

MARKET SIZE ASSESSMENT

Before making a significant investment of time and money pursuing a business idea, one should know the revenues your business could achieve if you were successful. I've reviewed business ideas with a market potential of about \$1 million per year and others that had 1000 times this potential. Both were worth pursuing. Each required a different approach.

This paper presents some simple techniques for determining the potential market size for a business idea. Thanks to the internet, it is usually possible to find the information you need online. To illustrate how these techniques work, I will apply them to a hypothetical idea -- trying to assess the market potential for a safer type of ski binding. Let us assume that the average retail price of this safer ski bindings will be \$200/set, that the average price the manufacturer would get is \$100/set and that we are interested in the market potential for the manufacturer.

Main Methods:

The main ways to assess market potential are:

- **Connect rate analysis.** By this, we identify how many units we can sell by looking at how many units of related products are sold. In our ski binding example, we want to know how many skis are sold each year. It may be that our binding is only useful for children's skis, so we may need to:
 - a. Start by finding the number of skis sold per year.
 - b. Multiply this by an assumption of the percentage of these skis that are for children.
 - c. Multiply this result by an assumption of the percentage of these skis onto which we can sell our new binding.Often the exact data we are looking at may not be available directly, so we may create multiple connect rate scenarios and compare them. A second one might go as follows:
 - a. Start by identifying how many children there are in the U.S.
 - b. Multiply this by the % of Americans who ski.
 - c. Assume that each child skier buys new skis every four years to get the number of pairs of skis sold.
 - d. Multiply this result by an assumption of the percentage of these skis onto which we can sell our new binding.
- Analysis of revenues by current market suppliers.

It is useful to use these two methods in as many different ways as possible, each of which will give a different result. By comparing these, you can identify where there may be flaws in your assumptions. It will also help you identify which data sources you feel most comfortable with.

Data Sources:

The trick to market size assessment is to find the best possible data sources. If you have money, almost every industry has so called "industry analysts" that sell reports or will do custom studies for you. However, this is expensive. Thanks to the internet, most of this type of information is available for free, but it can take creativity and effort to find it. This type of investigative work is also closely related to Industry Structure Analysis, which is covered in a separate paper.

The main ways to find useful data are:

- Go to a local retailer (or industrial distributor if this is more appropriate) and find the names of the main competitors for your proposed product. Then use a search engine like Google to find the home pages for these companies. If the companies are public, they will probably have **annual reports** posted on the internet, which will give an idea of this company's total revenues. If the company is not public, they may give surrogate information (number of employees, factory sizes, etc) that may allow you to make an educated guess about this competitors total revenues.
- If the company is not public, I have sometimes been able to find information about company size by looking at all documents that Google points to for this company. It takes some time, but there can be gems out there. Examples of the information that helps is announcements of **company expansions** or **number of employees**.
- Most industries have a **trade magazine** that goes to manufacturers and dealers in this business (not to end customers). These trade magazines can often be read online. It is very useful to find what these trade magazines are and then browse them. If these magazines are not available on line, find out how you can subscribe to them. Often these subscriptions are free.
- Companies like Hoovers (hoovers.com) or Dunn and Bradstreet (dnb.com) prepare credit reports

on companies. This can sometimes cost \$25-\$35, but sometimes the information is also available for free.

Application to The Ski Binding Example:

Among the ski binding manufacturers I found in a two-hour search on the internet was a company called Amer Sports. One of their brands is Atomic. In their 2002 annual report, they listed that there were 4.4 million pairs of downhill skis sold worldwide in 2002. Presumably this means that there were also the same number of pairs of bindings sold. Of this 4.4 million pairs of bindings, Amersports sold 540,000 pairs of bindings.

Another firm, Rossignol (rossignolcorporate.com) announced on their website that they made 1.117 million pairs of downhill bindings in 2002 and had revenues of 41.4 million Euros from the sales of these bindings. Thus, we also learned that the average selling price of Rossignol's bindings (from the manufacturer to the distributor) is about 38 Euros per pair.

I also discovered that the other large manufacturer of bindings is Tyrolia. They had about 45 million Euros of revenue from bindings in 2002. At 38 Euros per pair, this equates to 1.18 million bindings. As a result, the market shares for the top three binding companies were approximately:

- 27% for Tyrolia.
- 25% for Rossignol
- 12% for Atomic

In addition to these facts, Amersports also identified that their geographic revenue split for downhill ski products was about 50% from North America, 40% from Europe and 10% from Asia. Other companies ranged as low as 30% from North America and as high as 60% from Europe. So a rough estimate of the worldwide market is 40% North America, 50% Europe and 10% Asia.

By combining this information, we get approximately the following picture of the worldwide market for ski bindings (with revenues at the manufacturer level):

	Pairs	Revenue (Euros)
Asia	440,000	17 million
Europe	2,200,000	83 million
US	1,760,000	67 million
Worldwide	4,400,000	167 million

Conclusions:

As you can see, it was easy and quick to pull together the relevant data in this example. I have had the same success for about ten other industries that I have investigated the same way, from software to RVs to medical devices.

I hope that you have found this brief helpful. Please let me know if you have any comments, corrections, questions or suggestions for areas that should be covered in more depth. The following are two references if you'd like to explore this topic in greater depth:

- Abrams, Rhonda. *The Successful Business Plan: Secrets and Strategies*. (c) 1991-2003 Rhonda Abrams. Pages 14-34.
- Lesonski, Rivea. *Start Your Own Business: The Only Start-up Book You'll Ever Need*. (c) 2001 Entrepreneur Media. Pages 88-109.
- Vermeulen, Bert. *Industry Structure Analysis*. (c) 2003. (Available on the corp21.com website).