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In order to continue enjoying our site, we ask that you confirm your identity as a human. Thank you very much for your cooperation. When considering a new venture, you must understand: “What is market size?” More specifically, you need to know your venture’s potential market size. But “Why?” I hear you ask. Picture this: You’ve put in months of hard work only to realize that 100 people in the U.S. will potentially buy your product. The potential revenue from that population size may be worth your product's manufacturing, production, and distribution costs — or it may not. But even if you’ve got 10,000 potential customers, you still need to go deeper in your market sizing to understand whether there’s a viable market. Below, I’ll share methods to calculate your market size and accurately measure your business’ revenue potential. I will also share first-hand experiences from founders, CEOs, entrepreneurs, and more who spoke to me about their market sizing journeys. Keep reading, or jump to the section you’re looking for: When market sizing, you're calculating customer numbers to measure the growth potential of your business. Why is market size important? There are several reasons why every business should spend time sizing its market: Market sizing helps you determine whether your product is a worthy investment. The latest data from the U.S. Bureau of Labor Statistics (BLS) finds that 23.2% of private sector businesses in the U.S. fail within the first year. Businesses fail for many reasons — however, miscalculating product demand (or not calculating it at all) is one of them. Market sizing helps you estimate profit and potential for growth. If you know how many people your business has the potential to reach, you can estimate how much revenue you can generate. This is valuable for both business owners and investors. Real-world example: “We first identified who fits into our target market so we could figure out an ideal market size,” says Michael Nemeroff, CEO and co-founder of apparel eCommerce brand Rush Order Tees. Nemeroff says the brand considered business leaders, schools, sports teams, and event organizers their primary targets because they create customized apparel and other products. Because the team operates virtually, that market can extend as far as shipping is availability. “The biggest challenge was accounting for differences across regions because of population density, event frequency, business hubs, etc.,” Nemeroff adds: “It’s a bit of a guessing game, but you’re making educated guesses that help you understand the viability of your idea and start planning your budget.” According to Nemeroff, “it would be terrible to overshoot your market size considerably then overspend on a market where the juice isn’t worth the squeeze.” Market size defines who you’re marketing to and what their needs are. No business can succeed without marketing. Knowing your market size is the first step in understanding your target market and its needs. Market sizing helps your business make better decisions. Understanding your market landscape, gaps, and opportunities will inform your decision-making. It can also help you set realistic goals, assign resources, and refine your strategies. Real-world example: “Skipping market sizing can lead to costly mistakes,” says Logan Mallory, vice president of marketing at Motivosity, an employee recognition and rewards platform. “Early in my career, I was a part of a startup that did not prioritize market sizing. We anticipated that our product would appeal to a large number of people, so we spread our marketing efforts excessively thin.” Mallory continues, “As a result, we wasted resources on low-conversion areas while passing up more lucrative prospects. If we had done comprehensive market sizing, we could have identified and targeted high-potential sectors from the outset, maximizing our budget and generating faster growth.” Market sizing helps your business minimize risk. Starting or expanding a business is inherently risky. Understanding your market can help you anticipate and prepare for challenges. Market Size vs. Market Value Market size is the total potential demand for a product or service. This number usually calculates the number of potential customers, units sold, or revenue generated. So, market size is an estimate of the overall market reach. Market value refers to a company or industry's financial worth or estimated market capitalization. It’s a measure of perceived value. It can give you an idea of how much a company could sell for in a given market. In summary, market size focuses on the potential market opportunity, while market value is the financial value of an individual company or an entire market. Market Sizing Terms to Know Before figuring out your market size, there are a few helpful terms you should get to know. Total Addressable Market (TAM) TAM stands for Total Addressable Market. This number is the maximum potential revenue or customer base a company could achieve if it captures 100% of its market share. Serviceable Addressable Market (SAM) SAM stands for Serviceable Addressable Market. SAM is a part of the TAM that aligns with the company's resources, capabilities, and target customers. Serviceable Obtainable Market (SOM) SOM stands for Serviceable Obtainable Market. SOM is the part of the SAM that a company can get at its current scale. This figure may consider marketing and sales strategies, competitive positioning, and product demand. Check out this post to learn more about TAM, SAM, and SOM and how to calculate them. Target Market A target market is a specific group of customers, industries, or segments a company focuses on. It‘s the customer segment most likely to show interest in, purchase, and appreciate a company’s products or services. Penetration Rate Penetration rate refers to the percentage of a target market a company has successfully captured. It shows the level of market share a company reaches in a specific market segment or overall market. Pro tip: If you're a new business, you can calculate the penetration rate by dividing your total customers by the number of potential customers in the target market. Then, multiply the result by 100 to get the percentage. Learn more about market penetration here. Market Segmentation Market segmentation means dividing the total market into distinct groups or segments. Usually, the people in these segments have common characteristics, needs, or behaviors. Segmenting the market can help you better understand your target customers. It can also help you tailor business strategies, like marketing, to meet specific segment needs. Value Proposition A value proposition is the unique benefits that a company offers to its target customers. It differentiates a company's product or service from competitors and creates value for customers. Understanding the value proposition is crucial in market sizing. This is because it can help you find the specific customer segments that will find the most value in your offer. Pro tip: Try one of these free value proposition templates to draft your value proposition. While calculating market size requires only a few steps, it’s a crucial process. Follow the steps below to understand your business’s potential demand and revenue opportunities. 1. Start with your total addressable market. I know what you’re thinking! But seriously, don’t be put off by the technical jargon. Calculating your TAM is as simple as multiplying the total customers in a market by the annual value per customer. That said, before calculating, make sure you take a look at the steps below: Define your product or service. While developing a product can be quick, growing a business around a product is more complex. That’s why you need to really understand your product or service, including how it solves a problem or meets a need in the market. Find your market category. Some products fall within more than one industry or market category. This is the first step in narrowing your TAM. So, think carefully about what you expect customers to compare your offer to. Conduct market research. Gather relevant data and information about your potential users. If you're new to market research, check out this free market research kit with research and planning templates. Analyze the competition. Conduct a competitive analysis to determine the market share and unique value of your top competitors. Pro tip: Getting started on competitive analysis for the first time? Heed Christine White’s (HubSpot’s former Senior Marketing Manager) words below. “Competitive analysis is the process of comparing your competitors against your brand to understand their core differentiators, strengths, and weaknesses. Competitive analysis is an opportunity to learn from others. It isn’t copying successful competitors to the T. Trying to undercut others’ pricing. A one-and-done exercise,” says White. Define your total addressable market (TAM). Using the research and analysis you've conducted, create a realistic TAM estimate. 2. Find a group of customers to focus on within that target market. Want to quantify the top customers in your market? Try the tips below: Create your ideal buyer persona. Use the Make My Persona tool to outline the characteristics, demographics, and behaviors of your ideal customers. Segment your target market. Start dividing your target market into distinct segments. You might base segments on age, location, interests, or buying behavior. Real-world example: Vinay Kevadiya, the CEO and founder of business plan software Upmetrics, shared his approach to market analysis and segmentation with me. “We first defined our market by identifying potential users of Upmetrics,” says Kevadiya. “It includes small business owners/entrepreneurs, business consultants, business schools, incubators, and accelerators.” After this, Kevadiya and his team segmented users based on type, industry, and scale. “Group 1 was small businesses and entrepreneurs. Group 2 includes business consultants, incubators, accelerators, and business schools.” Kevadiya adds, “Then we did a Quantitative Analysis and identified the total number of potential users in each group in the US geography. We collected this data using industry reports and statistics.” Continue market research. Continue collecting data and insights about each segment. This will help you understand each segment's size, needs, preferences, pain points, and purchasing habits. Your ongoing market research might include surveys, interviews, focus groups, or analyzing existing market research. Set pricing for your product or service. For some products, pricing is a deciding purchase factor. So, if you haven't already, set pricing or a price range for your products. Assess segments of your market and prioritize. Think about each segment’s size, growth potential, and competition. It’s also a good idea to consider how each segment aligns with your company's capabilities and resources. Pro tip: Don't just focus on segments that offer the most attractive opportunities. Make sure they align with the strengths and needs of your offering. Refine your buyer personas. With your prioritized segments, take another look at your ideal customer profile. This will give you a more useful buyer persona for your marketing and sales strategies. Confirm your SAM with market testing. Test your target segments with a product or service pilot group, measuring their responses and feedback. 