



UNIVERSITY OF BELGRADE
FACULTY OF ORGANISATIONAL SCIENCES

MARKET SIZING

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SIZE / VALUE

Market size can be given in terms of the number of buyers and sellers in a particular market or in terms of the total exchange of money in the market, generally annually (per year).

When given in terms of money, market size is often termed „market value“.

Determining market size can answer strategic questions about levels of investments in the business and profitable growth targets.



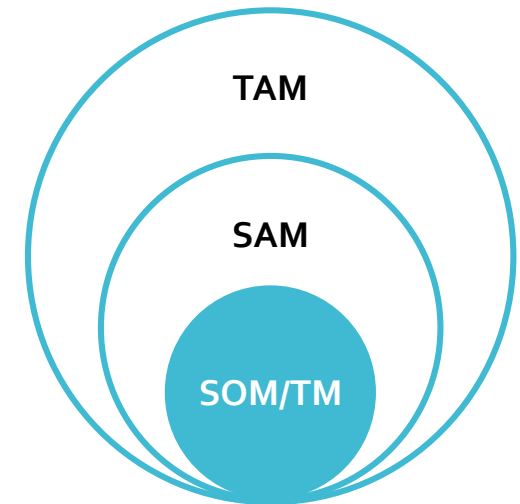
MARKET SIZE

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TAM/SAM/SOM

Market size can be viewed in terms of:

Total Available Market (**TAM**),
Serviceable Available Market (**SAM**),
and Share of Market (**SOM**).



Total Available Market

TAM

It's the total market demand for a product or service.

Refers to the combined revenue or unit volume in a specified market

Total revenue opportunity for a product or services.

Serviceable Available Market

SAM

It's the segment of the TAM targeted by your products and services which is within your (for example) geographical reach can be determined by some other criteria.

Refers to the percentage or size of TAM that a company can reasonably serve based on product, technology or geographic constraints.

SAM typically will be less than TAM.

Share of the Market/ Target Market

SOM/TM

Refers to the percentage of SAM that a particular company currently serves or plans to serve in close future.

It is the portion of SAM that you can capture.

Segment that's been prioritized as the most feasible or desirable.

Focus for most entrepreneurs and startups.

TAM, SAM, SOM/TM

TAM, SAM, SOM have different purposes:

SOM indicates the short term sales potential, SOM / SAM the target market share, and TAM the potential at scale.

The SOM and SAM help de-risking the investment while the TAM enables to assess the upside potential.

All play an important role in assessing an investment opportunity and the focus should really be on getting the most accurate numbers rather than the biggest possible numbers.

TAM
SAM
SOM/TM
PM



PM - Penetrated Market at a present time (current sales, customers, user base)

Estimating market size

Estimating market size empowers investors to know whether an opportunity merits investment.

There are two basic methodologies for determining market size:

TOP-DOWN and **BOTTOM-UP**

The best approach is to develop market sizing estimations using both methodologies in order to gain a higher confidence in your estimation.

TOP DOWN APPROACH

The top-down methodology uses a broad market size figure and determines the percentage that the target market represents.

It is a procedure in which a larger reference market is used and the percentage of that market that a company expects to capture is estimated.

It is calculated by calculating the total market, then estimating your share of the market.

Two different techniques for top-down analysis:

TOP DOWN APPROACH

1. Using a Known Reference Market

The size of a known reference market is required, and then the amount of that market that is contributed by a specific segment of interest is estimated.

2. Market Sizing Using Population Metrics

The size of a specific population is used and then a company estimates the percentage of that population that it can capture with its services.

BOTTOM-UP APPROACH

The bottom-up methodology builds the TAM by totaling the main variables of the target market.

Bottom-up approach to market size determination seeks to add up all market participants

It is considered to be more accurate and takes considerably more time to complete.

It is calculated by estimating potential sales or revenues in order to determine a total market size

BOTTOM-UP APPROACH

Three different techniques for top-down analysis:

1. Roll-Up All Market Participant Sales

All independent contributors to a market of interest are summed to determine a total market value.

