01. Market Sizing + Analysis

Table of Contents

Definition + Purpose

Market Sizing and Analysis is a crucial business practice that involves understanding the potential market for a product or service. This includes assessing the **size** of the potential customer base, their **demographics**, and their **geographical distribution**. Beyond assessing the customer base, this practice also involves a comprehensive examination of **industry trends**, **growth opportunities**, and the **competitive landscape**. The insights gained from this analysis are pivotal in shaping business strategies, preparing accurate financial projections, and creating impactful investor presentations.

Key Takeaways

- **Market Sizing and Analysis** helps understand the potential market size, demographics, and geography.
- This practice examines **industry trends, growth opportunities**, and **competitive dynamics**.
- Insights inform **business strategy, financial projections,** and **investor presentations.**
- Successful Market Sizing and Analysis can reveal untapped markets and emerging trends.
- The depth of analysis can vary based on specific business needs and goals. Investor pitches, for example, rely heavily on the attractiveness, size, growth, etc. of a given market.

Key Terms + Glossary

Market size is determined by assessing the potential total sales revenue or volume in a specific market. This determination involves estimating the total demand for a product or service among a specific group of consumers. Several methods are employed to estimate market size, such as:

- **Revenue-Based**: The total sales of all companies within the market are summed up to get the total market size in terms of revenue. This is often used in mature markets where data on sales are readily available.
- **Expenditure-Based**: The total amount spent by consumers in the market is used to estimate the market size. This often involves survey data or market research to understand consumer behavior and spending patterns.
- **Volume-Based**: In some cases, the market size is estimated based on the total volume of goods or services consumed. This is particularly useful in commodity markets or markets where the product or service is standardized.

Term	Definition

Total Addressable Market (TAM)	The total market demand for a product or service, expressed in dollars. It's the maximum amount of revenue a business could make if it achieved 100% market share.
Serviceable Available Market (SAM)	The segment of the TAM that you can reach with your current business model. It's the number of serviceable customers times their average value.
Serviceable Obtainable Market (SOM)	The portion of SAM that a company is realistically able to capture, taking into account factors like market size/reach, product, and competition.
Compound Annual Growth Rate (CAGR)	CAGR is used to calculate the average growth rate of a specific industry or market over a certain period of time. We can also use a predicted CAGR to estimate how much a market will grow.
Market Segmentation	The process of dividing a target market into distinct subsets of consumers with common needs or characteristics. The primary types of market segmentation are demographic, firmographic, geographic, behavioral, and psychographic segmentation.

Key Takeaways

- Key market size terms include: **Total Addressable Market (TAM)**, the total market demand for a product or service; **Serviceable Available Market (SAM)**, the segment of the TAM reachable by your current business model; and **Serviceable Obtainable Market (SOM)**, the realistically attainable portion of SAM.
- **Compound Annual Growth Rate (CAGR)** is used to calculate the **average growth rate of a specific industry or market** over a certain period.
- Market Segmentation is the process of **dividing a target market into distinct subset**s of consumers with common needs or characteristics, with primary types including demographic, firmographic, geographic, behavioral, and psychographic segmentation.

Approaches + Strategies

TAM/SAM/SOM Approach

The TAM/SAM/SOM framework is a strategic approach that helps businesses quantify the potential of their target market. It consists of three different types of markets:

1. **Total Addressable Market (TAM):** This is the overall revenue opportunity that's available for a product or service if it were to achieve 100% market penetration. For instance, if

you're selling a productivity app, the TAM would be the total revenue generated by all productivity apps worldwide.

2. **Serviceable Available Market (SAM):** This is the portion of the TAM that your business can realistically serve given its current resources and business model. Using the same example, if your productivity app is only available in English, the SAM would be the revenue from English-speaking users of productivity apps.

3. **Serviceable Obtainable Market (SOM):** This is the portion of the SAM that your business can realistically capture, taking into account competition, market reach, and other factors. If there are several well-established productivity apps in the English-speaking market, your SOM might only be a small percentage of the SAM.

