SMALL BUSINESS AND ENTREPRENEURSHIP

SIZING UP THE MARKET

"The data available about market characteristics, competitors, and so on, is inversely related to the real potential of an opportunity; that is, if market data are readily available and if the data clearly shows significant potential, then a large number of competitors will enter the market and the opportunity will be diminish"

Jeffrey Timmons, *New venture creation, 1994*
McGraw Hill

Sizing techniques

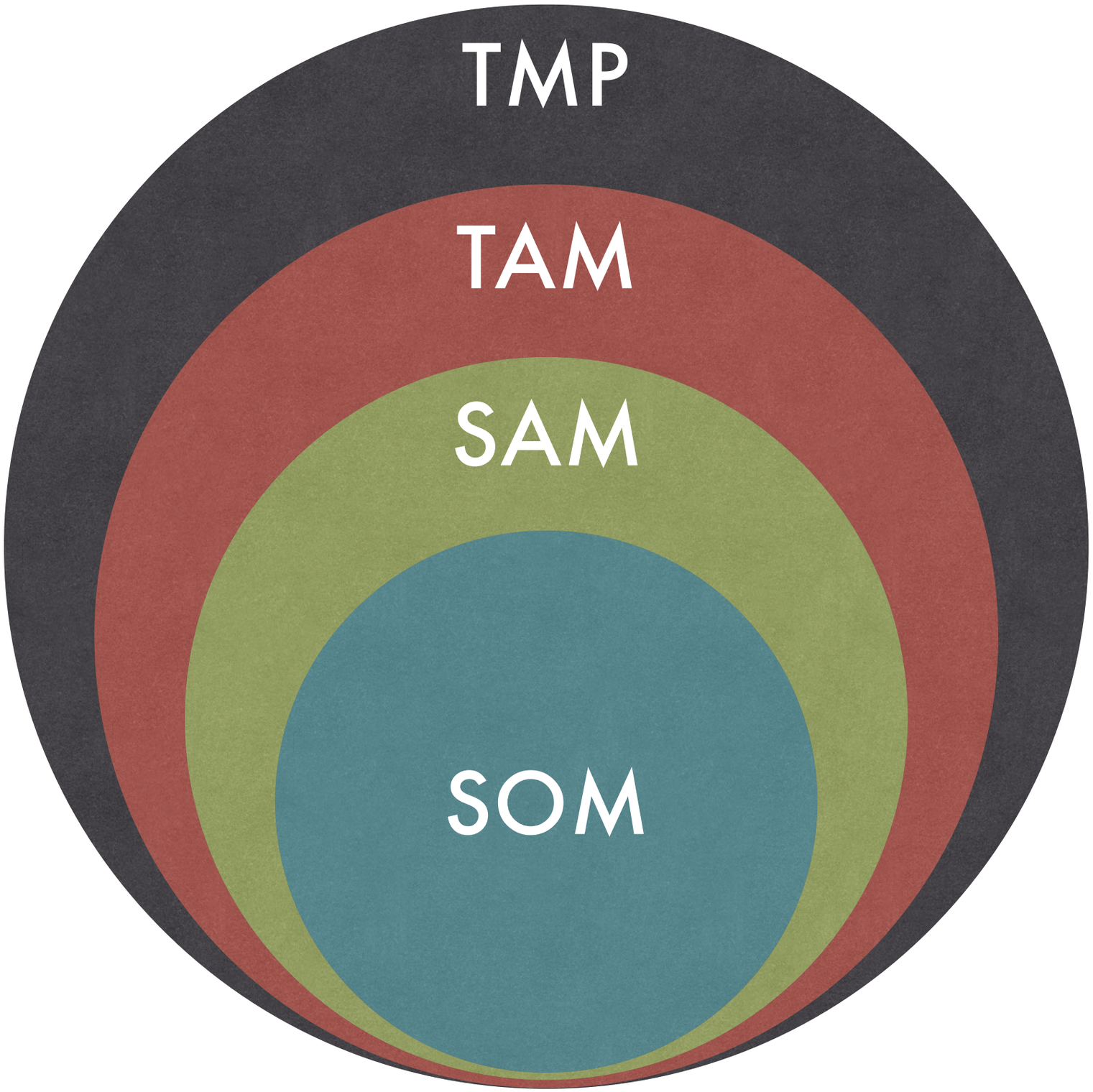
- No one source of info is that reliable, or complete

