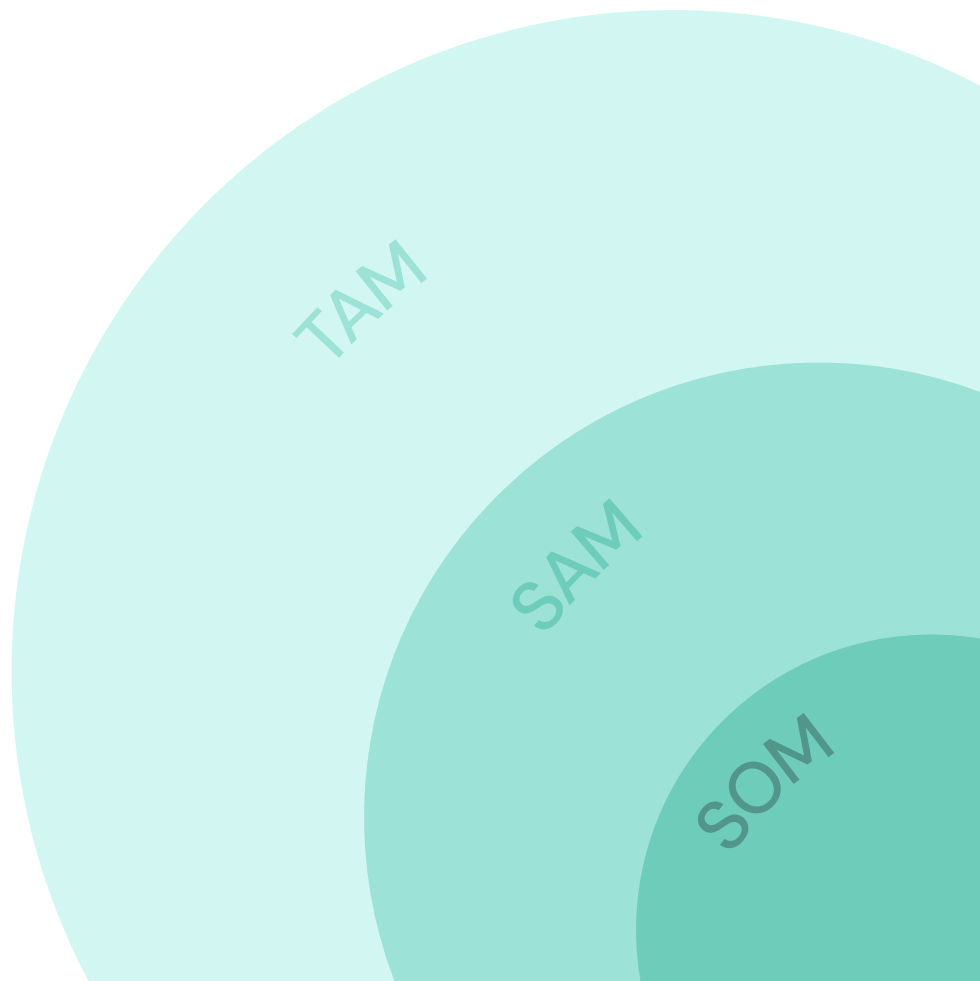


# Understanding Market Sizing

- TAM – Total Addressable Market
- SAM – Serviceable Available Market
- SOM – Serviceable Obtainable Market





# Total Addressable Market (TAM)

TAM represents the total demand or revenue opportunity available for a product or service, in a specific market. It refers to the total market size without any consideration for competition or market share. TAM is an estimation of the maximum potential for a particular product or service if there were no constraints or limitations.

TAM represents total market size





# Serviceable Available Market (SAM)

SAM is a subset of the TAM and represents the portion of the total market that a business can realistically target and serve with its products or services. It takes into account factors such as geographical restrictions, customer segmentation, and the company's ability to reach and effectively serve a specific segment of the market.

SAM represents the market that is within the reach of a business given its resources, capabilities, and strategy.





# Serviceable Obtainable Market (SOM)

SOM represents a portion of the SAM that a business can realistically capture or obtain. It takes into account the company's competitive landscape, market share goals, and its ability to effectively position and differentiate itself in the market.

SOM represents the market share or percentage of the SAM that a business can potentially capture.