Examples

Bonobos

Consider the example of Bonobos, a direct-to-consumer men's apparel brand. The TAM represents the global men's apparel market, valued at $499 billion. The SAM, or the portion of the market Bonobos can serve with its current business model, is the size of the men's apparel market in the United States, which stands at $100 billion. Lastly, the SOM is the achievable market share considering factors like competition and market reach. Bonobos' SOM, represented by its revenue in 2022, is $125 million, equating to 0.12% of the market share

Geographical Analysis

Geographic segmentation involves grouping customers based on their physical location. This can be done in various ways, from grouping customers by country, region, city, to as specific as postal code. Parameters for geographic segmentation include:

- Location
- Timezone
- Climate and season
- Cultural preferences
- Language
- Population type and density

> Geographical analysis is an important aspect of market sizing as it provides a way to break down the TAM, SAM, and SOM into more manageable and meaningful units.

This analysis relates back to the TAM/SAM/SOM framework, with the TAM potentially representing the global market, the SAM being the market in specific countries or regions that can be served by your current business model, and the SOM being the share of the market that you can realistically reach within these geographies.

This analysis can be performed at various levels, including global, national, regional, and local. The choice of geographical level depends on the nature of your product or service and your business strategy.

Examples

Geographic TAM/SAM/SOM

If you are planning to launch a food delivery app in New York City, your TAM would be all the people in the city who order food online, your SAM would be the portion of these people who can be reached given your delivery capabilities, and your SOM would be the customers you can realistically expect to win over from competitors.

In contrast, if you are launching a global e-commerce platform, your geographical analysis would have to be more expansive. You would need to consider factors such as internet penetration rates, delivery infrastructure, and local competition in each potential market.

Temperature Segmentation

Taking an ice cream company as an example, this firm might analyze the weather patterns across a country and categorize different regions based on how hot they typically get. They might divide the country into regions like 'very hot,' 'moderately hot,' 'mild,' and 'cold.' Each of these segments represents a different level of demand for ice cream, with hotter areas typically having a higher demand.

Once this segmentation is done, the company can then strategically target their marketing and distribution efforts towards those areas that are hottest and, therefore, more likely to purchase ice cream. This might involve ramping up advertising during heatwaves, ensuring there is ample stock in stores in hotter regions, or even introducing special promotions or new flavors that cater to customers' preferences in these areas.

Top-Down Market Sizing

Top-down market sizing is a method that starts with broad industry data and narrows it down to the market segment of interest. It often begins with macro-level data, such as the total sales of a sector or the number of users of a certain type of product. This data is then progressively refined using market share data, consumer surveys, and other sources until it accurately represents the target market segment.

For example, if you are planning to launch a vegan ice cream brand in the United States, you might start with the total size of the U.S. ice cream market. You would then narrow this down based on the percentage of consumers who are vegans or interested in plant-based diets.

TK Image

Bottom-Up Market Sizing

Bottom-up market sizing, on the other hand, starts with data on a small, typically local scale and extrapolates it to estimate the size of the larger market. It begins with granular data, such as the sales of a similar product in a specific location or the number of users of a service in a small market segment. This data is then extrapolated using demographic information, growth rates, and other factors to estimate the total market size.

For instance, if you are planning to launch a co-working space in a new city, you might start by looking at the number of freelancers, startups, and small businesses in that city, as well as the occupancy rates of existing co-working spaces. You would then use this data to estimate the demand for co-working space and extrapolate this to the city level.

TK Image

Multiplicative Market Sizing

The Multiplicative Market Segmentation Size Estimation method is a simple yet effective way to estimate the potential value of different market segments. It begins with a clear identification and understanding of the various customer segments that exist within the market. These segments could be based on a range of different factors, such as demographic characteristics, behavioral tendencies, or most commonly, geographical location.

- Estimate the number of potential customers in each segment: This step may involve market research, surveys, or data analysis to determine the approximate number of potential customers within each segment.
- Calculate the average anticipated expenditure: Determine how much, on average, each customer within the segment is likely to spend on your product or service annually. This can be based on existing data (if available), industry benchmarks, or consumer research.
- Multiply the number of potential customers by the average anticipated expenditure: This will give you the estimated market size for each segment. Ensure you include your calculations — a sample in the body of your deliverable, and full calculations in your appendix.

