

Knowledge Series - Top 20 Things an Investor Should Know Before Investing in Startups

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Market Opportunity: The Size of the Prize



In 2016, two entrepreneurs were struggling to scale their business. They had built an AI-powered camera system for detecting shoplifting in retail stores. Their product was technologically advanced, but there was one major issue—most small and mid-sized retailers in India did not see shoplifting as a serious problem.

Frustrated, they took a step back and spoke to potential customers. That's when they discovered a far bigger pain point—retailers were struggling with inventory theft and stock mismanagement rather than just shoplifting. So, they pivoted and modified their technology into an AI-driven inventory tracking system, which not only monitored theft but also improved stock replenishment and supply chain efficiency.

Within months, demand surged. Large retail chains began using their system, operational efficiency improved, and revenue soared. Their original idea did not have a large enough market, but by shifting focus to a more significant and urgent problem, they unlocked massive potential.

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This is a classic case of market opportunity analysis—the ability to assess whether a product has a large, growing, and monetizable customer base. Investors who fail to evaluate market potential properly risk backing startups that either run out of customers or operate in stagnant industries with no real growth.

Why Market Opportunity Matters

A startup may have a great product, but if the market is too small or the demand is limited, growth will be constrained. Successful startups do not just create good products—they address pressing, large-scale problems in markets with high growth potential.

Investors should ask:

- Is the market large enough? If the total market size is too small, even a successful company may not generate venture-scale returns.
- Is the market growing? A growing market provides room for expansion and increases the likelihood of long-term success.
- Is the timing right? Entering a market too early may mean slow adoption, while entering too late could lead to excessive competition.

Examples of Market Opportunity in Action

The Rise of Zepto

In 2021, India's grocery delivery space was already crowded with giants like BigBasket and Swiggy Instamart. However, two young entrepreneurs noticed a gap—people were willing to pay a premium for 10-minute grocery deliveries. Instead of competing directly with BigBasket's vast inventory model, Zepto targeted urban customers who valued speed over variety.

By focusing on hyperlocal fulfillment and rapid deliveries, Zepto tapped into a fast-growing niche within an already massive market. This approach allowed them to scale rapidly and capture a unique slice of India's multi-billion-dollar grocery market.

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How Razorpay Won in a Crowded Space

Online payments in India were already competitive, with players like PayU and CCAvenue dominating the landscape. When Razorpay entered the market, they faced an uphill battle. However, instead of targeting large businesses, they focused on small and mid-sized businesses that needed a simpler and developer-friendly payment integration.

By narrowing their focus and addressing an underserved segment, Razorpay gained early traction and later expanded to enterprise solutions and financial services. This strategy enabled them to scale within a growing market while avoiding direct competition with established giants.

How to Assess Market Opportunity as an Investor

Investors can evaluate a startup's market potential using the TAM-SAM-SOM framework:

- Total Addressable Market (TAM) – The entire market demand for a product or service if there were no competitors or constraints.
- Serviceable Available Market (SAM) – The portion of TAM that the startup can realistically serve based on geography, pricing, and target customer.
- Serviceable Obtainable Market (SOM) – The subset of SAM that the startup can capture in the near term based on execution capability.

For example, if a startup is launching an AI-powered recruitment platform, the TAM could be the entire global hiring market. Their SAM might be mid-to-large tech companies, while their SOM could be AI-driven hiring solutions for software engineers in India.

Signs of a Strong Market Opportunity

- A large and expanding market – The bigger the pie, the bigger the potential slice.
- An underserved or disrupted industry – Startups that solve inefficiencies in traditional industries often scale faster.

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- Clear demand for innovation – If customers actively seek better solutions, market adoption will be smoother.
- Recurring or high-margin revenue models – A business model that supports repeat purchases or strong margins is more sustainable.

Red Flags: When Market Opportunity is Weak

- A niche or small market – If the total market size across India is under say, INR 100 Crore, the startup may struggle to generate significant revenue.
- Too much competition with no differentiation – Entering a crowded space without a unique value proposition can make scaling difficult.
- Unproven market demand – If customers don't recognize the problem or need education before buying, adoption may be slow.

Bottom Line

A great product in a small market has limited upside, while an average product in a huge market has room to iterate and scale. Investors should prioritize startups that target large, growing markets with clear demand for innovation—just like Zepto and Razorpay did.

Startups don't just need great ideas—they need great markets. Smart investors know that the size of the prize matters just as much as the ability to win it.

