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Top-down sizing

Top-down sizing simplifies market estimation for startups.

DEFINITION

Top-down sizing is a method used to estimate the potential market size by starting with a broad market figure and narrowing it down to a specific segment. This approach helps entrepreneurs understand the overall opportunity available for their product or service.

KEY CONCEPTS

Market Segmentation

Dividing the overall market into smaller, more manageable segments based on specific criteria.

Total Addressable Market (TAM)

The total revenue opportunity available if a product or service achieves 100% market share.

Serviceable Available Market (SAM)

The portion of the TAM targeted by a company's products or services, reflecting realistic sales potential.

Serviceable Obtainable Market (SOM)

The share of the SAM that a company realistically expects to capture, often based on competition and resources.

Market Trends

Patterns or shifts in consumer behavior and preferences that can impact market size and growth.

EXAMPLES

→ Estimating the smartphone market by starting with the global electronics market.

→ Narrowing down from the total population to tech-savvy consumers for a new app.

→ Calculating potential revenue from a niche market within the broader health industry.

MEMORY TIPS

★ Remember TAM, SAM, SOM as layers of a market onion: broad to specific.

★ Use 'Top-Down' to think of starting high and drilling down.

★ Visualize a funnel where the wide opening is TAM and the narrow end is SOM.

COMMON MISTAKES

✗ Overestimating SOM without considering competition and market saturation.

✗ Neglecting to validate assumptions with real data or customer feedback.

✗ Failing to segment the market properly, leading to inaccurate estimates.

QUICK RECAP

Top-down sizing helps estimate market potential by starting from a broad market and narrowing down. Key concepts include TAM, SAM, and SOM, which define different market layers. Avoid common mistakes like overestimating market share and neglecting data validation.