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Saturday thoughts on market pull. What is it? How is it different from Total Addressable Market (TAM)? And what ideas tend to have strong market pull?

A thread >>

1) First: "Market pull" != market size.

IMO (and most VCs will disagree!!), market size (TAM) doesn't *really* matter. But market pull DEFINITELY does. For that reason, I've almost never asked a startup about TAM.

Why?

2) First, what is TAM?

TAM is a sizing of how big your market is. A good way to estimate this is - if you can get to all potential buyers and based on how much $$ they are worth to you, how much money can your company make if you took the whole mkt?

3) An example: Say we run an e-commerce site that sells hippo food. TAM in the world:

-1000 zoos have on average 3 hippos = 3000 hippos.
-Each hippo eats $100 worth of food each day
-365 days * $100 * 3000 hippos = $110m per year globally

4) But, we'll come back to this.

Why I don't like TAM - it doesn't take into acct a few things:

A) how hard it is to get customers
B) how much more you can upsell once you have customers
C) how fast the mkt is moving up or down

5) Of these, the challenge in getting customers is the MOST concerning. For example, travel is a HUGE market. Lots of ppl travel. They each spend a lot of money on travel.

But scalably acquiring travelers in most customer acquisition channels is HARD.

6) It costs a lot of money to capture attn. So just because you have a big TAM doesn't mean you can actually get the customers -- even if you are a better product / service.

7) In addition, if you have strong loyalty w/ your customers, you can often upsell beyond your original plan. So, going back to the hippos, if we can get reliable customers buying hippo food, we have the opportunity to sell hippo grooming products / cleaning supplies / etc.

8) It is much easier to sell to an existing mkt than expand to a new mkt in most cases.

AMZN is a great example. Although they are expanding intl, they spend WAY MORE RESOURCES expanding in their home mkt. They sell the US audience everything >> trying to get new customers.

9) The caveat is if you are in a commodity business.

E.g. traditionally, it's been hard for fintech companies to upsell other fintech products. E.g. money is money wherever you get it, so one may have a Chase cc but bank at BofA.

10) Lastly, mkts are accelerating or decelerating faster than ever - due to technology.

Some large businesses / industries are dying quickly.

Others are accelerating quickly.

11) A good example of this is crypto. If you aren't making a bet in crypto because the current mkt size is too small, that's the wrong way to look at it.

Need to look at where it will be in 10 years.

12) Here are some other "small" mkts that will grow:

Sharing economy (eg Uber / Airbnb). Rent >> Own.

Alternative assets. StockX, @Vinovest1 are good examples.

Emerging mkts - Africa doesn't have many unicorns now, but they will have lots in < 10 yrs.

13) You have to see where the mkt is going. Not what it is today. Trajectory matters more than TAM.

14) Let's go back to A) Challenging customer acq. This is the biggest reason to prevent ideas from becoming big. There is just SO MUCH NOISE these days.

In the 1990s, turning your idea into reality required $5m to house your own servers. Few ppl knew web programming.

15) Today, there are SO MANY WEBSITES. Even if you don't have a direct competitor, there is ALWAYS COMPETITION for mindshare.

Tech is a commodity. Marketing is critical:

https://t.co/eecWQfQSA6

16) This brings us to market pull. What is it? Loosely, I define it as how quickly customers adopt your product. It's a velocity measurement. (And very handwavy!)

With re: to startup success, this matters MORE than anything else IMO.

So what does strong mkt pull look like?

17) To map out how to get to $100m / yr in rev by yr 5, your trajectory basically looks something like this:

Yr 1: $1m
Yr 2: $6m
Yr 3: $15m
Yr 4: $40m
Yr 5: $100m

You more than double each yr & have much higher revenue multiple jumps in the beginning. This is hard to do.

18) So how does this happen? A few ways. One way is you just have really strong product-based mkt pull. This can happen w/ strong product features that have virality.

I.e. referral codes. Group interactions as part of the product.

19) For this, think social networks. Think group productivity tools. Think referral codes for consumer products. Etc.

Yes, this is often referred to as "free" cust acq, but marketers still spend time & $ MEASURING & EXPERIMENTING W virality.

Customer acq is never free.

20) A second way is being in a greenfield sector or geography at the right time. Crypto is a good example (and combined w/ strong product virality is a killer combo).

21) Some of our "emerging mkt" portfolio companies are able to sign up businesses with street sales -- literally going door to door to get signups. And there is literally no competition so this leads to strong mkt pull.

22) Timing is impt for these ideas.

Harder to find these types of opportunities in the US IMO (but still possible - they just tend to be really "out there" ideas!)

Bill Gross talks about timing here: https://t.co/8K7PIWMis2

23) A third way is via paid ads. Most VCs think this is impossible. It's not - I've seen this happen a few times. But it's rare.

Ad prices only go up over time. So, you must have strong LTV for this to work which usually implies STRONG RETENTION.

24) And, if you are finding CAC too high in Google Ads or FB ads (generally saturated), try using untapped channels.

YouTube ads. Tik Tok. Etc.

Ad channels often require doing what everyone else is NOT doing.

25) A 4th way is expanding via SEO. Remember, you need rev to more than 2x every yr. SEO is one of the few channels where CAC from each link goes DOWN over time. The cost for link builders & writers is a 1 time cost, & hopefully you get many customers over time from that work.

26) However, you must be METHODICAL in measuring how much each link or content is worth to you & can't pay a lot for each. The problem is you won't know how much you can afford to pay until mos or yrs later. So, this is a gamble & will need careful attn to this long feedback loop

27) Since it takes some time to understand, often early stage VCs won't touch SEO driven companies.

I also haven't seen anyone get to $100m/yr by yr 5 as a result of needing time to figure out the feedback loop, but I've seen cos get REALLY CLOSE so it's worth mentioning.

28) So if you want to build a venture business (and there is also nothing wrong if you don't!), I would work backwards -- how are you going to hit these rough #s each yr?

And what are the deliberate cust acq activities you need to do to hit this?

29) In short, for your biz idea:

-Is it in a crowded space (affects CAC)?
-Are there potential upsells to increase LTV later?
-Is there greenfield to run that fits a rising trend?
-Is there enough margin between CAC & LTV?

These are the qs I would ask before starting a co.