- Government databases
- Commercial databases
- Relevant publications

APPROACHES

- Top-down
- Bottom-up
- published reports
- TAM vs “Annual Spending”
- Which metrics matter?
    - Firms
    - Size of problem
    - Revenue of current competitors

HOW TO THINK ABOUT MARKET OPPORTUNITY



- Total market potential
- Total addressable market
- Serviceable available market
- Serviceable obtainable market = Beachhead

Total Market Potential

- **Definition:** The potential sales value of a particular product or service within a specific target segment over a specified time frame.

  - ***How is it calculated?***
    - Total Market Potential = (# of Opportunities) x (Average Selling Price of Opportunities)
    - Best to do this calculation at segment by segment level, not as an overall market.

  - **Important Assumptions:**
    - Company can win 100% of market opportunities.
    - All opportunities within market are there for the taking.
    - Price is consistent across market.

- **Costs & Benefits:**
  - Statistic can be estimated in hours, not days.
  - Useful for quickly understanding the potential for a B2B market opportunity in terms of magnitude.
  - Always grossly overstated, due to over-simplification.

Total Addressable Market (TAM)

- **Definition:** The potential sales value of a specific target segment over a specified time frame that takes into consideration the available demand for a particular service or product.

  - ***How is it calculated?***
    - TAM = (# of Opportunities) x (% Targetable Opportunities) x (Average Selling Price of Opportunities)
    - Targetable opportunities can be estimated via a market research survey or an assessment of current market penetration.
    - Best to do this calculation at segment by segment level, not as an overall market.

  - **Important Assumptions:**
    - Company can win 100% of its targetable opportunities.
    - All opportunities within targetable segment are there for the taking.
    - Price is consistent across all segments and customers.

  - **Costs & Benefits:**
    - Provides more realistic picture of market opportunity than total market potential.
    - Always overstated
    - Statistic can be estimated in a day or less if willing to use publicly available data to estimate percentage of targetable opportunities.

Segmented Addressable Market (SAM)

- **Definition:** The potential sales value of a specific target segment over a specified time frame that is limited to available demand for a particular service or product that can be addressed via a specific business model and strategy.

  - ***How is it calculated?***
    - *SAM* = (# of Opportunities) x (% Targetable Opportunities) x *(% Opportunities Targeted as Part of Business Model) x (Average Selling Price of Opportunities)*
    - The segment or business model addressable opportunities can be estimated via more targeted market research.

  - **Important Assumptions:**
    - Opportunity tomorrow is same as opportunity today.
    - Company can win 100% of its segmented or business model addressable opportunities.

  - **Costs & Benefits:**
    - Provides a more accurate estimate of actual revenue potential of a market or segment.
    - Requires a more involved process, as you have to understand what percentage of the market would be addressable via your business model.
    - Inputs into calculation are difficult to come by and may require primary research which can be very costly and time consuming.

Expected Share of Addressable Market (ESAM)

- **Definition:** The portion of the segmented addressable market sales value expected to be won, due to a given produce or service, over a specified time frame.

  - ***How is it calculated?***
    - ESAM = (Expected Win Rate) x (Segmented Addressable Market) *x (Average Selling Price of Opportunities)*
    - The win rate can be proxied by win rates in other similar segments or estimated via market research.