For example, if a company determines that there are 1 million potential customers for its product and the average customer is expected to spend $100 per year, the estimated market size for that segment would be $100 million.

Proxy Market Sizing Strategy

The Proxy Market Sizing Strategy is a useful method for estimating market size when direct data on your own market is limited or unavailable. It involves identifying a market that closely mirrors your own in terms of product, service, or customer demographics — this is known as the 'proxy' market.

- Identify a similar market: Find a market that is closely related to your own in terms of product, service, or customer base. This could be a market in a different geographical location, a market with a similar product, or a market serving a similar customer base.
- Gather data on the proxy market: This may involve conducting market research or using existing market reports and data to understand the size and dynamics of the proxy market.
- Make assumptions for your own market: Based on the data from the proxy market, make assumptions about your own market. This might involve adjusting for differences in population, income levels, cultural preferences, or other factors.

- Validate your assumptions: Cross-check your assumptions against any available data or industry insights. This could involve speaking with industry experts, conducting surveys, or examining data from similar products or services.
- Apply the proxy data to your market: Use the validated assumptions to estimate the size of your own market. This will give you a rough estimate of the potential value of your market. Ensure you include your calculations — a sample in the body of your deliverable, and full calculations in your appendix.

Understanding these different market sizing approaches is crucial for making informed strategic decisions and setting realistic growth targets. By combining these methods, you can gain a comprehensive understanding of your market's potential.

Key Takeaways

- **TAM/SAM/SOM Framework**: A strategy to quantify market potential, breaking down total opportunity (TAM), realistically serviceable market (SAM), and achievable market share (SOM).
- **Geographical Analysis**: A method to segment customers by location, aiding in the breakdown of TAM, SAM, and SOM into manageable units.
- **Top-Down and Bottom-Up Market Sizing**: Two approaches to estimate market size, one starting from broad industry data (top-down), the other from small-scale data (bottom-up).
- **Multiplicative Market Sizing**: A technique to estimate market segment value by multiplying estimated customer numbers by average anticipated expenditure.
- **Proxy Market Sizing Strategy**: A strategy for estimating market size when direct data is limited, using a similar 'proxy' market's data and making validated assumptions.

Step-by-Step Guides

1. Define the Market
- ❑ Clearly define the market you are studying.
  - ○ Identify the specific product or service
  - ○ Identify the customer base
  - ○ Identify the geographic area.

