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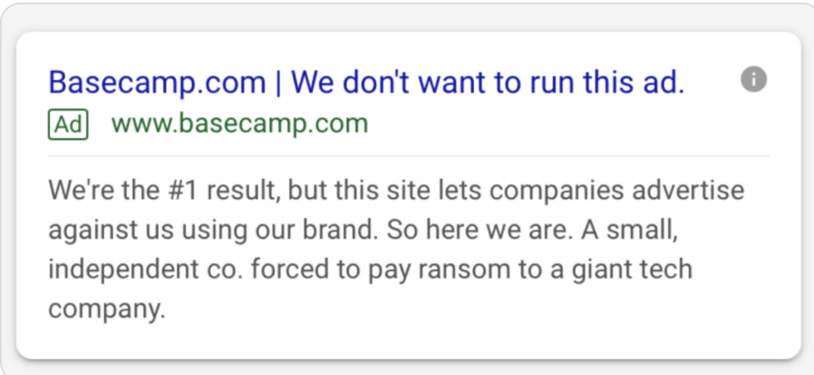
Positional Scarcity

SEPTEMBER 7, 2019 LEAVE A COMMENT

Each day on Tech Twitter, we get up in the morning, open up the website, and then go see what it is we're mad about. A few days ago, it was this (https://twitter.com/jasonfried/status/1168986962704982016):

Jason Fried @jasonfried

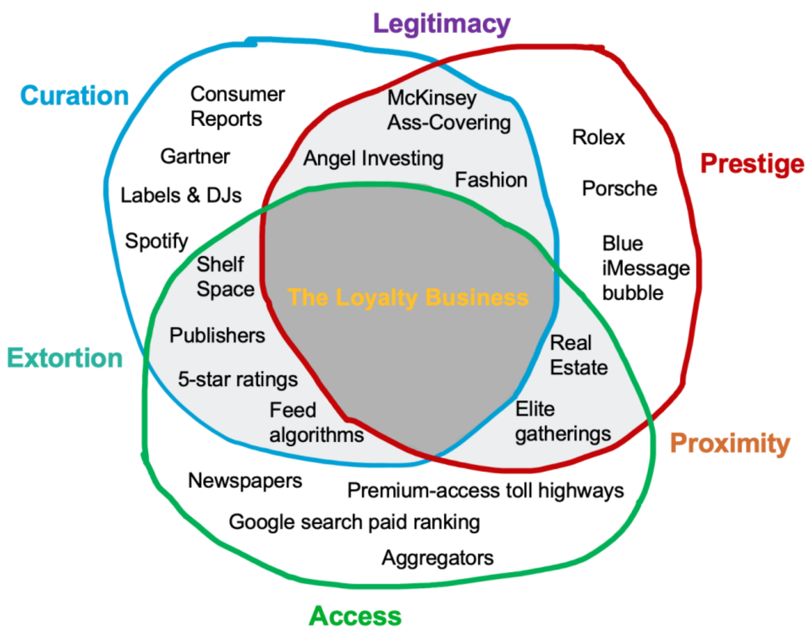
When Google puts 4 paid ads ahead of the first organic result for your own brand name, you're forced to pay up if you want to be found. It's a shakedown. It's ransom. But at least we can have fun with it. Search for Basecamp and you may see this attached ad.



The concept of "pay to get a better place in line" when it comes to advertising or product placement is hardly new. Walk into your local drugstore you can see it literally on display: CPG companies like P&G spend good money to make sure their products appear in good shelf position, like eye-height and in prominent display slots, rather than inferior ones. A more modern example you'll also know well is Amazon, where merchants can pay to appear higher in search rankings, or gain badges like "Amazon's Choice" that indicate a premium place in line, and accordingly boosted sales. Curiously, in the latter case we call this expense "advertising spend" whereas in the former we call it "marketing spend", but it's really all the same thing: **in conditions of abundance, relative position matters a great deal.**

In general, there's a name for this phenomenon: **positional scarcity.** Positional scarcity comes in a lot of different flavours. There's *curation*: an abundance of people creating music creates demand for record labels, DJs, and other tastemakers to do the job of picking, "Out of all these options, which song should get heard?" There's *prestige*: an abundance of prosperity makes it harder to preserve and distinguish high status: "Now that everyone has a car, how do I make sure that my car is the most impressive, and everyone knows it?" There's *access*: an abundance of people all vying for each others' attention and patronage creates a high premium for moving to the front of that line: "How much would you pay to skip the congestion and get to where you need to go?"

