



Stanford eCorner

Defining an Attractive Market

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Geoff Yang, founding partner at Redpoint Ventures, lays out measures he uses to identify and define attractive markets to enter. These measures include finding opportunities that are standing in "the path of progress," or that will change the economics of a current solution.



Transcript

So one of the questions I get asked a lot is well, what defines an attractive market? Well, I think the most attractive one is the ability to do something that can't otherwise be done, right. So without what I do, then there would be no market and the ability to kind of create a market is really interesting. And if you have any doubt and you look at the market cap of companies within any particular sector, you will find that about 50% of the market cap typically accrues to the market share leader, right. So it's very profitable to be the - not only the first in the market, but if you're the first you're the market share leader. So the ability to kind of help create a market is quite interesting. The second is something that fundamentally changes the economics of a solution. So by doing it, you can reduce the cost by 10x or you will allow what typically wouldn't be able to have been done, you can now be done. The third is that it's in the path of progress. You don't need to know the market. If the market exists today and it's being adequately served, you either have to come in with something - I always talk about the general rule of thumb of attacking existing markets, it's got to be about 10x the performance and it could be a maximum of three times the price, but arguably in today's world it's got to be something along that lines of a 30x kind of improvement for people to switch because otherwise corporations or people would rather just stick with what they're already using.

So being able to look at, well if this happens here and this happens here, I really think that this really isn't the path of progress and this is going to happen. So this notion of something that is in the path of progress and if it already exists, it's on the cover of Time Magazine, chances are it's too late. But if it's something that is controversial but you can argue is in the path of progress that's probably a pretty good thing to take advantage of or take a look at, I should say. And then the last is, what for me defines an attractive market, I want to be able to see how a company can get north of \$100 million of revenues, if it works, and ideally multi-hundreds of millions of dollars of revenue. Now, that's from my perspective as a venture capitalist. That isn't true for an individual investor or an angel investor, but for what I do that's what I want.