For example, the market could be defined as "The fast-food industry in the United States" or "The global market for electric vehicles." This step provides the boundaries within which the subsequent analysis will occur.
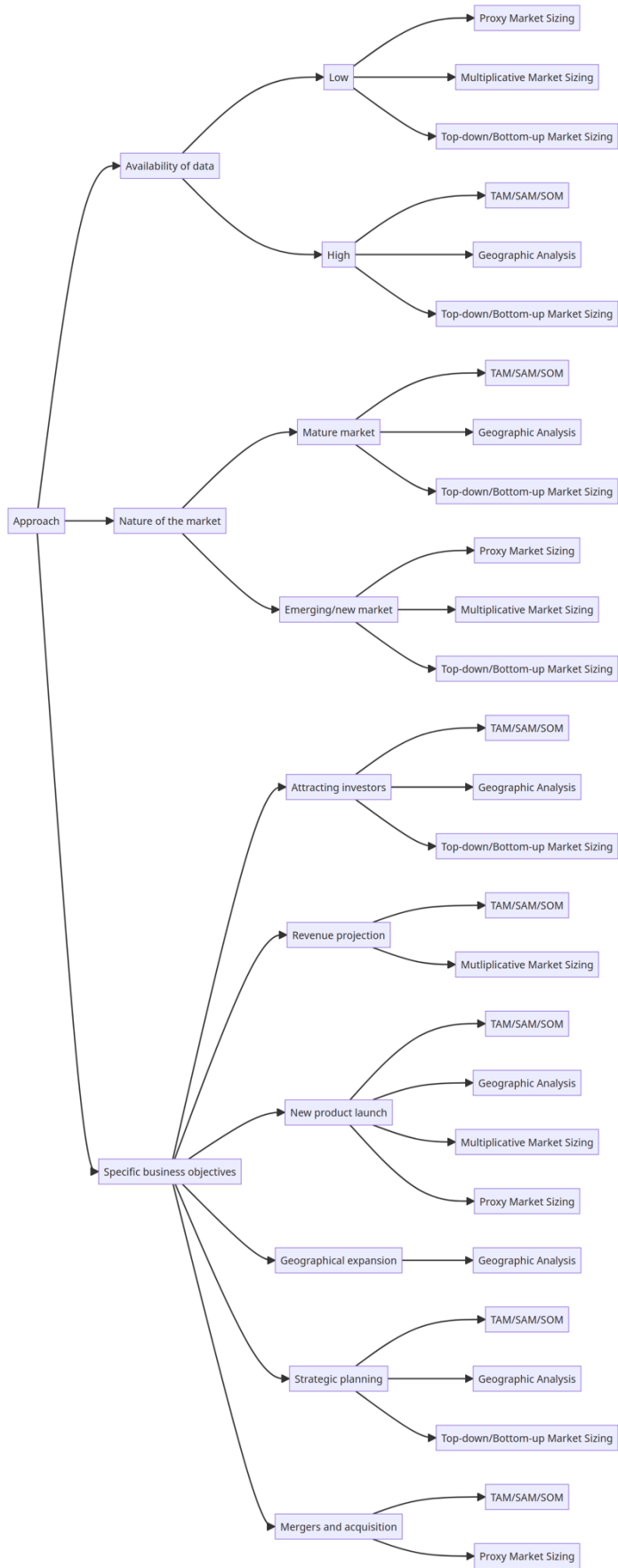
2. Determine the Approach
The approach chosen to estimate market size can depend on a variety of factors:

- Availability of data
  - ○ Low
    - Proxy Market Sizing
    - Multiplicative Market Sizing

- - Top-down/Bottom-up Market Sizing
  - ○ High
    - TAM/SAM/SOM
    - Geographic Analysis
    - Top-down/Bottom-up Market Sizing
- Nature of the market
  - ○ Mature market
    - TAM/SAM/SOM
    - Geographic Analysis
    - Top-down/Bottom-up Market Sizing
  - ○ Emerging/new market
    - Proxy Market Sizing
    - Multiplicative Market Sizing
    - Top-down/Bottom-up Market Sizing
- Specific business objectives
  - ○ Attracting investors
    - TAM/SAM/SOM
    - Geographic Analysis
    - Top-down/Bottom-up Market Sizing
  - ○ Revenue projection
    - TAM/SAM/SOM
    - Multiplicative Market Sizing
  - ○ New product launch
    - TAM/SAM/SOM
    - Geographic Analysis
    - Multiplicative Market Sizing
    - Proxy Market Sizing
  - ○ Geographical expansion
    - Geographic Analysis
  - ○ Strategic planning
    - TAM/SAM/SOM
    - Geographic Analysis
    - Top-down/Bottom-up Market Sizing
  - ○ Mergers and acquisition
    - TAM/SAM/SOM
    - Proxy Market Sizing

A diagrammatic representation can be found on the following page.