The most interesting forms of positional scarcity combine several of these elements, with the ultimate positional scarcity business model at the middle of our Venn diagram: an interesting industry called the *Loyalty Business*.



What these challenges all have in common is that they're symptoms of abundance. In environments of real scarcity, these problems don't exist. But in environments of abundance, when some new technology or paradigm has created a huge bounty and variety of new stuff that we enjoy, positional scarcity inevitably emerges, creating new bottlenecks and new opportunities.

In my view, positional scarcity is one of the two primary kinds of emergent scarcity that we always, inevitably get in conditions of abundance; the other being a concept I call Integral Scarcity that I'll write about some other week (or you can read about in my ongoing book project, Scarcity in the

Software Century (https://alexdanco.com/scarcity-in-the-software-century/)). It's a direct consequence of abundance: with abundance comes not only great consumption but also great variety, and that variety and velocity of consumption creates several new kinds of problems that all get rolled into this general concept of positional scarcity.

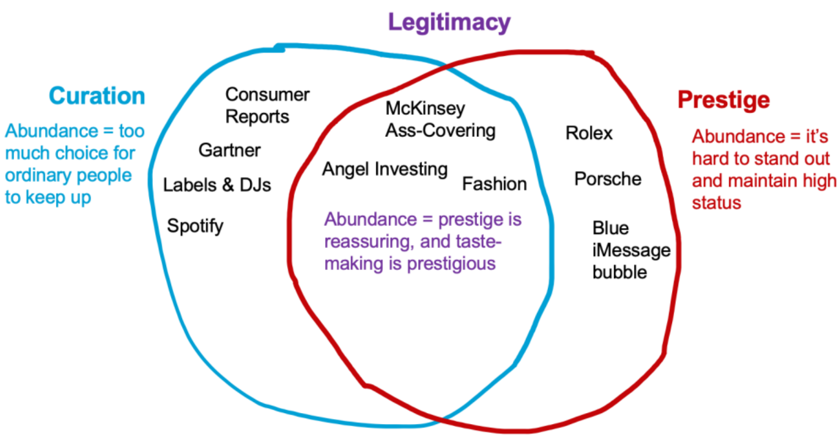
Let's start up top with *Curation*, *Prestige*, and their overlap: *Legitimacy*.

Curation is a form of positional scarcity that we get whenever there's an abundance of choice of something, and the average consumer needs help finding what they'd specifically like. No one can listen to every song ever made, let alone every song made this month. So record labels, radio DJs, and playlist curators do the job of sifting through it all and finding a few good ones we'll probably like.

Sometimes the problem is sheer volume, like with music; other times the consumer wants an expert to guide them through a consequential choice. When there are 100 different cars on the market and you aren't a car expert, you'd like somebody to go through every car on the market and tell you which ones are safe, and which ones are good value. So we have curators like Consumer Reports, or someone like Gartner in the business world, to help consumers decide: "out of all these options, which one is the right one?" The job of being a curator becomes more important as abundance and variety increase.

Prestige, or alternately *Status*, is a different kind of positional scarcity. Standing out, differentiating yourself and wielding status are age-old needs that people have, and they get more challenging in conditions of abundance. Status and prestige emerge as scarce whenever some form of abundance creates a rising tide that lifts all boats, so to speak, and so the handful of people who used to stand out by owning boats are now compelled to make sure you still know that their boats are the best ones.

In the early days of automobiles, owning a car as a recreational vehicle in itself was a form of prestige. But nowadays cars are ubiquitous; if you want to stand out, you need a nice car; which is why we pay a premium for a Porsche hood ornament even if it's slapped on a car that's basically a VW. Sometimes tiny status signifiers gain huge cultural relevance, like the distinction between blue versus green iMessage bubble that has probably singlehandedly done more to protect iOS marketshare than any other feature among the coveted 25-and-under crowd.