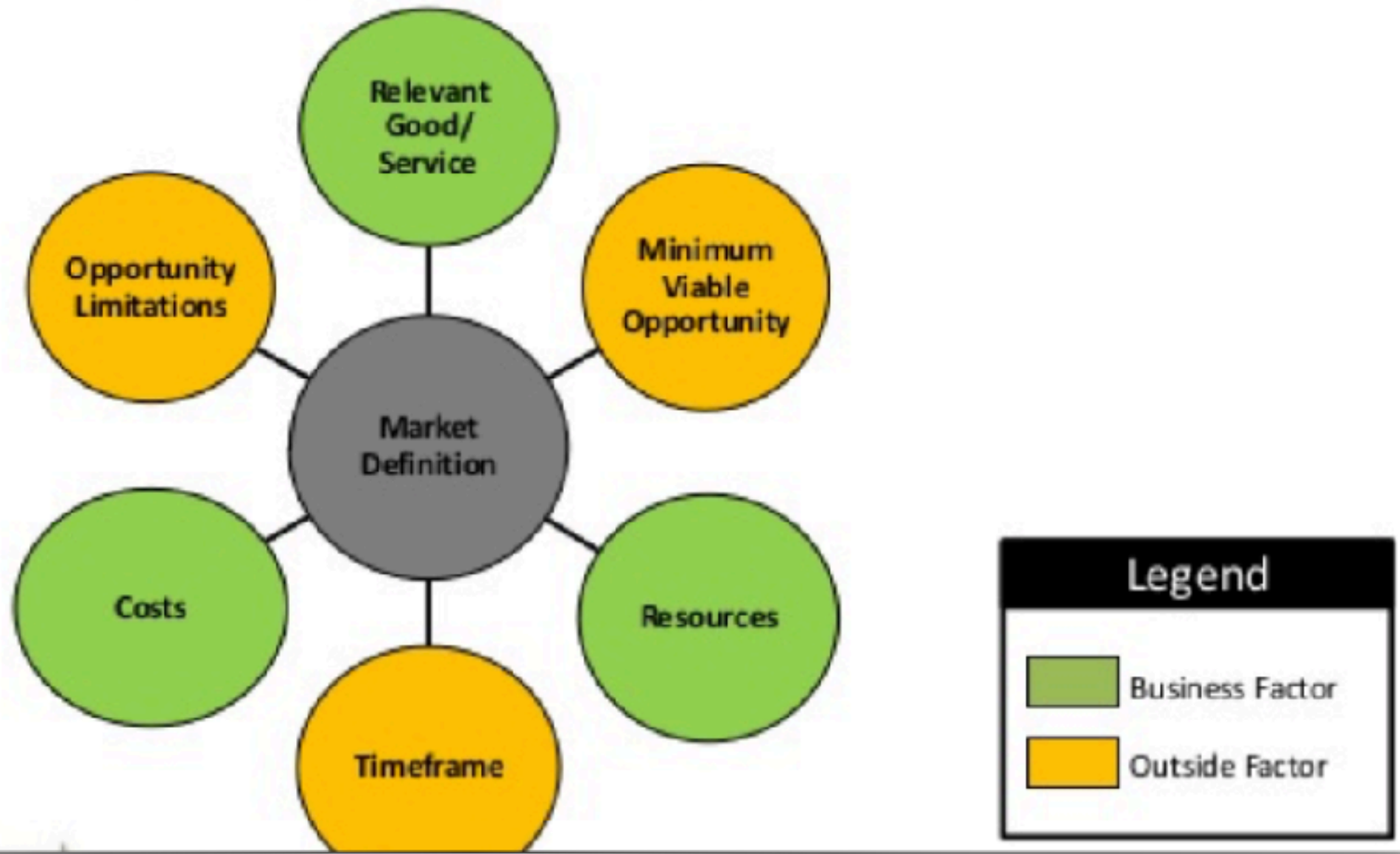
  - **Important Assumptions:**
    - Opportunity tomorrow is same as opportunity today.
    - Win rates are same across segments.
    - Opportunity tomorrow is same as opportunity today.
    - Price is consistent across all segments and customers.

  - **Costs & Benefits:**
    - Statistic provides most accurate estimate of actual market opportunity. Although typically understated.
    - Inputs into calculation are difficult to come by and may require primary research which can be very costly and time consuming.

Developing a Clear Market Definition

- **What is a Clear Market Definition?**
  - A series of externally identifiable characteristics that identify the group of companies who would likely have a need for product/services and could reasonably be expected to consider purchasing product/service or a competitor's product/service within a given time frame.