Approach

- Availability of data
  - Low
    - Proxy Market Sizing
    - Multiplicative Market Sizing
    - Top-down/Bottom-up Market Sizing
  - High
    - TAM/SAM/SOM
    - Geographic Analysis
    - Top-down/Bottom-up Market Sizing
- Nature of the market
  - Mature market
    - TAM/SAM/SOM
    - Geographic Analysis
    - Top-down/Bottom-up Market Sizing
  - Emerging/new market
    - Proxy Market Sizing
    - Multiplicative Market Sizing
    - Top-down/Bottom-up Market Sizing
- Specific business objectives
  - Attracting investors
    - TAM/SAM/SOM
    - Geographic Analysis
    - Top-down/Bottom-up Market Sizing
  - Revenue projection
    - TAM/SAM/SOM
    - Mutliplicative Market Sizing
  - New product launch
    - TAM/SAM/SOM
    - Geographic Analysis
    - Multiplicative Market Sizing
    - Proxy Market Sizing
  - Geographical expansion
    - Geographic Analysis
  - Strategic planning
    - TAM/SAM/SOM
    - Geographic Analysis
    - Top-down/Bottom-up Market Sizing
  - Mergers and acquisition
    - TAM/SAM/SOM
    - Proxy Market Sizing

Refer to the earlier section for approaches. For instance, a startup might be interested in determining the TAM for its innovative product as a way to gauge potential future growth.

3. Collect and Analyze Data

Gathering reliable data is crucial to estimating market size. In WatSolve, this will involve accessing secondary research (e.g., industry reports, government statistics). For example, you might use census data to understand the demographics of a potential customer base or industry reports to understand competitive dynamics. See the Resources section for helpful sources.

4. (Optional) Segment the Market

Markets are often composed of distinct segments that can respond differently to marketing strategies. These segments can be based on various factors such as demographic, geographic, psychographic, and behavioral characteristics. For instance, a clothing retailer may segment its market by age groups, creating different clothing lines for teenagers, adults, and seniors. If the client is not asking for segmentation specifically however, the only segments to worry about are likely TAM/SAM/SOM.

5. Estimate or Determine the Size of Each Segment
- ❑ Consolidate and present the data collected
  - ○ Textual
  - ○ Visual
- ❑ Include CAGRs and emerging trends
- ❑ Ensure you cite your sources
- ❑ Be transparent with your assumptions

5.5. Include Trends and Growth Rates

Understanding trends and growth rates can provide additional context for the market size estimate. This might involve calculating the Compound Annual Growth Rate (CAGR) of the market over a certain period or identifying emerging trends that could impact future market size. For example, a company in the electric vehicle market would want to be aware of the rapid growth rate of this market and the trends driving this growth, such as environmental concerns and technological advancements.

Questions to Ask the Client

Question	Rationale
Who are your target customers? What are their demographics?	This information is crucial for segmenting the market and estimating the size of each segment (Steps 4 and 5). For example, a company that sells luxury watches would need to target a demographic with a high income.

What is the geographical reach of your products or services?	This helps to define the market (Step 1) and can also inform the market segmentation (Step 4). For instance, a local bakery would have a very different geographic reach than a multinational corporation.
Who are your main competitors? What is their market share?	Understanding the competitive landscape can inform the data collection and analysis (Step 3) and can also help in estimating the SOM (Step 2). For example, a new entrant to the smartphone market would need to consider established players like Apple and Samsung.
What trends or changes have you noticed in the market?	This can provide valuable context for identifying trends and growth rates (Step 5.5). For example, a company in the travel industry would need to be aware of the impact of the COVID-19 pandemic on travel patterns and customer behavior.
What is the price range for your products or services?	This information can help estimate the potential revenue from each market segment (Step 5). For example, a high-end fashion retailer would likely have a smaller market size but potentially higher revenue per customer than a discount retailer.

By asking these questions, a market researcher can gather the necessary information to conduct a comprehensive market sizing analysis. The answers will not only guide the approach and methodology but also ensure the analysis is tailored to the specific characteristics and objectives of the client's business.

Common Mistakes

When market sizing, avoid these common mistakes:

Forgetting to validate assumptions

Assumptions are inevitable in estimating market size, but they need to be reasonable, clear, and validated as much as possible. Failing to do so can result in inaccurate estimates. For instance, when using a proxy market to estimate the size of the target market, one needs to validate the assumption that the behaviors and characteristics of the consumers in the proxy market match those of the target market.