Curation and Prestige are both pretty straightforward, but their intersection is more interesting. I call it *legitimacy*. In an environment of abundance that's full of complexity and choices, there's a really interesting convergence between the ability to curate and the power to wield prestige.

Angel investing is an exercise where rich people spend their money (and occasionally see a return) in order to be able to say, "Look what I curated!", and earn prestige in doing so. If you were an early investor in Stripe or something, that's a huge status symbol – not just because it means you're rich, but because it means *you demonstrated excellent curation ability*, and that's a high-status thing to have. Fashion is similar: it's an opportunity to earn and preserve status by demonstrating your excellent taste and curation skills. In both cases, successful curation confers prestige, and people seeking prestige will go play at being curators in order to try and earn some.

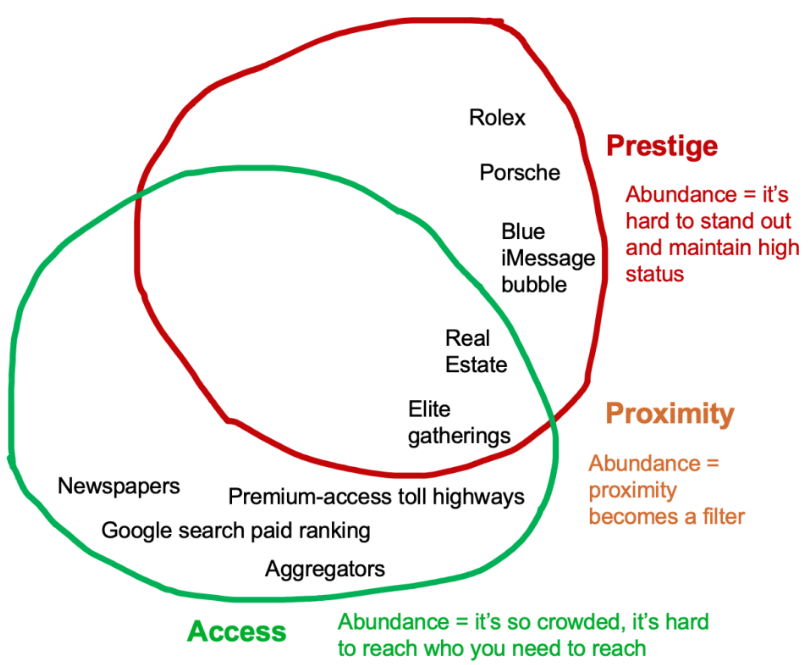
The third entry in this segment, “McKinsey ass-covering”, is the inverse of fashion or angel investing but still the same basic thing. When a company faces the dilemma of an abundance of choice, its executives (who don’t want to get blamed should their choice turn out poorly) often seek out a consultant, who acts as a curator – someone who can help them sort through, “out of all these options, which one should I pick?” The curators that they hire – consultants like McKinsey or BCG – use the prestige of their reputations to sell their clients a form of reassurance, or legitimacy, that “you know you’ve made the right choice, because you can say that we advised you.” McKinsey sells a little bit of their prestige to the client, and in doing so solves their curation problem by making any option they choose feel like the best one.

Next let’s rotate around our Venn diagram at the next overlap: Prestige, Access, and the segment in the middle I call *Proximity*.

Unlike Curation and Prestige, which are both subjective problems, Access is more of an objective, literal challenge. Abundance is great, but it creates congestion: when everyone has something, or everyone’s selling something, or everything’s available somewhere, it can become hard to reach whoever you need to reach. One literal example of an access problem is traffic. When one person has a car, they can drive quickly from the suburbs to downtown, or wherever they need to go. But when everyone has a car, you’re stuck in traffic. It’s too congested. So it may make sense to pay a premium for a tolled road with less traffic, so that you can drive around the congestion and get there faster. If cars were scarce this wouldn’t be an issue; but now everyone drives a car, access becomes everybody’s problem. (Just wait until driverless cars eventually turn traffic routing into a pay-to-play problem, where virtual “premium lanes” zoom rich drivers past everybody else, like in airport security, while everyone else fumes. If you think road rage is bad now…)

Warren Buffett loves to talk about businesses that are like drawbridges: if there's only one bridge crossing the river in town, and everyone wants to cross it all the time, then you own something really valuable. You can charge an attractive profit in order for people to access the other side; the more people and things and abundance on both sides of the bridge, the more scarce and valuable your bridge and the access it confers.