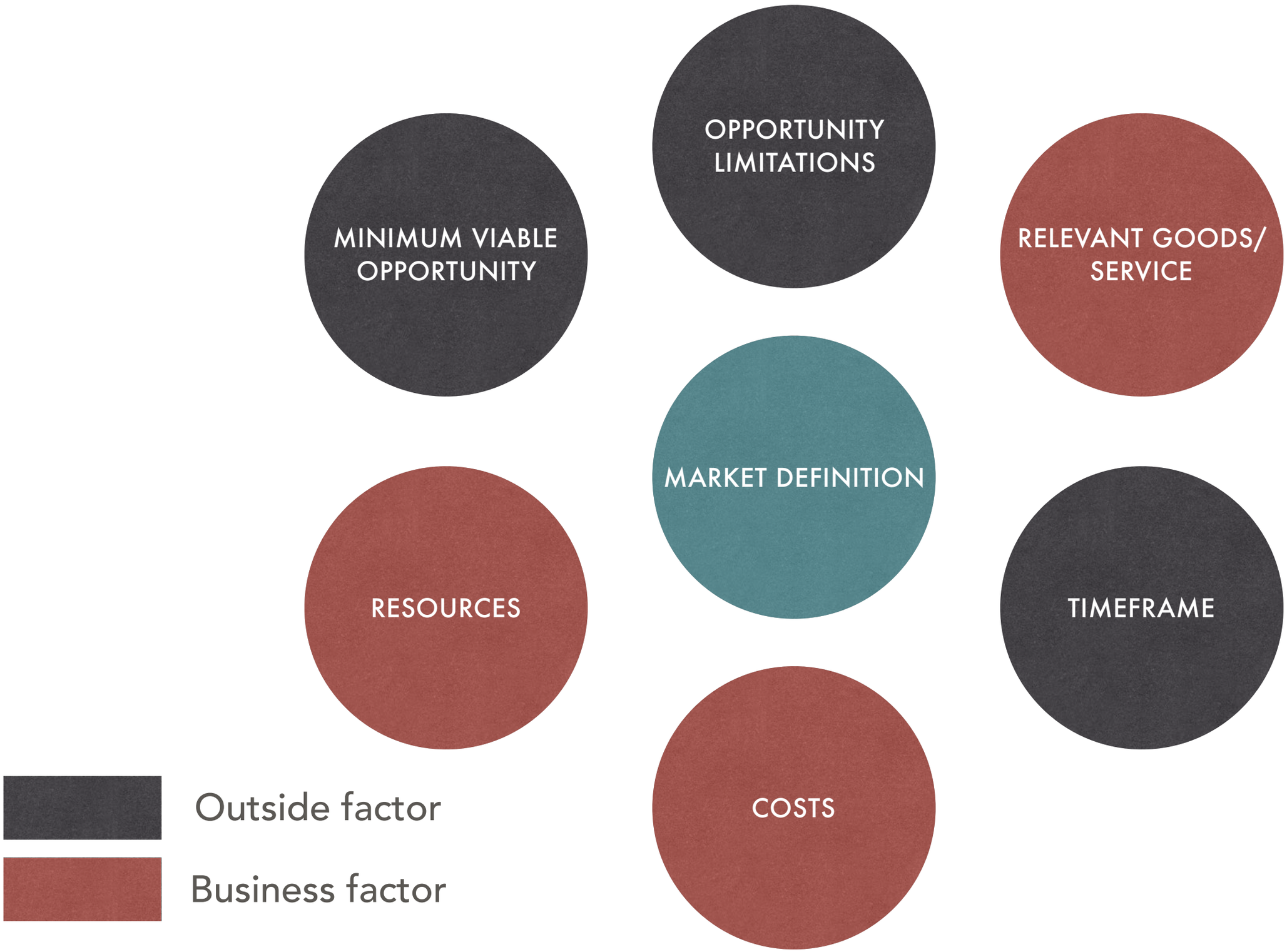
- **6 Key Factors To Consider When Developing a Market Definition:**



