



Determining Market Size

Determining the optimal market for a technology or product is one of the most important decisions a business must make. Many factors may influence this decision and a complete and thorough analysis is required. Some factors or tools that may be considered include a SWOT (strength, weakness, opportunity, threat) analysis, market segmentation analysis, value proposition analysis, and a market size assessment. This document focuses exclusively on the **market size analysis** and presumes that other types of analyses have already been conducted.

When determining overall market size it is important to distinguish between the **total addressable market (TAM)**, **serviceable available market (SAM)**, and **target market**. The **TAM** is the total revenue opportunity for your product or service. The **SAM** is the portion of the market where you can realistically compete. The SAM may be limited by many factors including product performance, as well as business constraints such as geography, resources, and manufacturing capacity constraints. The **target market** will take into account likely customers and market entry opportunities that may dictate where you first enter the market.

The following five steps will help your company prepare a comprehensive market size analysis:

Step 1: Conduct **in-house market research** to determine the overall market size, the rate of market growth, and an understanding of different market segments. This is typically conducted prior to doing any in-person research or talking directly to customers.

Step 2: Collect data to understand the size of the TAM. Sources include third party market studies, journals, and government reports. If publically traded companies are involved in your target market, they may disclose market information in their annual reports either directly or indirectly by assessing market penetration and sales. It is important to be critical of the data and spend sufficient time to make sure you are comfortable with the conclusions you draw.

Step 3: Quantify and segment the market in order to refine the TAM. There may be different market segments with clearly different products, all of which are encompassed in the TAM research completed above. For example, your TAM research may be focused on the personal computer market, but that market can be further segmented into home vs. business or entry vs. high-end segments.

Step 4: Apply the market segmentation to your product in order to **estimate the SAM** for your product. Your product may be limited to a sub-segment of the market either because of a performance or design advantage or limitation. Alternatively, you may be limited by external factors such as geographic regulations.

Step 5: Identify and prioritize potential customers to help flesh out your target market. Some customers are early adopters and others are more conservative in adopting new products. In addition, certain customers may dictate market trends – landing an influential early customer can rapidly accelerate adoption by others. Start by defining the customer types along the value chain in your target markets, from sub-component manufacturers to original equipment manufacturers (OEM) to end users. Also include “indirect” customers who have influence over the adoption of your product, e.g., industrial design firms and standards organization as well as companies that offer goods or services that are compatible with yours. Next, rank your potential customers as to the best fit to your value proposition and their ability to influence broader adoption of your product. For instance, if you determined your product’s primary value is its technology and cost then rank target customers that prioritize these values more highly.

Following these steps outlined above, should provide you the ability to create an estimate of the addressable market, the serviceable market, and define your target market.

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