Large Market Bias

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Many investors have a bias towards investing in companies that serve a large market. This bias against investing in small niche markets means that companies that dominate them fall under the radar. Catching them small can be extremely profitable.

Here are a few examples:

- Facebook started off by dominating a very small market – Mark Zuckerberg's Harvard classmates. It wasn't designed to get everybody in the world to sign up. Current market cap: $290bn

- Amazon started off as an online book retailer and then expanded to adjacent markets such as CDs. Current market cap: $405bn.

- Airbnb (initially called AirBed & Breakfast) started off by targeting conference goers in San Francisco who couldn't afford or wasn't able to book a hotel. Valuation at latest round of funding: $25bn.

> *The perfect target market for a startup is a small group of particular people concentrated together and served by few or no competitors. Any big market is a bad choice, and a big market already served by competing companies is even worse. This is why it's always a red flag when entrepreneurs talk about getting 1% of a $100 billion market. In practice, a large market will either lack a good starting point or it will be open to competition, so it's hard to ever reach that 1%. And even if you do succeed in gaining a small foothold, you'll have to be satisfied with keeping the lights on: cutthroat competition means your profits will be zero.*

- Peter Thiel