DEFINING CLEAR MARKET DEFINITION

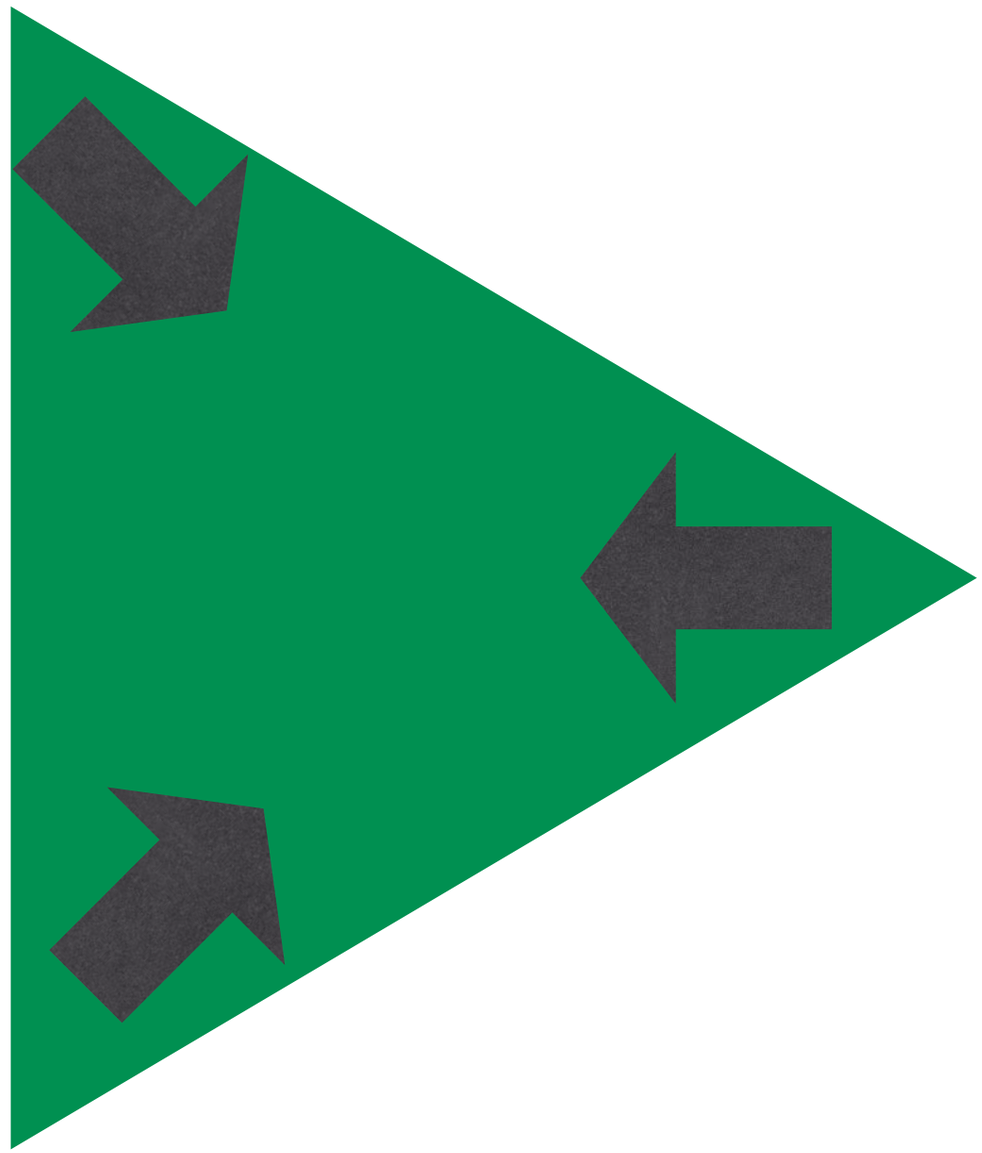
- a series of externally identifiable characteristics that identify the group of companies who would likely have a need for product/ services and could reasonably be expected to consider purchasing product/service or a competitor’s product/service within a given time frame