# Approaches to Market Sizing

- Top Down Approach
- Bottom Up Approach





# Top Down Approach

The top-down approach starts with the overall market size (TAM) and then progressively narrows it down to estimate the target market or the company's potential market share. This method typically utilizes existing industry reports, market research data, and macroeconomic indicators to make assumptions and calculations.

## Steps for Top Down Approach :

- Identify Total Market Size (i.e. TAM) based on market research and publicly available information
- Determine the relevant segments and target customer base for Company's products and service out of the total market (i.e. SAM)
- Estimate the percentage of serviceable market portion (SAM) that can be realistically captured and serviced (i.e. SOM)

This approach is useful and feasible when comprehensive and exhaustive industry data and market research reports are readily available.





# Bottom Up Approach

When detailed market data or industry research reports are not readily or easily available a bottom up market sizing approach can be followed. It is more granular in nature and starts with a data driven approach. A bottom-up analysis is a reliable method because it relies on primary market research to calculate the TAM estimates. It typically uses existing data about current pricing and usage of a product.

The advantage of using a bottom-up approach is that the company can explain why it selected certain customer segments and left out others. The Company might be required to conduct its own market study and research for this purpose.



# Formula and Example: Calculation of TAM, SAM and SOM

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## Facts and Assumptions

Identify specific customer segments or target markets. Let's consider three segments– Segment A, Segment B, and Segment C.

	A	B	C
• Number of potential customers	10,000	5,000	500
• Estimate average revenue per customer	\$500	\$2,000	\$10,000
• x • Segment Market Size	\$5,000,000	\$10,000,000	\$5,000,000
<b>TAM</b>	<b>USD 20 mn</b>		

### Calculation of segment market size:

Number of Potential Customers \* Average Revenue per Customer

**Total Market Size** = Market Size of Segment A + Market Size of Segment B + Market Size of Segment C

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## Calculation of SAM and SOM

**SAM** – SAM represents the portion of the TAM that a company can effectively target with its products or services.

$$\text{SAM} = \text{TAM} \times (\text{Market Penetration Percentage} / 100)$$

Market Penetration Percentage is the estimated percentage of the TAM that the company can realistically serve based on its resources and capabilities.

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**SOM** – SOM represents the portion of the SAM that a company can realistically capture or obtain.

$$\text{SOM} = \text{SAM} \times (\text{Market Share Percentage} / 100)$$

Market Share Percentage is the estimated percentage of the SAM that the company can capture based on its competitive advantage, brand strength, and market positioning.

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# Illustration:

## Zapto's

# Market Size Analysis

The analysis provides a clear roadmap for Zapto (online grocery delivery startup) to strategically plan its market entry, marketing initiatives, and growth strategies within the competitive landscape of online grocery shopping in India.



Particulars	%	Details
Target Cities – Major Indian cities with high online shopping adoption		Mumbai, Delhi, Bangalore, Gurgaon, Noida, and Hyderabad
Estimated Urban Households		5 million
Average Monthly Household Spend on Groceries		INR 6,000
Average Annual Household Spend on Groceries		INR 72,000
Annual Market Potential – <b>Zapto's TAM</b>	100%	<b>INR 360 billion<sup>1</sup></b> (5,000,000 × 72,000)
Online Shopping Penetration <b>Zapto's SAM</b>	50%	<b>INR 180 billion<sup>2</sup></b> (10% of INR 360 billion)
Realistic Market Share (due to competition from players like BigBasket, BlinkIt, Swiggy Instamart, and other quick commerce startups) <b>Zapto's SOM</b>	10%	<b>INR 18 billion<sup>3</sup></b> (10% of INR 180 billion)

<sup>1</sup>The potential annual revenue if every urban household in the six cities shops their groceries online with Zapto

<sup>2</sup>Revenue potential from households in the target cities that are likely to use online grocery shopping services

<sup>3</sup>Expected revenue from capturing 10% of the serviceable market in the target cities

# Want to know more?

## About Treelife

Treelife provides financial and legal support to entrepreneurs, investors, and foreign businesses with access to a team of professionals, including chartered accountants, lawyers, and company secretaries, who have deep domain expertise in the startup ecosystem.

 [support@treelife.in](mailto:support@treelife.in)

 +91 99301 56000 | +91 22 6852 5768

 [www.treelife.in](http://www.treelife.in)

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