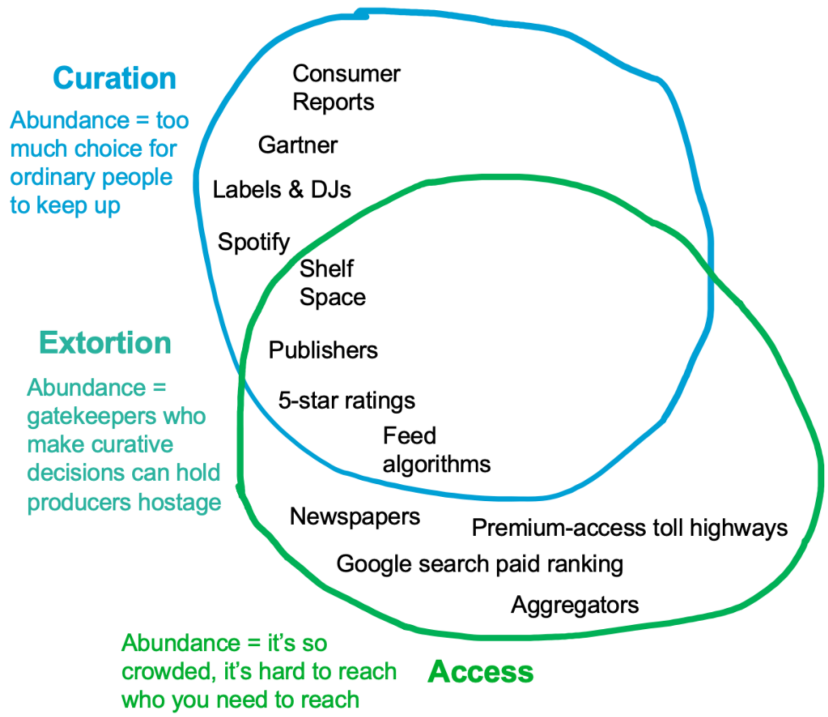
One of Buffett's classic "drawbridge businesses" was owning the local newspaper. If a newspaper has all the local readership, then advertisers who want to reach those readers need to pay the newspaper an attractive fee in order to make it in the pages – and then another fee if they want to be in colour, or on a good page in a big size, or generally to stand out and be seen. The more abundant the readership and the advertising base, the more scarce the newspaper's access becomes. (Until they get disrupted by Google, who built a newer, bigger bridge.)



Then there's the intersection between *Access* and *Prestige*, which I call *Proximity*. The purest example of this overlap is in residential real estate: how much are you willing to pay to live in a good neighbourhood versus a bad one? A lot, probably. When it comes to deciding where to live, people will pay a premium in order to live next to people who will also pay a premium. The willingness and ability to pay for what is essentially a residential luxury good (a house in a premium neighbourhood, which might be exactly the same quality of physical house, but will sell for twice or even three times as much) acts as a filter to make sure that rich people have easy access to one other, but other people don't.

If you want into the world of easy access to the prestigious people and their lifestyle – living on their street, sending your kids to the same school district – you're going to have to pay to get in. Same kinds of forces are at work in elite gatherings of various forms: country clubs, fancy events, and other such institutions make sure that those with status can gain access to one another, but those without such status cannot. In conditions of mounting abundance and congestion, proximity becomes increasingly scarce.

Rotating around once more to finish out the Venn diagram, we have the overlap between *Access* and *Curation* which I've provocatively, but deliberately, named *Extortion*.