3. Figure out how many of those customers are likely to buy your product. This step will narrow your scope more intensely on the customers who need exactly what you offer. These people are looking for you or a clear alternative to your competitors. To quantify this group: Create a customer journey map. Through awareness to purchase, this process can help you map out the ideal customer path. From how you expect customers to discover your products to the blockers that might keep them from clicking buy, this step is helpful for market sizing and beyond. New to the process? Use these customer journey templates. Estimate conversion rates. Use historical data, industry benchmarks, or industry research to estimate conversion rates. This can help you quantify the expected numbers of leads, prospects, and customers in each segment. Figure out buyer intent. Create a ranking or score for each segment to measure their likelihood of purchasing your product. This can help you prioritize segments with the highest conversion potential. Create a SOM estimate with your data. The research above will add credibility to your market size estimate. It can also help guide your growth strategies. Pro tip: Vinay Kevadiya recommends including “competitor activities” within your SOM estimate. “We have even considered the marketing and sales strategies of our competitors and estimated their reach to the number of customers,” Kevadiya explains. 4. Multiply that customer number by estimated penetration rate. To calculate penetration rate, divide the SOM you calculated above by your TAM, then multiply by 100. Once you have a calculation for your market size, you'll want to make sure you can trust that number. Keep your market sizing current with these tips: Confirm your data is accurate and reliable. As you complete your research, use reliable sources such as industry reports, market studies, or government databases. Also, check to ensure the data you're referencing is current. Keep up with market growth, seasonality, industry trends, tech advancements, regulatory changes, and economic conditions. These factors can affect both market size and customer demand. Review and update your market size estimates regularly. Market conditions change over time. Plan regular reviews of your market size, then update your calculations with new or relevant data. How to Apply Market Sizing Information Once You Have It You've your estimated market size — now what? Market size helps your business answer the following questions: How much potential revenue can we earn from this particular market? In other words, is it even worth our time and energy? Is the market big enough to interest us? Is the market growing? Given that 36.2% of U.S. businesses fail after three years, 48.0% after five, and 65.3% after 10, you must plan for the future. Will there still be opportunities to earn revenue from this market in three, five, or 10 years? Beyond those pressing points, how else can you apply market-sizing information to your business? You’ve done the work — you might as well get the most from the data, right? I spoke to founders, CEOs, and entrepreneurs to find out how they used market sizing information once they had it. Create a strategic plan. According to Vinay Kevadiya, once Upmetrics had done its market sizing, it helped the team create a clear strategic plan. “Lots of customer insights are gained. It involves understanding customer demographics, behavior, and preferences, which are essential for tailoring products and services to meet the market demands more effectively,” says Kevadiya. Part of the strategic planning included building marketing and sales strategies. “Based on the groups, it is now easy to target the customers, and it helped us to plan content marketing and SEO strategies,” Kevadiya says. Leverage unique positioning. Axel Lavergne, Founder of Reviewflowz, a review and testimonial software for SaaS, used competitor analysis data to gain valuable insights about their business. “We studied our competitors to determine market saturation and gaps,” says Lavergne. “For instance, we discovered that, while many companies provided review management tools, few expressly addressed the needs of small to medium-sized SaaS businesses.” This analysis assisted Reviewflowz in uniquely positioning itself by targeting an “underserved niche.” “As a result, we avoided overcrowded niches and focused on unmet demands, resulting in a strong market launch and rapid growth. Market sizing was more than just a formality; it helped us link our vision with market reality, ensuring we focused on the correct audience and possibilities,” emphasizes Lavergne. Adapt product features. “Detailed market sizing was central to our winning FinlyWealth pitch,” says Kevin Shahnazar, co-founder and CEO of FinlyWealth.com, a credit card comparison platform in Canada Shahnazar’s team started by appropriately estimating the total number of credit card holders in Canada — approximately 30 million. They then considered only those looking for new cards or better rewards — a subset already existing. They estimated at 20% of cardholders annually. FinlyWealth’s approach combines top-down and bottom-up methodologies. The top-down view included analyzing industry reports and government data. For the bottom-up approach, they surveyed potential users and looked at the search volume for comparison terms of the word credit card. Shahnazar adds: “From this process, it was evident that an obtainable market of SOM around 1.5 million users annually exists. Armed with this data, we refined our platform based on the needs of the targeted markets.” As a result, they could “Adapt product features to the most challenging needs expressed in the targeted market, enabling a 40% higher engagement rate.” Attract investors. Market size is a critical number to know when you’re looking for funding. Investors will need to know how much money they have the potential to make from a given market. Additionally, it’s vital to recognize whether your potential revenue outweighs your business' costs. But don’t just take my word for it … “Market sizing had a significant impact on our business. It provided more accurate resource allocation, focused marketing strategies, and improved product offerings,” says Shawn Plummer, CEO at The Annuity Expert. As an example, Plummer says his team identified underrepresented demographics and personalized services to match their individual needs, resulting in better consumer engagement and faster growth than expected. Plummer adds, “This strategic insight also helped attract investors, as we could demonstrate a clear understanding of market opportunities and risks.” Find new opportunities in a competitive niche. Once you have market size, you’ll also want to consider how saturated the market is with your competitors’ products. Ultimately, you can’t capture the total addressable market (TAM) — some of those people will choose competitors’ products over yours. So, you'll need to figure out whether you can earn enough consumers out of the TAM to make this a worthwhile venture. That said, marketing sizing can help you find hidden opportunities even in a competitive niche. Teresha Aird, co-founder and CMO of Offices.net, speaks about her experience in market sizing for a competitive industry. “When we were starting out, we knew that having a solid grasp on our market size would be crucial for success, especially in our highly competitive sector,” says Aird. Aird’s team began by conducting thorough research to understand the total addressable market (TAM) for commercial office space in the U.S. This required analyzing industry reports, government data, and conducting a thorough analysis of our direct competitors. “We also looked at market trends, growth rates, and the demand profile for flexible workspaces, which is a niche we were particularly interested in,” Arid says. Aird adds, “Through the process, we identified a growing demand for flexible office spaces among startups and small businesses. This insight led to us tailoring our services to meet their specific needs, which increased our user base.” Pro tip: Aird and the team also surveyed potential clients to gauge their actual needs and preferences, giving them more personalized data. Market Sizing Methods There are two simple methods for market sizing your business. These processes can help you use data to gauge market size. Top Down Approach The first is a top-down approach, in which you start by looking at the market as a whole and then refine it to get an accurate market size. That would look like starting from your total addressable market and filtering from there. Market Sizing Example Let‘s say you want to launch a wine company. First, you’d want to figure out how many liquor stores are in the United States — this helps you determine the total market to which you could theoretically sell your product. After your research, you discover 50,000 liquor stores in the United States. Of that total list, you only want to sell to the New England area — including Massachusetts, Maine, and Rhode Island. You decide your target market includes the 1,000 liquor stores in the New England area. From here, you conduct research and speak with alcohol distributors to find there's a roughly 40% success rate for wine distribution. Using this as an example, we'd calculate the market size using the following formula: 1,000 liquor stores x 40% = 400 liquor stores Then, if you assume each liquor store will result in $20,000, you can figure out potential revenue using the following formula: 400 liquor stores x $20,000 = $8,000,000 This means you stand to make $8 million if you penetrate 40% of the total market in the New England area. Bottom-Up Approach A bottom-up approach is the exact opposite – starting small and working your way outward. This involves first identifying the number of units you can expect to sell, then considering the number of sales you anticipate from each buyer, and finally, the average price per unit. Market Sizing Example Using the same wine example – say you found recent data showing that the average cost of a wine bottle in New England is $10. A survey shows that the average consumer buys one bottle of wine a week, or 48 bottles a year. This means that the average consumer spends $480 per year on wine. Next, you discover that the number of consumers (or households) you can expect to reach in the New England area is 16,000. As a result, your market size is 480 x 16,000 = $8,000,000. I have to emphasize that both methods ignore the existence of competitors, customer churn rate, and other factors that impact sales. With this in mind, I recommend staying conservative when estimating how much of the market size you'll win and using this as a starting point. Real-world example: Milind Katti, CEO and co-founder of DemandFarm, shared his company’s approach to market sizing with me. “Our approach to evaluating total addressable market size and potential revenue at DemandFarm is both data-driven and bottom-up,” says Katti. First, they worked out the “Ideal Customer Profile (ICP) and the distinct market segments we target.” This is followed by the “average contract values (ACVs) for each segment and the total addressable market (TAM) size of these segments, representing the number of companies that fit the segment criteria.” Katti adds: “By multiplying the TAM of each segment by its corresponding ACV, we estimate the market size and revenue potential for each segment. Aggregating these estimates across all segments provides us with a comprehensive view of the overall market size and revenue potential.” Market Size: FAQs Now, I’ll answer common questions about market size. What is the first step in calculating market size? The first step in calculating market size is to start with your Total Addressable Market (TAM.) To calculate your TAM, multiply the total customers in a market by the annual value per customer. What is considered a large market size? It depends on your business and goals. However, if you’re looking to attract VC funding, a $1 billion market size is said to be large enough. But this is a symbolic target. In reality, VCs are more interested in exit size because when a company is sold or publicly listed, they’ll get a return on investment. What is considered a small market size? Once again, it depends on your business and your goals. However, a small market size typically means a projection of under $15 million in annual revenue. What is a good market size for a startup? A good market size for a startup depends on each