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First, disruptive products are simpler and cheaper; they generally promise lower margins, not greater profits. Second, disruptive technologies typically are first commercialized in emerging or insignificant markets. And third, leading firms' most profitable customers generally don't want, and indeed initially can't use, products based on disruptive technologies.

Clayton M. Christensen (1952-2020) *The Economist's* "most influential management thinker of his time."

Niche Down

(Reading time: 4 minutes)

It is important for the teams of early-stage companies to keep a razor-sharp focus on the customers and market they are hoping to address in the context of the product or service that they are developing. Validating the opportunity with potential customers as quickly as possible ensures that the team's efforts and limited funds are being applied effectively. If this is not the case, the team can adapt or pivot their idea, or recognize the idea as a fast failure and move on.[1] Validation is achieved by developing, demonstrating and discussing successive prototypes, and the so-called Minimally Viable Product (MVP) to an increasingly larger number of the target customers.[2]

This urgency to validate opportunities at an early stage has a key operational implication: The initial plans should "niche down." What is meant by this term is that efforts should be initially confined to a single, focused and limited offering, addressing a small niche market within an easily addressable and serviceable territory. In effect, this focus should be on the "minimal" of the minimally viable product (MVP). Like a patent application, the focus should

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[1] Lean startup Wikipedia. Retrieved from https://en.wikipedia.org/wiki/Lean_startup#Pivot

[2] Minimum viable product Wikipedia. Retrieved from https://en.wikipedia.org/wiki/Minimum_viable_product

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Thomas A. Edison (1847-1931) "America's greatest inventor"

be on demonstrating the novel, inventive step and little else. In doing so, the team can expedite an initial proof of concept (POC) i.e. validate the feasibility and desirability on a small scale and/or small, focused market and then expand the offering from there.[3] Developing and launching a novel product or service is an experiment as one cannot determine the customer response in advance.

Despite such a strong initial focus on the core offering, innovation and differentiator, success will still require that the longer-term market potential be huge. Often the term used is that the product or service must be scalable.[4] Scalability means that with additional resources (cash, staffing, partnerships, and manufacturing capability) and proper execution (marketing, sales, distribution, integration and service) significant growth and revenues can be generated. This combination of a proof of concept (POC) with a plan to scale is what will attract early-stage investors. For them, risk reduction and market potential are far more important than a feature-packed offering. Additional features and benefits can be added as the offering evolves.

On the other hand, it is easy for teams to overextend or become distracted by all the possibilities while building out their initial business plans. Efforts to show strong future revenues and profits as well as a significant competitive position help drive this tendency. Common examples of overextension are plans to become: a one-stop shop, the low-cost producer, a global presence or all-things-to-all-people. These things may indeed come to pass, think about the wide offerings of the FAANG companies (Facebook, Amazon, Apple, Netflix and Google) and Microsoft, but even these businesses started much smaller and focused: Harvard student connector, Online book sales, Home built personal computers, DVD rentals by mail, Improved search engine, and Operating system for early personal computers respectively.

The advantages of this razor-focused approach are listed in Table 1. Some examples of this razor-focused approach are listed in Table 2.

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[3] Proof of concept Wikipedia. https://en.wikipedia.org/wiki/Proof_of_concept
[4] Scalability Wikipedia. https://en.wikipedia.org/wiki/Scalability

Table 1: Advantages of the "Niche Down" strategy[5]

6 tenets	Advantages

Strategic
   Create value
   Capture value
	Maximize creation of value through focus on the key differentiator that delivered competitive advantage.
	Maximize capture of value by focusing on core customers (often currently underserved ones).

Technical
   Probability of success
   Intellectual property
	Very focused translational R&D efforts.
	Standardized production process.
	Minimal parts or lines of code for easier debugging.
	Freedom to operate more likely and easier to determine.
	Focused regulatory frameworks.

Commercial
   Competition
   Market potential
	Below the radar or not worth the effort of major players to be concerned and respond or react.
	Unlikely to be perceived as a competitive threat early-on, given small effect on market share.
	Initial customer/ early adopters are easier to identify and engage.
	Focus on a local, more easily accessible/serviceable market.

Financial
   Requirements
   Operation plans
	Minimizes expenditures on product development and marketing which in turn reduces the fundraising efforts required.
	Generates some revenue that helps validate interest, pricing and the business model (i.e. razor/ razor blade, SAAS, freemium, direct sales).[6]
	Initial pricing based on customer value not competitive pricing.

Operational
   Founders
   Product pipeline
	Avoids initially overextending into other areas of interest or potential.
	Allows for significant learning without overcommitment.

Execution(al)
   Productivity
   Progress
	Shorter time to market.
	Smaller mistakes will be made that are easier to correct.

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[5] Jones, D.V. (2013) Enhancing your strategic innovation efforts [Blog] Retrieved from https://www.scribd.com/doc/138666088/enhance-strat-innov

[6] For more information on business models see https://www.boardofinnovation.com/guides/50-business-model-examples/

Table 2: Examples of focused approaches

Type	General and specific examples
Minimally viable product	Launch with the minimal commercial product or service to serve as a proof of concept. - Amazon launched in July 1995 focused only on selling books online.[7] Revenues in 2019 topped US$280 billion. - Porter Airlines initial flights which began on October 23, 2006 were only between the Toronto Island airport and Ottawa with four airplanes.[8] It soon added Montreal and now flies to 21 locations, including 5 in the US with 29 airplanes.
Initial focus on local market	Launching in one local market allows the enterprise to learn and refine their offering before expanding. - On December 9th, 2015 UberEATS was launched only in Toronto, Canada.[9] Three months later, it started up in some major US cities.
Niche market	Target groups or associations, early adopters who will provide valuable feedback and may not be the big customer or are a progressive unit of the major customer. - Facebook was initially targeted at Harvard students in 2003, all University students in 2004, and everyone in 2006.[10] - For Dynacon, we sold and our first microbiology plate reader to a unit of MDS and worked with them to refine it.
Add-on's	Tools that add-on or leverage to existing hardware (smartphones/laptops) or software (Chrome, Excel, Facebook, Evernote, Coursera). - For Z-Tech (Canada), our initial breast cancer screening tool used for clinical trials was PC-based. Later versions had fully integrated computers. - Treeplan.com offers a number of decision support and statistical tools that integrate with Excel.

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[7] History of Amazon, Wikipedia. Retrieved from https://en.wikipedia.org/wiki/History_of_Amazon

[8] Porter Airlines, Wikipedia. Retrieved from https://en.wikipedia.org/wiki/Porter_Airlines

[9] Timeline of Uber, Wikipedia. Retrieved from https://en.wikipedia.org/wiki/Timeline_of_Uber#cite_note-55

[10] Mark Hall (2019) *Facebook* Encyclopedia Britannica Retrieved from https://www.britannica.com/topic/Facebook