Omitting sources

This is another error that can compromise the credibility and accuracy of the market sizing exercise. It's crucial to cite all data sources used in the calculation. This not only gives transparency to your work but also allows others to verify the data or to track changes over

time. If a client asks where you got a specific number, it's good to be able to respond right away with your approach or source.

Not presenting calculations or presenting them incorrectly

This error can mislead the client and result in poor decision-making. It's important to clearly show the methodology used, the calculations made, and how the final figure was reached. This transparency helps the client to understand the process and gives them confidence in the results. Clear and accurate presentation of calculations is especially crucial when the market sizing analysis is being used to guide strategic decisions or to convince potential investors of a business opportunity.

Resources

Articles + Blogs

- [How to Size Your Market and Create a Sales Plan](#)
- [Market Sizing: A Quick Guide for Startups](#)
- [Market Sizing: An Essential Guide to Startups](#)
- [What is Market Sizing?](#)
- [Market Sizing: The Science of Estimating Your Market Potential](#)
- [The Definitive Guide to Sizing Your Market](#)
- [Market Sizing 101: How to Determine Your Total Addressable Market](#)
- [How to Do Market Sizing Right](#)
- [Market Sizing: A Comprehensive Guide](#)
- [How to Calculate Market Size: 4 Steps](#)
- [Market Sizing in 10 Steps](#)
- [An Entrepreneur's Guide to Market Sizing](#)

Databases

Market & Industry Research

- **Frost & Sullivan**
  Provides market research and analysis.
  Coverage: varies
- **IBISWorld**
  Provides market research reports for Canadian and US industries.
  Coverage: current
- **MarketLine Advantage**
  Information, news and market reports for international companies, industries and countries.
  Coverage: current
- **PitchBook**
  PitchBook provides access to private capital markets, including venture capital

funding, private equity, and M&A transactions. Helpful for tracking startups and small companies.
- **Sage Research Methods - Market Research**
Video collection covers a range of key research methods skills, techniques, and theories for carrying out effective and impactful market research.
- **Statista**
Provides over 1 million statistics, data, and facts from over 600 industries and 50+ countries.
Coverage: Varies

News Sources

- **Factiva**
News, business magazines, trade journals, newsletters, and television and radio transcripts.
Coverage: 1970s - present. Varies by publication
- **Business Source Elite**
Provides full-text coverage of top business, management and economics journals and periodicals.
Coverage: 1985 - present
- **ABI/INFORM**
Articles on business and management from U.S. and international journals and trade magazines, including company histories, competitive intelligence, and product development.
Coverage: 1971 - present

Journals, Newspapers, and Publications of General Interest

- **Bloomberg Businessweek**
Businessweek is available through Business Source Elite. Search "Bloomberg Businessweek" as the Publication Name to find content.
- **The Economist**
The Economist is available through ABI Inform. Search for "The Economist" as the Publication Title.
- **Globe and Mail**
The Globe and Mail is available through Factiva. To search for Globe and Mail content exclusively, select Globe and Mail as your Source.
- **Harvard Business Review**
Harvard Business Review is available through Business Source Elite. Search for "Harvard Business Review" as Publication Name.
- **MIT Technology Review**
MIT Technology Review is available through ABI/Inform. Search for "MIT Technology Review" as publication title in the database.

Academic Sources

- **[Scopus](#)**
  Peer-reviewed literature from scientific journals, books and conference proceedings, covering the fields of science, technology, medicine, social sciences, and arts and humanities.
  Coverage: 1966 - present

People

- **[Rachel Figueiredo](#)**
  Entrepreneurship & Management Sciences Librarian
  "*I can help you identify new markets, understand customer preferences, conduct a literature review, and uncover valuable, hard-to-find information sources. Book an appointment for help with market and industry research, assignment help, and patent research.*"

Case Studies + Exemplars

Topic	Deliverables
TAM/SAM/SOM, Geographic Analysis	[F21 - Blue Lion Labs - Geographical Analysis - Hydroponics & Aquaponics](#) [Blue Lion Labs - Spring 2020 Final Report](#)
Proxy Market Sizing	[F22 - Heath Aquafarms Final Deliverable](#)