business. For example, a competitive market estimate for a tech startup could be between $5 billion to $500 million. However, a competitive market estimate for a local small to mid-sized business startup could be $60,000 to $500,000. That said, the potential demand for your product or service should always be large enough to sustain growth in the first few years. To market size or not to market size? Everyone I spoke to experienced positive results after market sizing their business. It empowered them to plan strategically, estimate growth potential, and even thrive in a competitive industry. Still, that’s not to say you can’t thrive without market-sizing your business. Take Andrei Serbanoiu, co-founder of Socialinsider.io, as an example. Serbanoiu never did market sizing before entering their industry. “Looking back, it probably wasn’t the most mature approach, but hey, enthusiasm and hard work can take you a long way! I don’t think we were even familiar with what market sizing was at that point, to be frank,” Serbanoiu says. “Now, eight years later, I wish we had as it would have given us a more grounded approach with better-set expectations for the years to come.” Serbanoiu adds, “We‘re doing great despite not being aware of the market size we’re diving in, but I can't stop asking myself — would we have been doing the same things if we had done it in the beginning?” Serbanoiu and Michael Nemeroff (CEO and co-founder of Rush Order Tees) agree that market sizing is a guessing game. But at least you’re making educated guesses that help you estimate the viability of an idea. Or as Serbanoiu puts it, “I think that market sizing helps but does not ultimately determine the path we go on — things evolve, markets grow and shrink and ultimately building a business is about taking risks and placing bets — maybe more informed bets if you do your research properly.” Ready to tackle market sizing and beyond? Try HubSpot's Starter Bundle Built for Startups & Small Businesses. Editor's Note: This post was originally published in April 2019 and has been updated for comprehensiveness. This article was written by a human, but our team uses AI in our editorial process. Check out our full disclosure to learn more about how we use AI. Market size is a term that gets thrown around a lot in the business world — but what does it actually mean, and why does it matter? Despite being a fundamental concept, market size is often misunderstood. Confusion around what it really represents can lead to poor strategic decisions, missed opportunities, or wasted resources chasing markets that don’t exist. As someone who’s worked with businesses across different stages — from startups to established enterprises — I’ve seen firsthand how accurately sizing your market can be a game-changer. It gives you a clearer path to growth, helps attract the right investors, and prevents you from investing in dead-end strategies. In this article, we’ll unpack what market size actually is, how to calculate it properly, and how to distinguish it from related concepts like market share, TAM, SAM, and SOM — so you can make decisions based on real opportunity, not guesswork. At its core, market size refers to the total number of potential buyers for your product or service. It’s a critical metric that helps businesses understand the commercial opportunity within a specific market. One of the most common misconceptions about market size is confusing it with the overall population of a country or region. Just because a market has a large population doesn’t mean it’s the right fit. In fact, targeting a high-density market without enough alignment to your ideal customer profile can be a costly mistake. A smaller market with more qualified, interested buyers is often a better strategic choice. Alexa defines market size as “the number of individuals in a certain market segment who are potential buyers.” That’s a useful starting point, but in practical terms, market size is more than just headcount — it’s typically measured as: The total number of potential customers or sales within a defined period (usually a year), or The total potential revenue your business could generate from that market in that time frame. Understanding this figure sets the foundation for everything from product development to marketing, sales forecasting, and investment planning. Understanding the size of your market — whether existing or new — is essential for making smart, strategic decisions. If your sales growth is stagnating or has plateaued, market size might be the reason. There’s little point in continuing to invest heavily in a market where your target audience is shrinking or already saturated. On the flip side, entering a new market without knowing how many real potential buyers exist can lead to underperformance, missed targets, or a failed product launch — costing you time, money, and momentum. When done properly, market sizing helps de-risk your decisions. It gives you a clear picture of the opportunity ahead and enables you to prioritise the markets that are most likely to deliver ROI. It also plays a critical role in shaping: Pricing and distribution strategies Product-market fit validation Marketing campaigns and positioning Sales forecasting and capacity planning In short, market size is more than a number — it’s the foundation for strategic planning, especially when growth, expansion, or investment is on the table. Attracting InvestmentMarket size is one of the first things investors look at. It shows the potential upside. If you can demonstrate a large, reachable, and growing market, you’re in a much better position to secure funding. Building a Strong Go-to-Market StrategyKnowing how many potential customers exist — and where — helps you define your positioning, messaging, and marketing mix with confidence. Forecasting Budget and HeadcountGrowth potential ties directly into resourcing. With solid market size data, you can make better decisions around budgeting, team structure, and scaling operations. Maximising Your R&D SpendWhen you understand who your customers are and how big the opportunity is, you can focus your product development on solving the right problems — for the right people — instead of building features no one needs. Keep up to date with the latest insights from our research as well as all our company news in our free monthly newsletter. So how do you actually figure out your market size? There are a number of ways to go about this: Clearly identify the target market for your product or service Carry out market research to assess the level of interest in what you’re offering — will people buy it? Gather data on the number of potential customers and transactions per year. There are a number of secondary resources you can consult to help you do this. Assess the total revenue generated in that segment of the economy in a given year So — you’ve calculated your market size, but what does that number mean? How do you know if your business is worth pursuing? The answer depends very much on the market and the size of your business, but there are some good general guidelines. Usually, $100 million is on the lower end, and if your market size is smaller than this it may prove difficult to convince stakeholders or investors to get on board. Determining your total market size is only the beginning, and this information alone isn’t worth much. This is because you’ll never be able to reach literally every potential customer. There’s just no way. No business has the marketing tools, scale, and budget to reach every single person in their market. And that’s without even mentioning competitors. You’ll never corner an entire market, and the most you can hope for is usually a small slice. According to Tx Zhuo of Karlin Ventures “If it’s 1 to 5 percent of the pie, you have a realistic plan.” This is where we can turn to a useful metric called serviceable obtainable market (SOM). This refers to the potential customers (and potential revenue) you can realistically hope to reach with your marketing tools and budget. So how can you calculate your SOM? There are a number of ways to calculate your SOM. According to Jared Sleeper, an investor in early-stage companies, there are three main approaches you can take. Top-down. This approach relies on the predictions, forecasts, and assumptions about your market from analysts like Gartner. It’s often based on conjecture and estimates to some extent. Think of statements like: “The wireless headset market is forecast to reach $2.5 billion by 2023”. It’s good for a general overview of the situation, but it’s a little vague and can be challenging to understand what proportion of the market you can realistically corner. Bottom-up. This involves starting with your price and how many units you can realistically expect to sell. How many customers can you reach + how much is each sale = your SOM. It’s more tailored to your specific situation instead of just a broad assessment of the market as a whole, so in this sense, it’s a more reliable way to work out your SOM. Value theory. This final strategy is a little less precise, but it still has some usefulness. It involves considering the value your product or service adds compared to alternatives and estimating how much customers would be prepared to pay for that extra value. Sleeper recommends options 2 and 3 since they actually consider the specifics of your business and how you would interact with the market, as opposed to a general prediction. It may make sense to use a blend of all three approaches to gain the fullest picture of your SOM and provide as much insight as possible to your stakeholders or investors. Calculating market size is an important step on the road to building a successful business or launching a new product or service. However, it’s only one step. The metric on its own isn’t worth a whole lot unless you can also show how much of that market you can reach and compete for. Market research is a crucial part of determining your market size, SOM, and laying the foundations for a successful business. To find out how Kadence can help you with this, take a look at our market sizing services or get in touch with us today. 1. What Is Market Size? Market size refers to the total potential demand for a product or service in a particular market. It tells you: How many people or businesses might buy How much money they could spend The overall sales opportunity for a company Market size is usually expressed in: Revenue terms (£ value of total sales) Volume terms (number of units sold or customers) 2. Why Is Market Size Important? Understanding market size helps you: Assess if a business idea is worth pursuing Set realistic sales targets Attract investors with credible projections Allocate marketing and operational resources wisely Compare different market opportunities It’s essential for business planning, market entry, and growth strategy. 