The conditions for potential extortion arise whenever you have a drawbridge-type industry (e.g. lots of vendors trying to reach lots of consumers and have to go across a bridge of some sort to do so) where the consumers are relying on the bridge operator to make curative decisions for them. One familiar example today is the revolution taking place in online food delivery. If you have a pool of restaurants in the app and a pool of consumers who use the app but do so by explicitly searching for the specific restaurant they want every time, the app is limited to charging a reasonable take rate, because the restaurant is retaining some pricing power (the customer wants specifically them.) It's an access problem, but it's reasonable. The extortion problem arises when the app starts explicitly curating options for the consumer, and forcing restaurants to make more and more concessions just to be able to "make the algorithm happy" and reach their own patrons.

When done reasonably, these kind of curative drawbridge businesses can do something useful for both businesses and their patrons, and we don't complain about them. But think about the past couple years of drama between Facebook and publishers. If web publishers want to reach their audience, Facebook is where they are; so you have to do whatever it takes for the Facebook feed algorithm to "curate you in", so to speak, to your users' feeds. So whenever Facebook says "Jump", you have no choice but to ask how high.

This brings us back to Google and this week's news. In the early days of Google, we thought of them as a search engine that returned a list of relevant links plus a few ads at the top, and that was great. They were a great aggregator of users and could command high fees from advertisers, but it was fine: they were a pretty neutral access provider so it was all good. But recently, Google has started to use their power as the effectively sole search provider in a few really extortive ways. First, the Basecamp situation above: by making a design choice to stuff so many ads above organic searches for a company's *own name*, businesses like Basecamp are effectively forced to pay up *whatever Google wants* in order to access search traffic for customers searching for them directly. That's pretty extortive.

Less than half of Google Searches now result in a click | Rand Fishkin (https://sparktoro.com/blog/less-than-half-of-google-searches-now-result-in-a-click/)

Meanwhile, more and more Google searches aren't even turning into clicks at all. As Google gets smarter and learns how to simply answer users' questions directly, they become a far more powerful type of curator than they used to be: they now have the discretion of whether or not to show users your link at all, because they can increasingly answer the user's query without one. That's the power of combining an access business with a curation business. Users at this point blindly trust Google to give them what they're looking for. So long as Google retains its effective monopoly on search traffic (and controls the Chrome browser from which many of these queries, a lot of which are simply customers typing in the business name rather than adding ".com" at the end or something), they own something even better than a drawbridge. And we're increasingly looking for an alternative.

Finally, in the middle we have a really interesting overlap between all of these factors. The pinnacle of "in conditions of abundance, relative position is scarce" is something called the loyalty business. In a world of abundant choice, one of the most valuable things you can have is an attractive, repeat customer that is loyal to you. So many companies, like department stores and gas stations but most famously credit cards and airlines, devote a huge amount of their time and resources to the business of loyalty itself.

As a former ultra-frequent flyer, I can tell you from experience: the Air Canada loyalty program is … really nice! It solves the problem of abundance and positional scarcity for a whole bunch of different people and different angles. In exchange for committing to one airline (and granting them favourable position to me), they then give me back a whole bunch of different kinds of positional scarcity: faster lines, better seats, the ridiculously named but nonetheless coveted "Super Elite" status moniker.

Another Loyalty Business that I use frequently is Amex, whose charge card comes with all sorts of preferential access and curation services – along with that really satisfying metal "thunk" gives you that dopamine shot of feeling prestigious for really no good reason. Amex is a fantastic "positional scarcity manager", if you could call it that. It wouldn't be too much of a stretch for other programs like Amazon Prime to evolve beyond being a fantastic bundle and into explicit curation and status. Some service like Prime Premium or whatever that gives you the whole prime bundle plus preferential access, curation and status everywhere? Seems appealing, although not necessarily Amazon-y.

All in all, real positional scarcity businesses take time to develop, especially loyalty businesses that are difficult to get off the ground before a retail or consumption environment is fully understood. But I'll leave with this thought: as the mobile internet, e-commerce, and the transformation of retail continues onward, I think there's an incredible opportunity to build a loyalty business in "everyday internet-powered consumption": taking Ubers, ordering anything powered by Shopify, that kind of thing. Uber itself is certainly trying to build one, with branded credit cards and other attempt to build loyalty programs – I'm not sure how they're doing, but it's still super early. Anywhere you encounter a situation that makes you think: "all of this abundance is making my place in line feel scarce", there's opportunity for creative business models in there for sure.