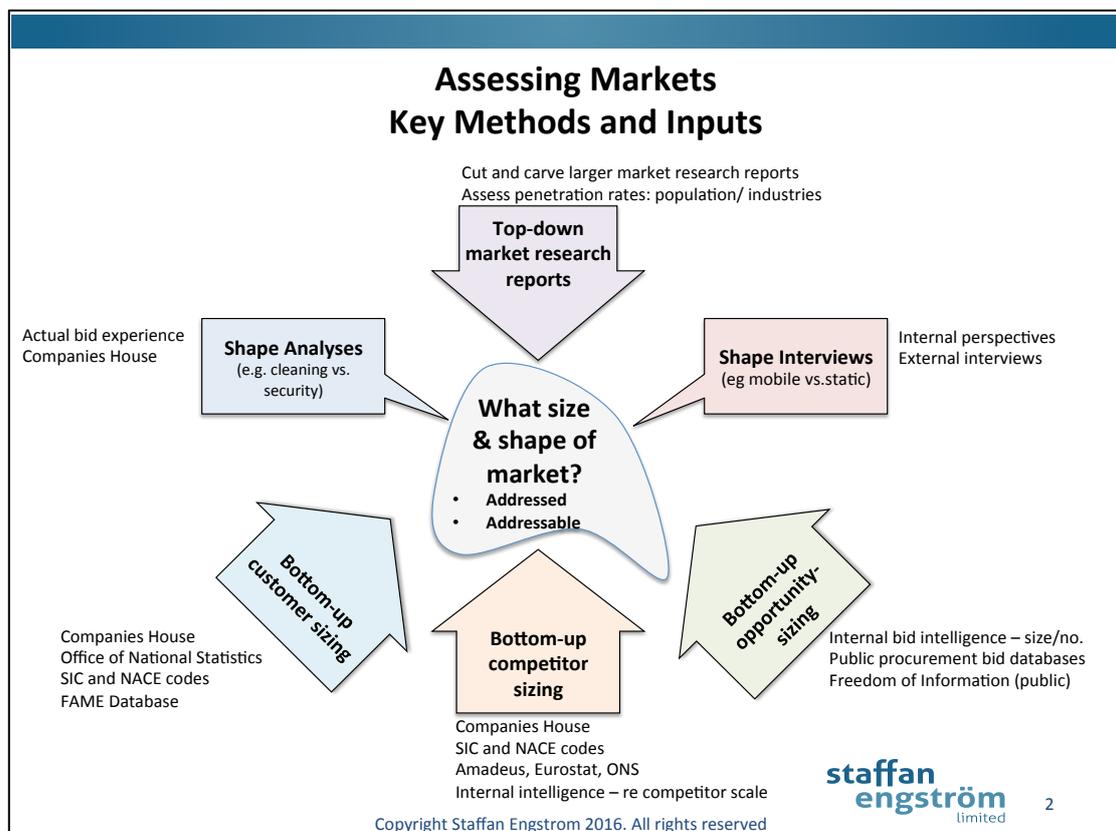


How to Size a Market

A customer of mine recently asked me to take them through how to assess the size and shape of one of their key markets. They were faced with generally available estimates for the size of the market that seemed up to two orders of magnitude greater than what common sense said it should be. Their problem was how to determine their business strategy without a proper understanding of the size and shape of the market.

Below is the graphic that I use to describe the methods for market sizing:



It is not an easy task if you want to be very precise about it. However, you may not need to be all that precise, depending on how much you think that you will have to invest. In a highly fragmented market, for example, market sizing of +/- 50% may make no difference to the decisions that you make as a result. If you are the standout market leader, however, who is preparing to invest many millions, it may be crucial to have your estimate within +/- 10%.

Here are the core approaches that I would normally use in understanding the size and shape of a particular market.

1. Top-Down Market Research

Very often the work has already been done for you in detail. So go to one of the relevant agencies and buy one or more reports. Search the data

available from government agencies and trade associations for their reports and market sizing assessments. International markets can often be assessed and compared through ratios of GDP and population ratios for different types of similar economy where you really know the market well.

You may have to cut and carve a number of reports to get what you want, but if you can, it is usually a lot easier than working it up from the bottom.

2. Bottom-Up Competitor-Sizing

The next method to assess the size of a market is to look at all the competitors in the market, researching Companies House data for their performance/ size etc, and adding up the totals. Then make an estimate for the smaller players in the market. If there are a lot of competitors then it can be helpful to size the smaller players by looking at government data on employee numbers, for scaling purposes.

3. Bottom-Up Customer-Sizing

Market researchers frequently use this method when considering consumers. The logic follows around how many people buy how much of what products. Most people will only want one iPhone, for example. Sample markets can be researched in detail and then scaled up with publically available data on population demographics.

With business-to-business market sizing this approach is naturally harder because the businesses concerned are of different sizes, and so usually their needs vary by their scale. Again, you can scale on the basis of employee numbers for similar businesses. A helpful approach that I have found is to look at the bids being bid by your company, together with conversion rates to give understanding of the shape/mix of the market. Government markets can be assessed through one or more of numerous bid-databases managed by specialist firms, and through Freedom of Information requests.

4. Structured Industry Interviews

To really understand a market, talk to the incumbents, especially if you aren't already in that market. 10 structured interviews with carefully chosen key players will make all the difference to the quantitative and qualitative output of the analysis.

Staffan Engstrom, 1st March 2016