3. Components of Market Size To calculate market size, break it into two levels: Total Addressable Market (TAM): The overall demand for a product/service across all potential customers Serviceable Available Market (SAM): The portion of the market you can realistically target, based on geography, access, or product focus Serviceable Obtainable Market (SOM): The share you can realistically capture given your resources and competition 4. How to Calculate Market Size There are two common methods: A. Top-Down ApproachStart with industry-wide figures and narrow down: Find total industry sales or customer numbers Estimate your segment or region’s share Factor in your market reach B. Bottom-Up ApproachStart with your own pricing and customer assumptions: Estimate the number of potential buyers Multiply by average purchase or revenue per user Adjust for market adoption and timing Example: 50,000 potential customers £100 average spend per year Estimated 10% market share= Market size of £500,000/year 5. Where to Find Market Size Data Use these sources: Government data (ONS, Companies House) Industry reports (Statista, IBISWorld, Mintel) Trade associations and chambers of commerce Market research firms or surveys Your own customer research and competitor data 6. Mistakes to Avoid Confusing market size with sales forecasts Using outdated or generic data Overestimating your share of the market Ignoring barriers to entry or competition Not validating assumptions with real research Frequently Asked Questions Q1: Is market size the same as market share?No. Market size is the total opportunity; market share is your portion of that market. Q2: Can a market be too small?Yes. If the market isn’t large enough to support your business model or growth goals, it may not be viable. Q3: How often should I update market size estimates?Annually or whenever major industry, product, or customer changes occur. Q4: Do investors care about market size? Absolutely. A large and growing market is more attractive for investment. Q5: Can market size help with pricing?Yes. Understanding customer numbers and purchasing power helps set realistic and profitable pricing. Q6: Should startups estimate their market size?Yes. It’s a key part of a strong business plan and funding pitch. Conclusion Market size is more than just a number—it’s a foundational metric for understanding your business potential. Whether you’re launching a new idea or scaling an existing company, knowing your market size guides strategy, budgeting, and long-term success. All BlogsMarketing ResourcesMarket sizeMarketing AnalyticsViral & Network EffectsNet Promoter ScoreIncidence RateRevenue Per VisitorMarketing AnalyticsBOOT CAMP - Financial Modeling (6 Hrs)GET: WSM ALL COURSES ACCESSTable Of ContentsMarket size refers to a specific market's total number of potential customers measured in terms of sales, or revenue. Its primary purpose is to understand a market's revenue-generating potential comprehensively. Its analysis helps businesses identify their potential customer base while assessing the level of competition they face from rival companies.Market size considerations are crucial when firms formulate business strategies such as expansion, liquidation, or contraction. It can be quantified in various ways, including the total number of buyers or sellers within a market or by calculating the total transaction value. Understanding it also provides insights into the potential number of customers and sales a business can expect to capture.Table of contentsMarket size encompasses the total number of consumers or potential buyers within a specific market segment. Knowledge of market size is instrumental in attracting investments based on projected sales and revenue within the market. Examining it is essential for businesses for several reasons: It enables businesses to allocate an appropriate budget for marketing efforts to tap into new customer base and revenue sources effectively. Once a business determines its market size and marketing budget, it can develop highly effective strategies to boost sales, expand its customer base, and enhance long-term revenue prospects. Market volume data helps firms gauge the staff and resources required to capture a significant market share. When sizing a market, firms should include every potential customer within their target market. Additionally, various factors can influence market size, including seasonal fluctuations, economic conditions, geopolitical events, changes in consumer demographics, and government policies. Understanding market size is crucial for businesses to make informed decisions, secure investments, allocate resources effectively, and develop successful marketing strategies within their respective markets.Estimating involves a structured framework, which typically consists of the following steps: Define the Market: Start by clearly outlining the area and type of market one is interested in. Decide where it's located and what kind of market it is. This precise definition is crucial for collecting accurate data. Collect Data: Once the market is identified, gather detailed information about it. This should include data on potential customers, competitors, and market trends. Thorough data collection is vital for accurate estimation. Analyze Data: After collecting the data, analyze it systematically. This step helps understand key market aspects, like the number of potential customers, growth rate, and volume. Use techniques like regression, cluster, or trend analysis to gain insights. Estimate Market Size: Now, calculate the market size based on the insights from the data analysis. There are two common approaches: The top-down approach begins with the total market size and then figures out the portion a business can capture. Calculate the market share based on one's business's capabilities and resources. The bottom-up approach takes a more detailed view. Identify factors that affect the business, like where products are sold, the number of potential customers, and the competitors' historical sales. One of the important formulas is the following:Market Size = Total Population or Total Potential Customers × Average Spending per CustomerIt includes estimating the total number of potential customers or the target market's population and multiplying it by the average amount each customer spends on the product or service.Let us assume:Total population in the target market area: 1,000,000 people.Average spending per customer on the new smartphone charger: $10.Market Size = Total Population × Average Spending per Customer= 1,000,000 people × $10 per person= $10,000,000So, in this example, the estimated market size for the new smartphone charger in the target market is $10,000,000. This means that if all 1,000,000 people in the target market were potential customers and each spent an average of $10 on the charger, the total market size would be $10 million.1. What is the available market size? It refers to the portion of the total market that a business can potentially serve or reach with its products or services. It represents the customers or segments within the broader market that are accessible and interested in the offerings, considering factors like geography, demographics, and buying behavior. 2. Why is market size important? It is crucial for businesses as it helps them assess the potential demand for their products or services. Understanding it helps in strategic decisions, including resource allocation, pricing strategies, and market entry. It also aids in identifying growth opportunities, attracting investors, and evaluating market competitiveness. 3. What are the 3 elements of market size? The three key elements are:Total Addressable Market (TAM): This represents the entire potential market demand for a product or service, assuming no competitive or logistical limitations.Target Market: This is a subset of the TAM, consisting of customers or segments that a business aims to reach based on specific criteria like demographics, geography, or behavior.Market Share: It signifies the portion of the target market that a company captures with its offerings, indicating its relative position and competitiveness within the chosen market segment. This article has been a guide to what is Market size. We explain its formula, calculation, example, how to estimate it, & comparison with market share & market cap. You may also find some useful articles here - Marketing Manager Common Market Market Orientation Market sizing is the estimation of the potential of a market. Incorporating market research, market sizing is useful for businesses looking to introduce a new product or service to evaluate the business opportunity. Market sizing also helps investors to understand the value of the potential opportunity within the target company’s business plan. AspectExplanationConceptMarket Sizing is a crucial process in business and market research that involves estimating the total market potential for a product, service, or industry. It provides valuable insights into the size and growth potential of a target market, aiding in strategic planning, resource allocation, and decision-making. Accurate market sizing is essential for businesses to identify opportunities, assess market share, and plan marketing and sales strategies.Key CharacteristicsMarket Sizing is characterized by the following elements: – Data-Driven: It relies on data, research, and analysis to estimate market size accurately. – Objective: The goal is to provide an objective assessment of market potential, free from biases or wishful thinking. – Segmentation: It often involves segmenting the market into subcategories to analyze specific niches or customer groups. – Future Projections: Market sizing is not limited to current conditions; it often includes projections for future growth or changes.Methods and ApproachesSeveral methods are used for Market Sizing, including: – Top-Down Approach: Estimating the total market size based on industry data, government statistics, or reports.– Bottom-Up Approach: Calculating market size by aggregating data from individual customer segments or specific regions. – Primary Research: Conducting surveys, interviews, or focus groups to gather direct insights from potential customers or industry experts. – Secondary Research: Analyzing existing data sources, market reports, and publicly available information.Use CasesMarket Sizing is essential for various business scenarios: – Market Entry: When entering a new market, companies need to understand its size and growth potential.– Product Launch: Assessing the market size helps in setting realistic sales targets and marketing strategies. – Investment Decisions: Investors use market sizing to evaluate the attractiveness of opportunities. – Competitive Analysis: Understanding the size of the market helps in assessing market share and competitive positioning.BenefitsAccurate Market Sizing provides several benefits: – Informed Decision-Making: It helps businesses make informed decisions about market entry, investment, and resource allocation. – Risk Mitigation: Understanding market size reduces the risk of overestimating or underestimating demand. – Resource Efficiency: Companies can allocate resources more efficiently by focusing on markets with significant potential. – Competitive Advantage: It enables companies to identify underserved niches and gain a competitive edge.ChallengesChallenges associated with Market Sizing include: – Data Availability: Access to accurate and relevant data can be limited, especially in emerging markets. – Complexity: Estimating market size for highly specialized or niche industries can be complex. – Changing Dynamics: Markets can evolve rapidly, making it challenging to keep sizing estimates up-to-date.Factors Influencing AccuracyFactors that influence the accuracy of Market Sizing include: – Data Quality: The reliability and completeness of data sources used.