2. Weighted Analysis of Industry Leaders

Determining sales of the largest players and then estimating the aggregate share of all other, smaller players.

3. Survey Customers

Population of customers is asked how much they spend each year on the products composing the market, and the results are extrapolated for the market at large.

SELECTING DATA SOURCES

Secondary research searches for existing data and is the most commonly used form of research because it is quicker to obtain and therefore usually more cost effective.

Primary research, also called field research, is often used in addition to secondary research. The primary research can take on many forms and can strengthen your understanding of the market, allowing you to make better informed assumptions.

The most versatile form of primary research is in-depth telephone interviews that can be used to capture more sensitive information.

DIAPERS CASE

The case question is:

How many disposable diapers are consumed every year in US?



DIAPERS CASE

INFANTS

ADULTS

DISPOSABLE

RESUABLE

INFANTS CALCULATION

METHODOLOGY			VALUE		
TOTAL POPULATION [#]			300,000,000		
:			:		
AVERAGE LIFE EXPECTANCY [#]			75		
=			=		
POPULATION PER AGE GROUP [#]			4,000,000		
X	X	X	X	X	X
Infants 0-1 years/ group [#]	Infants 1-2 years/ group [#]	Infants 2-3 years/ group [#]	1	1	1
X	X	X	X	X	X
Infants 0-1 population [#]	Infants 1-2 population [#]	Infants 2-3 population [#]	4,000,000	4,000,000	4,000,000
X	X	X	X	X	X
Disposable penetration [%]			95%		
X	X	X	X	X	X
Diapers / day [#]	Diapers / day [#]	Diapers / day [#]	8	6	5
=	=	=	=	=	=
Total diapers / day [#]	Total diapers / day [#]	Total diapers / day [#]	30,400,000	22,800,000	19,000,000
x			x		
Days / year [#]			365		
=			=		
Total diapers / year [#]			26,353,000,000		

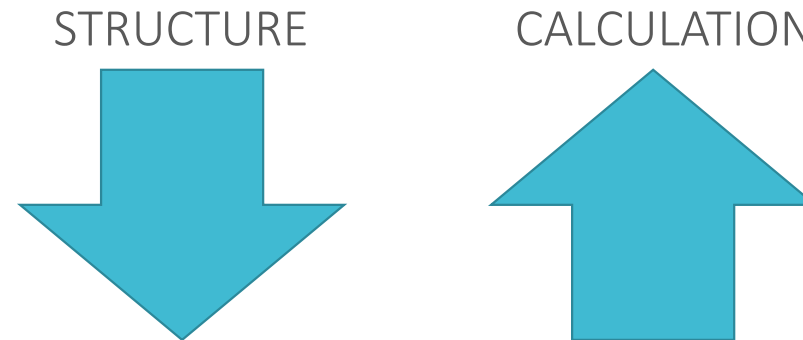
ADULTS CALCULATION

METHODOLOGY	VALUE
TOTAL POPULATION [#]	300,000,000
x	x
ADULT INCONTINENCE PREVALENCE [%]	4%
=	=
INCONTINENT POPULATION [#]	12,000,000
x	x
DIAPERS FREQUENCY / DAY [#]	5
x	x
PENETRATION RATE [%]	20%
=	=
ADULT DISPOSABLE DIAPERS / DAY [#]	12,000,000
x	x
DAYS / YEAR [#]	365
=	=
TOTAL ADULT DISPOSABLE DIAPERS / YEAR [#]	4,380,000,000
+	+
TOTAL INFANT DISPOSABLE DIAPERS / YEAR [#]	26,353,000,000
=	=
TOTAL DISPOSABLE DIAPERS / YEAR [#]	30,733,000,000

STRUCTURED APPROACH

Use a tree to structure the problem.

Having a structured approach and being able to analyze what the drivers are behind such estimation questions is essential for a useful market sizing.



In the first step, layout your whole structure starting from your final objective, going down to the leaves (pieces of information that are easier to estimate).

The second step is when you start making assumptions from the leaves at the bottom and calculating the boxes of your tree towards the top (your final objective).

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