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3. Defining your market

How important is the market?

Understanding your market is important because it determines how successful your business could be. There are the two main factors that will define how much your business can grow and how fast:

- › How much demand there is for your product or service?
- › How many customers are out there?

How you define your market?

A lot of people can gain value from your solution but think about your ideal customer. The estimation of your market size, especially if you are at an early stage, will be full of assumptions. Consider:

- › Who may want to buy your product or service
- › How many of those customers do you believe you can acquire or turn into actual sales
- › How much might they be willing to pay for your product or service

How do you size your market?

When presenting your market sizing, it's important to provide an overview of the target market, preferably on a global scale, including value, volume and expected growth. There are different models and approaches to do market sizing.

One model that can be used is the TAM – SAM – SOM

TAM is the Total Available Market. This is the total revenue you could generate if you could capture 100% of your market.

SAM is the Serviceable Available Market. This the portion of the Total Available Market that your product or service is targeting and that is within your geographical reach.

SOM is the Serviceable Obtainable Market. It is the portion of SAM that you believe you can acquire within a certain timeframe – say within 3 to 5 years. The Serviceable Obtainable Market is really your market. You can use this model or any other model with a top-down or a bottom-up approach.

With the Top-down approach you consider first the total size of the market you are targeting, and then you estimate the share of that market that your product or service can capture.

The Bottom-up approach starts from your product or service. You estimate the price your potential customers may be willing to pay.

The top down approach tends to be less accurate, while the bottom-up approach usually provides a better market sizing, but it requires more work in terms of estimating pricing, purchasing intention and potential sales effort.

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