– Market Volatility: How stable or volatile the market conditions are. – Assumptions: The accuracy of assumptions made during the sizing process. – Research Methodology: The rigor and validity of research methods employed.Real-World ApplicationMarket Sizing is applied across industries, including technology, healthcare, consumer goods, and finance. For example, tech companies assess the market size before launching new software products, while pharmaceutical firms estimate market potential for new drugs. For businesses wishing to enter a new market, the research that goes into market analysis is daunting in its complexity. Market sizing seeks to remove that complexity by breaking the analysis into smaller sets of assumptions. These assumptions can then be extrapolated to form an overall market size estimate. Once a business has successfully undertaken market sizing, it can determine the level of investment required and also potential growth strategies. It can also gauge the value of a market and its profitability – factors that ultimately determine whether the business enters said market. To be effective, market sizing should be a bottom-up approach. Although time-consuming, this approach to market research gives more realistic and accurate market potential. Using the bottom-up approach, market size can be calculated by multiplying the number of units sold by the price of each unit. In other words, businesses using this approach start with the smallest known pieces of data and then use these data to build up a realistic representation of their market. This approach differs from the top-down approach, which is based on generalized and trend-inflated market valuation whose data accuracy is often questionable. Here is how the bottom-up approach works. The first step is perhaps the most important, and it involves understanding a target audience. In other words, who is the type of person a product or service is best suited to? A buyer persona can help because it allows businesses to be ultra-specific on the type of people they want to attract. Then, the business must determine the size of their target market. This can be done in several ways and may involve contacting business organizations or governmental and commerce agencies. For example, a high-end baby food company may contact its local commerce board to determine that there are 550 high-end supermarkets in their state. Then, the business should determine the number of consumers who may be interested in buying their product. This can be done by looking at competitors and their annual sales data. However, sometimes this information is hard to obtain. If competitor data cannot be found, then focus groups and surveys can be used to gauge the likely level of interest in a new product. While the baby-food company may have identified 550 stores, they find that only 250 are interested in stocking the product on their shelves. Calculating potential sales can be tricky, but an accurate approximation can be obtained by competitor analysis or by referring to cash flow forecasting or other finance based models. In the case of the baby-food company, it estimates a roll-out cost of $20 million across 250 stores compared to potential annual revenue of $60 million. Although the investment is 33% of forecasted annual revenue, profits in the second year sans roll-out costs are significantly higher. Therefore, the company decides to enter the market. Now that we’ve provided an overview of market sizing and how it works, let’s take a look at the hypothetical example of a LED manufacturer. The manufacturer wants to know the size of the residential LED market size in the United States. In first defining a target market, the manufacturer may find there are several audiences worth quantifying. These include: Environmentally-conscious consumers who want to switch out their incandescent bulbs for LEDs. First-home owners who want to incorporate LED lighting as part of a new build. Existing homeowners who want to upgrade or improve the lighting in older homes that are dimly lit. Homeowners living in states where incandescent bulbs have been banned by authorities. The company can then perform detailed research and determine how many LED units are sold in each market and add them together to determine the total market size. Alternatively and upon further research, it is found that the total US LED market was valued at $9.89 billion in 2020 and is expected to be worth $17.22 billion by 2028. However, these data account for LED sales across the residential, commercial, industrial, retail, hospitality, and healthcare sectors. To determine what percentage of total LED sales are residential, the company learns that 47% of all United States households use LEDs for all or most of their lighting. If there are approximately 142.2 million houses in the United States, this equates to around 66.8 million potential customers. As we noted earlier, calculating the potential sales for any product or service can be one of the most difficult parts of market sizing. Below we have listed some assumptions for both existing and new homes in the United States. Approximately 66.8 million homes use LED illumination. The average US home has seven rooms with three LED units in each. Hence, the total number of LED units in all American homes is approximately 66.8 million x 7 x 3 = 1.4028 billion units. Considering the average LED unit lasts 14 years, we can assume that 1.4028 billion units are purchased/replaced every 14 years. As a result, the company calculates that around 100 million units are purchased every year in existing homes. According to the US Census Bureau, 912,000 family homes were built in 2021. For the sake of this article, let’s assume that every one of these new builds incorporates LED units with none using incandescent bulbs. Let’s also assume that these homes have an average of 7 rooms and 4 LED units in each. The market size for LED units in new homes in the United States is therefore 912,000 x 7 x 4 = 25.536 million. The company then adds the number of LED units sold in existing homes and new homes on an annual basis and arrives at a number of 125.53 million. If we assume that the average cost of an LED unit (including standard bulbs and more expensive downlights) is $15, the residential market for LED lighting as it stands today is worth around $1.88 billion annually. Market sizing is the estimate of the size of a market using insights gleaned from a target audience and existing or potential sales volume. Market sizing is a bottom-up approach that utilizes known data to give a representative view of the larger market. It is more accurate than the top-down approach that relies on generalized or assumption based market data from competitors. At its core, market sizing is an iterative process that is based on an accurate and detailed view of the target audience a business hopes to serve. Definition of Market Sizing: Market sizing is the process of estimating the potential size of a market for a specific product or service. It involves breaking down market analysis into smaller assumptions to arrive at an overall estimate of the market’s potential. Purpose of Market Sizing: Helps businesses assess business opportunities for introducing new products or services. Assists investors in understanding the value of potential opportunities in a company’s business plan. Market Sizing Process: Define Target Market: Understand the target audience and determine the size of the market segment. Utilize buyer personas to be specific about the intended customers. Assess Product Interest: Determine the number of potential consumers interested in buying the product. Look at competitor data or conduct focus groups and surveys. Calculate Potential Sales: Calculate potential sales by multiplying the number of units sold by the price of each unit. Bottom-Up Approach: Market sizing should be a bottom-up approach, starting with known data and building up a realistic view of the market. This approach is more accurate than the top-down approach that relies on generalized data. Market Sizing Example: LED Manufacturer: Defining Target Market: Define different segments interested in LED lighting, such as environmentally-conscious consumers, first-home owners, existing homeowners, and those living in areas where incandescent bulbs are banned. Assessing Product Interest: Determine the percentage of households using LEDs and apply it to the total number of households in the target area. Calculating Potential Sales: Calculate potential sales for existing and new homes separately, considering the number of LED units per home, lifespan of LEDs, and market size for each segment. Key Takeaways: Market sizing assists businesses in understanding the potential of a market before entering with a new product or service. The process involves defining the target market, assessing product interest, and calculating potential sales. A bottom-up approach based on detailed data is more accurate than a top-down approach based on generalized market data. Market sizing is an iterative process that requires a detailed understanding of the target audience and potential sales volume. ContextDescriptionImplicationsExamplesSmartphone MarketIn the smartphone industry, market sizing involves estimating the total number of potential smartphone users or the total market value. This helps manufacturers and app developers assess the market’s size and growth potential.– Guides product development and marketing strategies. – Attracts investors and informs business decisions. – Provides insights into market share and competition.Market sizing for the global smartphone market may involve estimating the number of smartphone users worldwide and their preferences. This information helps companies like Apple and Samsung plan their product launches and marketing campaigns.E-commerce MarketMarket sizing in the e-commerce industry involves estimating the total sales or revenue potential for online retail. It helps e-commerce businesses gauge market opportunities, set growth targets, and allocate resources effectively.– Supports business planning and resource allocation. – Assists in identifying niche markets and trends. – Informs pricing and marketing strategies.For e-commerce businesses, market sizing can involve estimating the total online retail sales in a specific region or category, such as fashion, electronics, or groceries. This information aids companies like Amazon and Alibaba in their expansion strategies.Electric Vehicle MarketMarket sizing in the electric vehicle (EV) industry involves estimating the total demand for electric cars, including passenger vehicles and commercial fleets. It helps manufacturers and investors assess the growth potential of the EV market.– Guides production capacity and supply chain management. – Attracts investment for research and development. – Informs government policies and incentives.Market sizing for the global EV market may include estimating the number of electric cars on the road, the growth rate, and the potential demand for charging infrastructure. Automakers like Tesla and traditional manufacturers use this data for product planning.Healthcare MarketIn the healthcare industry, market sizing can involve estimating the total addressable market (TAM) for a specific medical device, pharmaceutical, or healthcare service. It helps companies assess market potential and competition.– Informs pricing, market entry, and distribution strategies. – Guides research and development investments. – Supports market share and growth projections.Pharmaceutical companies may estimate the TAM for a new drug, considering factors like the prevalence of the targeted disease and potential patient demographics. Medical device manufacturers use market sizing to assess demand for their products, such as MRI machines.Cloud Computing MarketMarket sizing in the cloud computing industry involves estimating the total revenue potential for cloud services, including infrastructure as a service (IaaS), platform as a service (PaaS), and software as a service (SaaS).– Assists cloud providers in capacity planning and pricing strategies. – Informs investment decisions and market positioning. – Helps customers select suitable cloud solutions.Cloud providers like Amazon Web Services (AWS) estimate the global cloud market size by considering factors such as businesses’ migration to the cloud, data storage requirements, and demand for cloud-based applications.Renewable Energy MarketMarket sizing in the renewable energy sector involves estimating the potential demand for renewable energy sources like solar, wind, and hydroelectric power. It helps companies and governments plan energy infrastructure and policies.– Guides investment decisions in renewable energy projects. – Supports government incentives and regulations. – Informs sustainability and environmental initiatives.A market sizing analysis for the solar energy market may involve estimating the demand for solar panels and installations based on factors like energy consumption, government incentives, and environmental goals. Solar companies use this data for business planning.Video Streaming MarketIn the video streaming industry, market sizing helps estimate the total number of potential subscribers and the market’s revenue potential. This assists streaming platforms in content acquisition, pricing, and user acquisition strategies.