer moms, or gun racks and pickups and that kind of stuff.

And what's happening here, is you're finding that the buying decision is increasingly being driven by the portion of the offer that is noble to that community and special to that community. And so, marketing becomes a much bigger part of this thing. However, at the same time, you're seeing the preference that this novelty creates is nowhere near as gigantic as the original category preference. So in the first three diagrams, you're choosing between walking and a car. That's a big junk, right? You're willing to pay a big difference between no car and a car. But in four, five, and six you're now paying the difference between a car and a nicer car. And so, you're willing to pay a difference but the premium gets smaller. Well, if I'm still going to make a bunch of money, I could take cost out of the part that you don't care about. So you see, the blue triangle getting larger in the middle of figures five and six. That's actually the hollowing out of the core.

What that means is we're substituting commodity components in the parts of the offer that the market does not care about in order to cost reduce it while we're investing at the surface in the parts that they do care about. And so, it creates this fractal mark and you think, "Well, how big can this thing get and how long can it go." And the longer the market goes, the more this stuff happens, right? So you started with a kitchen phone, you end up with broadband, bedroom, cordless car phone, cell phone, office phone, but you instead go VoIP phone, video phone, security system, baby camera, internet, blah, blah, blah, blah and by the way, just when you think, "OK, for God's sake stop. right? We must be gone." Somebody comes along who

figures out that you can have a \$3 billion market in ringing tones. Who knew? Right? So the point is, there are very surprising properties to fractal figures. Fractal map is part of the self... chaos stuff and self emerging systems. It's probably the coolest in electoral tradition of the last 25 years. I encourage you to play with these models so that they appear everywhere.