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Why startups shouldn’t bet big on trends like videoconferencing

Don’t be fooled by catalysts masquerading as permanent economic shifts. I want to talk to you big-thinkers and you trend-chasers for this post. Because I’m one of you, and I want you to avoid the mistakes I’ve made and I keep seeing others make. Tread lightly around those market bubbles.

I’ve been there, I’ve been the guy calling for the rise of X and the disruption of Y leading to the fall of Z. Still do it. It’s a pretty common call to make, actually, driven by a special kind of human nature baked into the heart of every entrepreneur.

That drive to find the next new thing is what guides us, motivates us, and challenges us to solve problems that aren’t even our own problems. We want to be the pioneer in the new science. Or at least its application.

And sometimes that leads us to betting everything on a mirage.

When is a bubble a bubble?

There are a bunch of major market bubbles being inflated by the quarantine, including videoconferencing, home delivery, and eServices. There are dozens of other minor bubbles floating around those big bubbles, from Telehealth to space heaters to designer hand-sanitizer.

I did not make that last one up.

Market bubbles exist for a reason. They're a natural outgrowth of economic shifts that start small, grow quickly, and then explode into the mainstream. Every startup that fits into the category of "disruptive" or "evolutionary" or "game-changing" rides that economic shift to its reward.

There are indeed champion wave-surfers among these startups, but it's not luck that pushes them forward. For example, the primary reason Zoom is a household name is because they were there in the right place at the right time *before* the economic shift hit the mainstream, and they rode the quarantine wave to perfection.

Is Zoom caught in a bubble? It depends. Do Microsoft, Google, and Apple want Zoom to exist? Probably not.

When is a bubble dangerous?

Last week, a friend sent me an article that started a discussion between us about market bubbles. The article was a piece of content marketing, but it had a fun list of assumptions that needed to be made to ride the waves of certain economic shifts.

Here are a few of them, in a kinda-sorta order for how realistic I think they might be. Depending on your own personal take, you might decide my order is most to least or least to most.

- Video conferencing will replace in-person meetings.
- Digital workout platforms will replace gyms.
- Home sharing will replace the hotel industry.
- Electric vehicles will eliminate internal combustion engines.
- Food delivery will fundamentally alter consumption patterns.
- Digital currency will replace the U.S. dollar as the dominant currency.
- Ride sharing will eliminate the need for personal vehicles.
- Autonomous driving will replace human drivers.

Every time I look at this list, I want to reorder them. And that's the catch of the bubble. All of these things could happen, and they could happen to a greater or lesser extent than total industry upheaval.

I mean, there are still newspapers out there, but not a lot of 3D televisions. We have our videophone, but I'm still waiting for my flying car.

My point is, these are high-risk bets, all of them. How much of your stake should you risk on a flier bet?

When is a market bubble a market opportunity?

We've all seen those market projections. Here's a direct quote I just found in a web search:

"The worldwide 5G consumer market is expected to be worth $31T by 2030."

I don't know what that means. I know what a consumer market is and I know what 5G is, but regardless, it's a big number. If I could just capture a tiny portion of those 5G consumers, I could get a tiny piece of that $31T.

Big number of the left, small, crazily achievable percentage on the right. If we can just sell to 0.001% of this $31 trillion dollar market, we can make what sounds like a reasonable amount of money ($310M).

At one of my startups, we're having some of these types of total addressable market (TAM) discussions, but more specific to our industry and our sector, where some just-as-grand changes are invoking just-as-tempting trends on a smaller scale. But it's still a scale that can produce numbers with lots of zeroes, which are numbers loved by investors and C-level executives alike.

Why are market bubbles attractive to investors?

0.001% — do you realise how small that is? Well yeah, sure, but when you apply it against a perceived trillion-dollar market, it's still pretty unachievable. Let alone what that kind of equation says about who controls the other 99.999% of the market and what kind of competitive friction that creates.

But TAMs like that are valid because we live in a time when we've seen some of those tectonic economic shifts take hold quickly.

It only took about 10 years from the launch of the iPhone to everyone having a computer in their pocket. It only took about 10 years for your grandmother to join Facebook. It only took about 10 years for Netflix to go from a 2-day wait for a movie to arrive at our homes to getting really angry when we get a bit of buffering in our streaming.

But those investors and we as entrepreneurs aren’t looking for market bubbles, we’re looking for catalysts.

Every billion-dollar story needs a catalyst

Previously, I wrote a post on the five things investors need to know about your product before they’ll invest. The final question they need answered is about the catalyst. That’s the rationale they’ll use to place a high-risk bet on an economic shift that might be a market bubble.

Catalysts are necessary for the kind of aggressive startup growth that investors like. But not all catalysts are created equal. And in most cases, the more specific, smaller catalyst is far more lucrative to chase than the larger, broader catalyst.

It’s not the catalyst that makes a startup successful. Anyone can chase a trend It’s how the startup responds to the catalyst that really matters.

The ride on that wave is not a short ride. It’s a marathon. Founders need milestones that are going to keep their company in business, growing at scale, and scaling until the market effects of that catalyst grab hold and push.

There were tons of connected PDAs and even smartphones before the iPhone, I owned two of them. And all of the iPhone market shift was based on a foundation of a mobile infrastructure that started coming online in the 1980s, 20 years before the iPhone launch.

It took Amazon 20 years to capitalise on the eCommerce promise, and they’ve made a lot of different pivots along the way to keep the company growing. AWS, for instance. This is not luck, this is planning.

So don’t believe the hype when someone tells you that we’re all going to be vacationing in space one day. That may be true, but it will take a long time and a strategic plan to capitalise on that economic shift. Make sure the decisions you make and the bets you lay down are in line with that risk.

This article was originally published on Medium by Joe Procopio

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