– Informs content acquisition and licensing negotiations. – Guides pricing and packaging strategies. – Assists in user acquisition and retention efforts.Market sizing for a video streaming platform may involve estimating the number of potential subscribers based on demographics, content preferences, and competitive analysis. Companies like Netflix and Disney+ use this data for content planning.Autonomous Vehicle MarketMarket sizing in the autonomous vehicle industry involves estimating the potential demand for self-driving cars and associated technologies. It helps manufacturers, tech companies, and policymakers plan for autonomous vehicle adoption.– Guides research and development investments and timelines. – Supports regulatory and safety considerations. – Informs business models and partnerships.Autonomous vehicle market sizing may include estimating consumer acceptance, regulatory developments, and the growth of ride-hailing services. Companies like Waymo and traditional automakers use this data for autonomous vehicle development.Cybersecurity MarketIn the cybersecurity sector, market sizing estimates the potential demand for cybersecurity solutions, including software, hardware, and services. It helps cybersecurity companies assess market opportunities and competitive landscapes.– Informs product development and feature prioritization. – Guides pricing strategies and go-to-market plans. – Assists in targeting specific industries and regions.Market sizing for the cybersecurity market may involve estimating the spending on cybersecurity by businesses, government agencies, and industries prone to cyber threats. Companies like Palo Alto Networks and McAfee use this data for market positioning.Sustainable Packaging MarketIn the sustainable packaging industry, market sizing estimates the potential demand for eco-friendly packaging materials and solutions. It helps packaging companies assess opportunities for sustainable product offerings.– Guides product development and material sourcing strategies. – Informs pricing and marketing efforts for eco-friendly products. – Supports sustainability goals and environmental initiatives.Market sizing for sustainable packaging may involve estimating the adoption of eco-friendly packaging materials by consumer goods companies and the growth of environmentally conscious consumers. Packaging companies use this data for sustainable product planning. Related ConceptsDescriptionWhen to ApplyMarket SizingMarket Sizing involves estimating the total addressable market (TAM), served addressable market (SAM), and target market for a product or service. It includes analyzing market trends, customer demographics, and competitive landscape to determine the size and growth potential of the market. Market sizing is essential for strategic planning, investment decisions, and business development.– When launching a new product or entering a new market, to assess the opportunity and potential demand for the offering. – When evaluating investment opportunities or developing business plans, to estimate the market size and growth potential to inform decision-making. – When conducting market research or competitive analysis, to understand the market dynamics and identify growth opportunities.Total Addressable Market (TAM)The Total Addressable Market (TAM) represents the total demand for a product or service, assuming there are no market constraints. It includes all potential customers or users who could benefit from the offering, regardless of competition or distribution limitations. TAM provides an upper limit on the revenue that a company could generate if it captured 100% of the market share. Understanding TAM helps businesses assess the overall market potential and size.– When evaluating the market opportunity for a new product or service, to determine the maximum revenue potential and size of the addressable market. – When conducting market segmentation or targeting, to identify the entire pool of potential customers or users. – When pitching to investors or stakeholders, to illustrate the scale of the market opportunity and business potential.Served Addressable Market (SAM)The Served Addressable Market (SAM) represents the portion of the total addressable market (TAM) that a company can realistically target and serve based on its capabilities, resources, and market strategy. SAM considers factors such as geographic, demographic, and psychographic characteristics of the target audience and market segments. Understanding SAM helps businesses identify specific opportunities and allocate resources efficiently to capture market share.– When developing a market entry or expansion strategy, to determine the segment or region where the company can compete effectively and gain market share. – When setting sales targets or forecasting revenue, to focus on the portion of the market that aligns with the company's capabilities and competitive advantages. – When conducting competitive analysis or market positioning, to understand the served market and targeting opportunities relative to competitors.Target MarketThe Target Market represents the specific segment of the market that a company intends to focus its marketing efforts and resources on. It includes individuals or organizations that are most likely to purchase the product or service based on their needs, preferences, and buying behavior. Identifying the target market involves segmentation, targeting, and positioning strategies to reach and appeal to the right audience. Understanding the target market helps businesses tailor their marketing messages, product features, and distribution channels for maximum effectiveness.– When developing a marketing plan or go-to-market strategy, to define the specific audience that the company aims to reach and engage. – When creating advertising campaigns or promotional materials, to customize messaging and communication channels to appeal to target customers. – When launching new products or expanding product lines, to identify market segments with the highest growth potential and demand.Market TrendsMarket Trends refer to the direction or trajectory of changes and developments within a market over time. They include economic, technological, social, and regulatory factors that influence consumer behavior, industry dynamics, and competitive landscape. Analyzing market trends helps businesses anticipate future demand, identify emerging opportunities, and mitigate risks.– When conducting market research or strategic planning, to assess the external factors that may impact market conditions and industry performance. – When developing long-term business strategies, to anticipate market trends and position the company strategically for future growth and competitiveness. – When evaluating investment opportunities or business ventures, to understand the market context and evaluate potential returns and risks.Competitive LandscapeThe Competitive Landscape encompasses the existing and potential competitors within a market, along with their strengths, weaknesses, and strategies. It includes direct competitors offering similar products or services, as well as indirect competitors providing substitute solutions or alternative options. Analyzing the competitive landscape helps businesses differentiate themselves, identify market gaps, and anticipate competitive threats.– When conducting competitive analysis or SWOT analysis, to assess the strengths and weaknesses of competitors and identify opportunities for differentiation. – When formulating marketing strategies or pricing decisions, to position the company effectively within the market landscape and gain competitive advantage. – When evaluating market entry barriers or market saturation, to understand the intensity of competition and market dynamics.Strategic PlanningStrategic Planning involves setting goals, allocating resources, and formulating strategies to achieve long-term objectives and sustainable growth. Market sizing plays a crucial role in strategic planning by providing insights into market dynamics, customer needs, and competitive positioning. It helps businesses align their resources and capabilities with market opportunities and industry trends.– When developing business plans or strategic roadmaps, to inform decision-making and resource allocation based on market size and growth potential. – When setting sales targets or forecasting revenue, to establish realistic expectations and growth projections for the business. – When evaluating market entry strategies or expansion opportunities, to assess the viability and feasibility of market expansion initiatives. Related Market Development Frameworks TAM, SAM, and SOM A total addressable market or TAM is the available market for a product or service. That is a metric usually leveraged by startups to understand the business potential of an industry. Typically, a large addressable market is appealing to venture capitalists willing to back startups with extensive growth potential. Niche Targeting A microniche is a subset of potential customers within a niche. In the era of dominating digital super-platforms, identifying a microniche can kick off the strategy of digital businesses to prevent competition against large platforms. As the microniche becomes a niche, then a market, scale becomes an option. Market Validation In simple terms, market validation is the process of showing a concept to a prospective buyer and collecting feedback to determine whether it is worth persisting with. To that end, market validation requires the business to conduct multiple customer interviews before it has made a significant investment of time or money. A transitional business model is an example of market validation that helps the company secure the needed capital while having a market reality check. It helps shape the long-term vision and a scalable business model. Market Orientation Market orientation is an approach to business where the company focuses more on the behaviors, wants, and needs of customers in its market. A company will first target a niche market to prove a commercial use case. And from there, it will create options to scale. Market-Expansion Strategy In a tech-driven business world, companies can move toward market expansion by creating options to scale via niches. Thus leveraging transitional business models to scale further and take advantage of non-linear competition, where today's niches become tomorrow's legacy players. Stages of Digital Transformation Digital and tech business models can be classified according to four levels of transformation into digitally-enabled, digitally-enhanced, tech or platform business models, and business platforms/ecosystems. Platform Business Model Strategy A platform business model generates value by enabling interactions between people, groups, and users by leveraging network effects. Platform business models usually comprise two sides: supply and demand. Kicking off the interactions between those two sides is one of the crucial elements for a platform business model success. Business Platform Theory Business Scaling Business scaling is the process of transformation of a business as the product is validated by wider and wider market segments. Business scaling is about creating traction for a product that fits a small market segment. As the product is validated it becomes critical to build a viable business model. And as the product is offered at wider and wider market segments, it's important to align product, business model, and organizational design, to enable wider and wider scale. Strategy Lever Framework Developing a successful business strategy is about finding the proper niche, where to launch an initial version of your product to create a feedback loop and improve fast while making sure not to run out of money. And from there