6 FACTORS TO CONSIDER WHEN DEVELOPING A MARKET DEFINITION



3 WAYS TO VIEW AN OPPORTUNITY

Top down



Resource constraint sizing

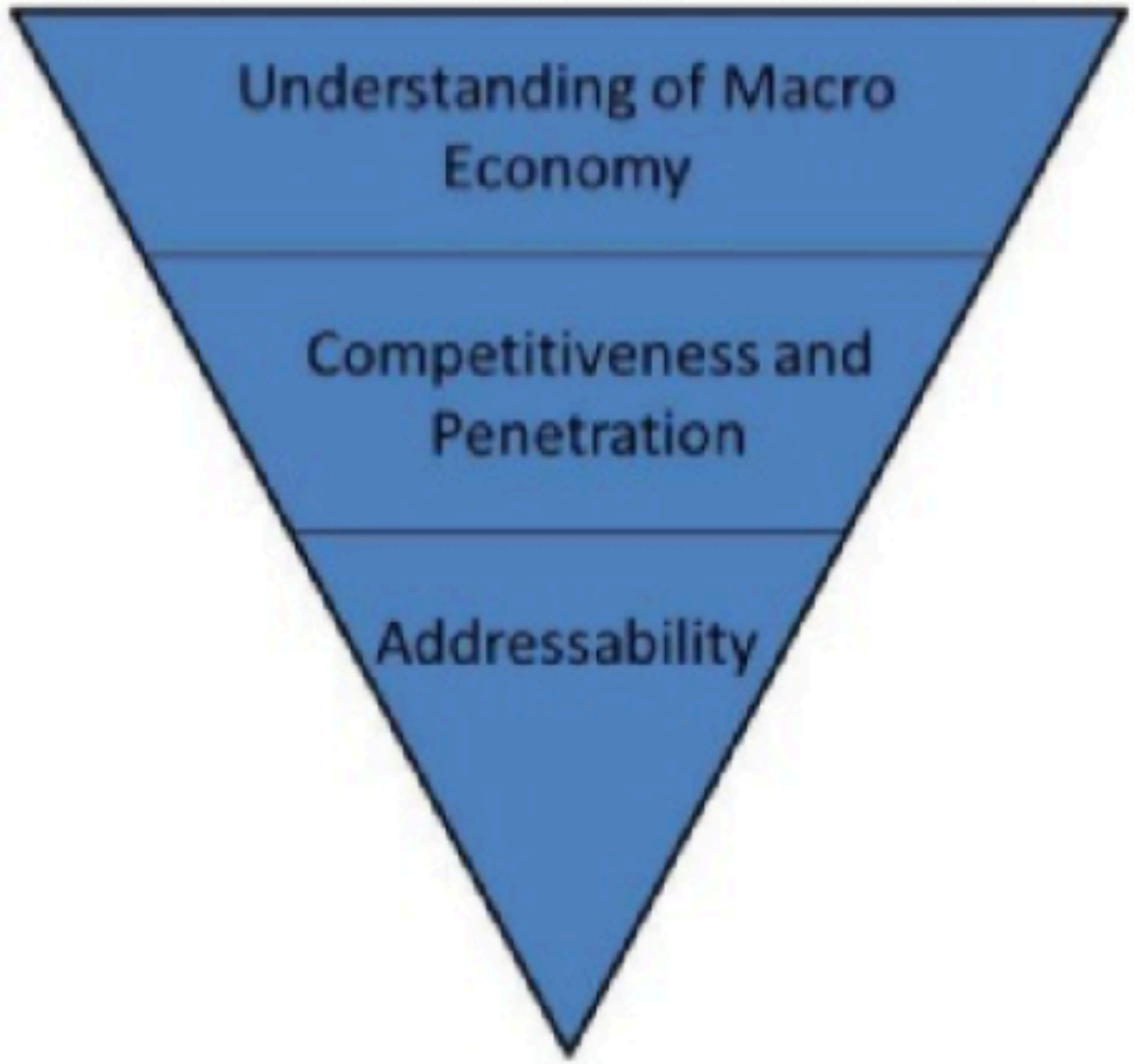
Bottoms-up

What's The Difference Between Top-Down and Bottoms-Up Approaches

- Its all about how you view the market and what this enables you to see or prevents you from seeing.

Bottoms-Up Approach

Top-Down Approach



Market segmentation

MARKET SEGMENTATION

DEMOGRAPHICS

- Age
- Gender
- Income
- Marital Status
- Ethnic Background

GEOGRAPHICS

- Local
- Regional
- National
- International

PSYCHOGRAPHICS

- Activities
- Attitudes
- Personality and Values

BEHAVIORAL

- Benefits
- Patterns
- Usage Rates

THANK YOU