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Sizing Your Market

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Intro

- One of the most important determinants of a new venture's success is calculating the total potential market size and value.
- Knowing this figure helps determine how much money your business can make and also competitive market share.
- Additionally, you should always be aware of how many customers you could potentially serve.

What does market size mean?

- It's the number of customers potentially interested in your product or service, and the total possible amount of money that could be spent on that product or service.
- It sounds easy enough, but how do you measure something intangible?

Step in calculating market size

The following are key steps in calculating the market size measured in number of customers, market volume, and market value:

1. **Define the total geographical population**
2. **Define the market segment and estimate the percentage of target customers in that area**
3. **Estimate average number of items purchased at a time**
4. **Estimate average purchase frequency**
5. **Calculate selling price**

Formula

Formula for Calculating **Total Market Size** (in dollars):

$$\boldsymbol{MS = N * TC * Q * F * P}$$

- MS = Market Size
- N = Total Geographical Population
- TC = Percentage of Target Customers in Geographical Area
- Q = Quantity purchased at a time
- F = Purchase Frequency in a year
- P = Price of Product

Geographic Population (N)

- The total geographical population is the number of people living in the area your businesses will target.
- If you're opening a coffee shop, use the population of your neighbourhood.

Many governments and municipalities publish this data and you can access it online.

Percent of Target Customers (TC)

- We have to estimate how many people within that area will potentially use your product/service.
- Determine who your target customer is and create a profile of your typical/expected target customer.
- It is critical to recognize that the target customer equals the person or company for whom your technology solves a specific problem.
- The target customer is generally described using demographic variables: gender, age, education and income. The customer is also described using psychographic variables: lifestyle, interests and belief system variables.

Quantity Purchased at a Time (Q)

- Consumers will purchase different quantities of a product/ service depending on how they interact with it in their daily lives.

- Products can be purchased one at a time or in multiples.
  - Light bulbs are typically purchased in multiples, say 2 or 4 at a time, while a personal computer may be purchased 1 at a time.

- Depending on the nature of your product, how many units do you expect customers to purchase at a single time?

Purchase Frequency (F)

- Purchase Frequency is a determination of how often your target customers would purchase your product/service.
- This figure will have a significant impact on the estimated market potential.
- For instance, is your product purchased frequently, occasionally or infrequently? Obviously, the more frequently the product is purchased, the larger the market potential.
  - Some products like cars may be purchased once every 5 years, while a cup of coffee may be purchased 5 days a week.

Final Market Size

- Now that we have solved for all the variables, the market size is simply calculated by inserting each of them into the formula.

$$MS = N * TC * Q * F * P$$

Example – Selling Coffee in Cork, Ireland

- MS = Market Size
- N = Total Geographical Population – **4,855,543**
- TC = Percentage of Target Customers in Geographical Area
  - 15-24 – 11.9% (586,744)
  - Cork City (119,230)
  - 14,188.37
  - 0.82kg coffee per person per year
  - 11634.5
  - 581.7 = 5%
  - 581.7/4,855,543 = 0.0012
- Q = Quantity purchased at a time - 1
- F = Purchase Frequency in a year – 3 times per week
- P = Price of Product - €3

Example – Selling Coffee in Cork, Ireland

MS = N * TC * Q * F * P

MS= 4,855,543 x .00012% x 1 x 3 x 3 =

€5,244 per week

€272,688 per year

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Thank you