create options to scale to adjacent niches. Failure Mode And Effects Analysis A failure mode and effects analysis (FMEA) is a structured approach to identifying design failures in a product or process. Developed in the 1950s, the failure mode and effects analysis is one the earliest methodologies of its kind. It enables organizations to anticipate a range of potential failures during the design stage. Agile Business Analysis Agile Business Analysis (AgileBA) is certification in the form of guidance and training for business analysts seeking to work in agile environments. To support this shift, AgileBA also helps the business analyst relate Agile projects to a wider organizational mission or strategy. To ensure that analysts have the necessary skills and expertise, AgileBA certification was developed. Business Valuation Business valuations involve a formal analysis of the key operational aspects of a business. A business valuation is an analysis used to determine the economic value of a business or company unit. It's important to note that valuations are one part science and one part art. Analysts use professional judgment to consider the financial performance of a business with respect to local, national, or global economic conditions. They will also consider the total value of assets and liabilities, in addition to patented or proprietary technology. Paired Comparison Analysis A paired comparison analysis is used to rate or rank options where evaluation criteria are subjective by nature. The analysis is particularly useful when there is a lack of clear priorities or objective data to base decisions on. A paired comparison analysis evaluates a range of options by comparing them against each other. Monte Carlo Analysis The Monte Carlo analysis is a quantitative risk management technique. The Monte Carlo analysis was developed by nuclear scientist Stanislaw Ulam in 1940 as work progressed on the atom bomb. The analysis first considers the impact of certain risks on project management such as time or budgetary constraints. Then, a computerized mathematical output gives businesses a range of possible outcomes and their probability of occurrence. Cost-Benefit Analysis A cost-benefit analysis is a process a business can use to analyze decisions according to the costs associated with making that decision. For a cost analysis to be effective it's important to articulate the project in the simplest terms possible, identify the costs, determine the benefits of project implementation, assess the alternatives. CATWOE Analysis The CATWOE analysis is a problem-solving strategy that asks businesses to look at an issue from six different perspectives. The CATWOE analysis is an in-depth and holistic approach to problem-solving because it enables businesses to consider all perspectives. This often forces management out of habitual ways of thinking that would otherwise hinder growth and profitability. Most importantly, the CATWOE analysis allows businesses to combine multiple perspectives into a single, unifying solution. VTDF Framework It's possible to identify the key players that overlap with a company's business model with a competitor analysis. This overlapping can be analyzed in terms of key customers, technologies, distribution, and financial models. When all those elements are analyzed, it is possible to map all the facets of competition for a tech business model to understand better where a business stands in the marketplace and its possible future developments. Pareto Analysis The Pareto Analysis is a statistical analysis used in business decision making that identifies a certain number of input factors that have the greatest impact on income. It is based on the similarly named Pareto Principle, which states that 80% of the effect of something can be attributed to just 20% of the drivers. Comparable Analysis A comparable company analysis is a process that enables the identification of similar organizations to be used as a comparison to understand the business and financial performance of the target company. To find comparables you can look at two key profiles: the business and financial profile. From the comparable company analysis it is possible to understand the competitive landscape of the target organization. SWOT Analysis A SWOT Analysis is a framework used for evaluating the business's Strengths, Weaknesses, Opportunities, and Threats. It can aid in identifying the problematic areas of your business so that you can maximize your opportunities. It will also alert you to the challenges your organization might face in the future. PESTEL Analysis The PESTEL analysis is a framework that can help marketers assess whether macro-economic factors are affecting an organization. This is a critical step that helps organizations identify potential threats and weaknesses that can be used in other frameworks such as SWOT or to gain a broader and better understanding of the overall marketing environment. Business Analysis Business analysis is a research discipline that helps driving change within an organization by identifying the key elements and processes that drive value. Business analysis can also be used in Identifying new business opportunities or how to take advantage of existing business opportunities to grow your business in the marketplace. Financial Structure In corporate finance, the financial structure is how corporations finance their assets (usually either through debt or equity). For the sake of reverse engineering businesses, we want to look at three critical elements to determine the model used to sustain its assets: cost structure, profitability, and cash flow generation. Financial Modeling Financial modeling involves the analysis of accounting, finance, and business data to predict future financial performance. Financial modeling is often used in valuation, which consists of estimating the value in dollar terms of a company based on several parameters. Some of the most common financial models comprise discounted cash flows, the M&A model, and the CCA model. Value Investing Value investing is an investment philosophy that looks at companies' fundamentals, to discover those companies whose intrinsic value is higher than what the market is currently pricing, in short value investing tries to evaluate a business by starting by its fundamentals. Buffet Indicator The Buffet Indicator is a measure of the total value of all publicly-traded stocks in a country divided by that country's GDP. It's a measure and ratio to evaluate whether a market is undervalued or overvalued. It's one of Warren Buffet's favorite measures as a warning that financial markets might be overvalued and riskier. Financial Analysis Financial accounting is a subdiscipline within accounting that helps organizations provide reporting related to three critical areas of a business: its assets and liabilities (balance sheet), its revenues and expenses (income statement), and its cash flows (cash flow statement). Together those areas can be used for internal and external purposes. Post-Mortem Analysis Post-mortem analyses review projects from start to finish to determine process improvements and ensure that inefficiencies are not repeated in the future. In the Project Management Book of Knowledge (PMBOK), this process is referred to as "lessons learned". Retrospective Analysis Retrospective analyses are held after a project to determine what worked well and what did not. They are also conducted at the end of an iteration in Agile project management. Agile practitioners call these meetings retrospectives or retros. They are an effective way to check the pulse of a project team, reflect on the work performed to date, and reach a consensus on how to tackle the next sprint cycle. Root Cause Analysis In essence, a root cause analysis involves the identification of problem root causes to devise the most effective solutions. Note that the root cause is an underlying factor that sets the problem in motion or causes a particular situation such as non-conformance. Blindspot Analysis Break-even Analysis A break-even analysis is commonly used to determine the point at which a new product or service will become profitable. The analysis is a financial calculation that tells the business how many products it must sell to cover its production costs. A break-even analysis is a small business accounting process that tells the business what it needs to do to break even or recoup its initial investment. Decision Analysis Stanford University Professor Ronald A. Howard first defined decision analysis as a profession in 1964. Over the ensuing decades, Howard has supervised many doctoral theses on the subject across topics including nuclear waste disposal, investment planning, hurricane seeding, and research strategy. Decision analysis (DA) is a systematic, visual, and quantitative decision-making approach where all aspects of a decision are evaluated before making an optimal choice. DESTEP Analysis A DESTEP analysis is a framework used by businesses to understand their external environment and the issues which may impact them. The DESTEP analysis is an extension of the popular PEST analysis created by Harvard Business School professor Francis J. Aguilar. The DESTEP analysis groups external factors into six categories: demographic, economic, socio-cultural, technological, ecological, and political. STEEP Analysis The STEEP analysis is a tool used to map the external factors that impact an organization. STEEP stands for the five key areas on which the analysis focuses: socio-cultural, technological, economic, environmental/ecological, and political. Usually, the STEEP analysis is complementary or alternative to other methods such as SWOT or PESTEL analyses. STEEPLE Analysis The STEEPLE analysis is a variation of the STEEP analysis. Where the step analysis comprises socio-cultural, technological, economic, environmental/ecological, and political factors as the base of the analysis. The STEEPLE analysis adds other two factors such as Legal and Ethical. Activity-Based Management Activity-based management (ABM) is a framework for determining the profitability of every aspect of a business. The end goal is to maximize organizational strengths while minimizing or eliminating weaknesses. Activity-based management can be described in the following steps: identification and analysis, evaluation and identification of areas of improvement. PMESII-PT Analysis PMESII-PT is a tool that helps users organize large amounts of operations information. PMESII-PT is an environmental scanning and monitoring technique, like the SWOT, PESTLE, and QUEST analysis. Developed by the United States Army, used as a way to execute a more complex strategy in foreign countries with a complex and uncertain context to map. SPACE Analysis The SPACE (Strategic Position and Action Evaluation) analysis was developed by strategy academics Alan Rowe, Richard Mason, Karl Dickel, Richard Mann, and Robert Mockler. The particular focus of this framework is strategy formation as it relates to the competitive position of an organization. The SPACE analysis is a technique used in strategic management and planning. Lotus Diagram A lotus diagram is a creative tool for ideation and brainstorming. The diagram identifies the key concepts from a broad topic for simple analysis or prioritization. Functional Decomposition Functional decomposition is an analysis method where complex processes are examined by dividing them into their constituent parts. According to the Business Analysis Body of Knowledge (BABOK), functional decomposition "helps manage complexity and reduce uncertainty by breaking down processes, systems, functional areas, or deliverables into their simpler constituent parts and allowing each part to be analyzed independently." Multi-Criteria Analysis The multi-criteria analysis provides a systematic approach for ranking adaptation options against multiple decision criteria. These criteria are weighted to reflect their importance relative to other criteria. A multi-criteria analysis (MCA) is a decision-making framework suited to solving problems with many alternative courses of action. Stakeholder Analysis A stakeholder analysis is a process where the participation, interest, and influence level of key project stakeholders is identified. A stakeholder analysis is used to leverage the support of key personnel and purposefully align project teams with wider organizational goals. The analysis can also be used to resolve potential sources of conflict before project commencement. Strategic Analysis Strategic analysis is a process to understand the organization's environment and competitive landscape to formulate informed business decisions, to plan for the organizational structure and long-term direction. Strategic planning is also useful to experiment with business model design and assess the fit with the long-term vision of the business. Related Strategy Concepts: Go-To-Market Strategy, Marketing Strategy, Business Models, Tech Business Models, Jobs-To-Be Done, Design Thinking, Lean Startup Canvas, Value Chain, Value Proposition Canvas, Balanced Scorecard, Business Model Canvas, SWOT Analysis, Growth Hacking, Bundling, Unbundling, Bootstrapping, Venture Capital, Porter's Five Forces, Porter's Generic Strategies, Porter's Five Forces, PESTEL Analysis, SWOT, Porter's Diamond Model, Ansoff, Technology Adoption Curve, TOWS, SOAR, Balanced Scorecard, OKR, Agile Methodology, Value Proposition, VTDF Framework, BCG Matrix, GE McKinsey Matrix, Kotter's 8-Step Change Model. Main Guides: Market size is one of the most important concepts in business planning and market research—but also one of the most misunderstood. While it's often used in pitch decks, strategy documents, and marketing plans, many businesses miscalculate it or rely on assumptions rather than evidence. So, what is market size really? It refers to the total number of potential buyers for your product or service and the total possible revenue those buyers represent. Knowing your market size gives you a reality check. It helps you understand the scale of the opportunity, determine if your idea is commercially viable, and guide your product, pricing, and positioning decisions. Getting it right can unlock better investment, clearer strategy, and a faster path to success. Getting it wrong can waste resources on a market that's too small, too competitive, or doesn't exist. In this article, we'll explain how to calculate your market size, the difference between total and serviceable markets, and how to use this metric to build smarter strategies. For more context, you can also explore our article on why market size is so important. Market size is the total demand for your product or service within a specific market over a specific period—typically one year. It can be measured in two ways: Volume: the number of units or customers in the market Value: the total revenue potential based on price and buying frequency While some definitions, like the one from Alexa, focus on the number of buyers, market size is more than just a headcount. It's a commercial forecast—a way to estimate how much you can earn in a defined space, assuming no barriers to entry. This estimate forms the foundation of business cases, go-to-market strategies, and budget planning, especially in early-stage or growth-phase ventures. Understanding your market size isn't just about getting funding—although that's certainly one benefit. It underpins nearly every aspect of strategic planning. Here's how: Secure investment with confidenceInvestors want to back companies that can scale. Demonstrating a well-defined and sizable market shows that your opportunity is real and backed by data—not hype. Build stronger business strategiesMarket size informs your go-to-market strategy, pricing model, and growth forecast. It defines the playing field and helps you identify the most profitable customer segments. Plan for scalable hiring and operationsWhether you're bootstrapping or scaling quickly, understanding your total market opportunity helps align team size, structure, and resource allocation. Maximize R&D and marketing budgetsA clear understanding of your market prevents wasted spend. You can target high-opportunity areas with tailored solutions instead of building for segments that won't deliver returns. Avoid launching into saturated or unsustainable marketsEstimating your market size forces you to assess whether your product solves a real need, and whether that need exists in a profitable, reachable market. Want to go deeper? Explore advanced market sizing techniques in our global calculation guide. Keep up to date with the latest insights from our research as well as all our company news in our free monthly newsletter. There's no one-size-fits-all method to calculate market size, but a structured approach will help you get a realistic estimate. Here's how to calculate your market size in six essential steps: Define your target marketStart by identifying who your product is for. Segment by demographics, geography, firmographics (for B2B), or behavior. This helps avoid bloating your market size estimate with irrelevant buyers. Estimate the total number of potential customersUse reliable data sources such as census information, industry reports, or tools like Statista, IBISWorld, and Google Trends. Your goal is to identify how many people or companies fit your target profile. Understand buying frequencyHow often will a typical customer make a purchase in a year? This affects whether your market size is a one-time opportunity or a recurring revenue stream. Determine average transaction valueEstimate how much each customer will spend per transaction. Use your own price point or market averages from competitors. Run the basic market size calculationMultiply: Number of potential customers × Average transaction value × Purchase frequency = Annual market size Validate your assumptions with market researchTest your assumptions using qualitative and quantitative methods. Concept testing, customer interviews, or survey panels can all help validate if the demand you're projecting is real. If you need help structuring this data globally, see our guide to calculating market size internationally, which includes country-specific adjustments. After calculating your market size, the next question is: is it large enough to support your growth goals? There's no universal benchmark, but in general: Venture-backed startups often target markets of $1B+ Bootstrapped businesses or niche offerings may thrive in markets below $100M, provided margins and customer lifetime value are high If your estimated market size falls under $100 million, that doesn't mean the business isn't viable—it just means you'll need to sharpen your differentiation and focus on profitability early on. Remember, your total market size isn't the only number that matters. Investors and stakeholders will also want to know how much of that market you can realistically serve, which brings us to the next metric. Your total market size reflects the full revenue opportunity available—but only a portion of that is accessible to your business. That's why it's important to narrow your focus to your Serviceable Obtainable Market (SOM). SOM refers to the slice of the market you can realistically reach, serve, and convert with your current resources, marketing, and distribution. It's the most realistic view of your short- to mid-term opportunity. Several factors shrink your SOM from your total addressable market: Your marketing reach and budget Competitor activity Regulatory constraints Operational footprint Customer acquisition strategy Understanding your SOM helps set achievable growth targets and improves credibility with stakeholders. For a deeper dive into how market share fits into this picture, visit our article on how to calculate market share. That's where the serviceable obtainable market (SOM) comes in. SOM refers to the portion of your market size that you can realistically reach—based on your marketing, distribution, and operational capacity. So how do you calculate your SOM? Once you've estimated your total market size, the next step is to determine how much of that market you can realistically serve—this is your Serviceable Obtainable Market (SOM). As Tx Zhuo of Karlin Ventures puts it, "If it's 1 to 5 percent of the pie, you have a realistic plan." That perspective underlines an essential truth: no business captures an entire market. Your SOM helps ground your growth expectations in operational reality. It considers the actual number of potential customers you can reach with your current capabilities—based on your budget, distribution, and marketing resources. So, how do you calculate your SOM? According to early-stage investor Jared Sleeper, there are three core approaches: top-down, bottom-up, and value theory. The top-down method starts with a broad industry estimate—often from market reports or analyst forecasts—and works downward by applying assumptions. For instance, if the global wireless headset market is valued at $2.5 billion, you might assume your region accounts for 10% of that. Then, perhaps your brand positioning appeals to 20% of those consumers. Multiply those percentages to estimate your potential share. This approach is useful for understanding the overall opportunity, but it can be vague or misleading if the assumptions aren't grounded in evidence. It's best used in combination with more tailored methods. The bottom-up method starts with your own product, pricing, and realistic sales capacity. It asks: How many customers can you realistically reach (based on your marketing reach and distribution)? What's your average selling price or annual revenue per customer? Your SOM is then calculated as: SOM = [Reachable customers] × [Average sale value or revenue per customer] This is often the most accurate method because it reflects your actual go-to-market conditions. It allows early-stage or niche businesses to make defensible projections, especially when pitching to investors or planning budgets. The value theory approach considers the perceived value of your offering relative to alternatives. You estimate how much customers would be willing to pay for the added value your product delivers. For example, if your SaaS tool replaces a $200/month manual process and saves users 10 hours of work, you might justify a price of $150/month. Multiply this by the number of customers likely to see that value and convert. While less data-driven than the bottom-up method, this approach is helpful for positioning premium products or validating pricing strategies. Each of these methods has its strengths. Sleeper recommends blending bottom-up and value theory approaches, as they incorporate the realities of your business rather than relying solely on broad market forecasts. By triangulating across multiple approaches, you can present a more robust estimate that balances ambition with credibility—essential when presenting to investors or internal stakeholders. For a deeper view of this layered approach, see our full market sizing methodology guide, where we explain how to combine primary and secondary research for more accurate modeling. Calculating your market size and SOM is an essential step in launching a product or scaling a business, but these metrics are just the beginning. Without understanding how much of the market you can reach—and compete for—your total market size becomes just a theoretical figure. Effective market research helps turn these estimates into actionable strategies. At Kadence, we use a mix of qualitative and quantitative tools to help brands validate their assumptions and forecast demand across global markets. If you're launching a product, entering a new region, or building a business case, accurate market sizing is where it starts. We help brands go beyond assumptions to define real opportunity—backed by data, not guesswork. Submit a brief and we'll show you how we can support your team with research that gives you confidence in every decision.