



CENTER FOR HOMELAND
DEFENSE AND SECURITY
NAVAL POSTGRADUATE SCHOOL



HSx MODULE: ENTREPRENEURSHIP (STEP 4 – CALCULATE THE TOTAL ADDRESSABLE MARKET FOR THE BEACHHEAD MARKET)



TOTAL ADDRESSABLE MARKET (TAM) CALCULATION

- The TAM for your beachhead market is the amount of annual revenue, expressed in dollars per year, your business would earn if you a 100% market share in that market.
- To calculate the TAM, first determine how many end users exist that fit your end user profile using a bottom up analysis based on primary market research. Then compliment this with a top down analysis to confirm your findings. Then determine how much revenue each end user is worth per year. Multiplying the two numbers results in the TAM.

EVEN MULTI-BILLION-DOLLAR CORPORATIONS DON'T SELL TO "EVERYONE"

- Ask yourself: Can Nike say that everyone in the world with feet would be a target for their products? Before answering, let's first look at the four questions below that are required when defining your TAM:
 1. Who has the need for my products or services, the financial ability to purchase my products, and the ability to find my products?
 2. How many of these people or businesses exist today?
 3. How much money does each person or business currently spend every year solving the problem that my product or service also solves?
 4. Who else do I share this market with?
- Considering these four questions, and especially the first, now answer the question about Nike's TAM.

<http://articles.bplans.com/how-to-determine-your-tam-total-addressable-market/>

A SMALL BUSINESS EXAMPLE

- This is why you should never say, “Everyone who...” when identifying your total addressable market. It’s a rare case when that phrase would be true (unless of course, you drill down into specifics after that statement).
- **A small business example**
- Let’s use a hair salon in a small city (population: 120,000 people).
- First, a few things to know about this hair salon:
 - It’s providing high-end salon services
 - Average haircut and style is \$65
 - Majority of clients are women between the ages of 25 and 55
 - Anticipated revenue per customer is \$450 a year.
 - Last survey determined there are 35,000 women between 25-55 in the area.
- Let’s do the math:
 - ***35,000 (total number of end users) x \$450 (price one customer would pay a year) = \$15,750,000***
- This means that this hair salon in this city has a total addressable market size of \$15.75M and 35K potential prospects.
- This salon also needs to keep in mind that there are three other salons in their community that are seeking to serve this same market, because that means that their TAM will be shared with their competitors.

HOW TO USE YOUR TAM

- It's important to know that most businesses shoot to capture around 1% of their TAM in their first two to three years of operations (although the percentage varies a bit by industry)—this is what we refer to as Segmented Obtainable Market (SOM). Therefore, this salon should strive to reach around 350 (1% of 35,000) of these women in the first two to three years of operation.
- This salon owner now needs to ask if capturing 1% of their TAM in the first few years is (a) a reality for them, and (b) profitable for them. From there, they can create a marketing plan that helps them reach this market (also known as customer acquisition strategy). For example, the salon owner will most likely target their “ages 25 to 34” market differently from their “ages 35 to 55” market—these two markets should be segmented separately and targeted with different marketing campaigns.
- Another good reason to calculate TAM is that it will help you when you're developing your revenue forecast. I've seen plans that say they will achieve \$2M in sales in their second year of operations, yet they don't have the capacity internally to deliver \$2M worth of products or services in that timeframe. If they'd calculated their TAM (and their SAM and SOM), they would have had a better sense of their realistic market potential, and they would have either a) been able to plan for it and ramp up their internal capacity to meet that market's demand, or b) been able to analyze their capacity and determine that their calculated SOM was just not realistic for them at that time. Either way, their revenue forecast would have made a better impression on investors.

How to use your TAM

This means the salon's sales goal by the end of year two is \$157,500. This salon owner now needs to create an expense budget and see if the business will be a profitable endeavor. The owner may find that it costs \$165,000 to run this business for two years; in that case, the salon would not be a profitable endeavor.

If you aren't sure of your business's exact expenses yet, industry benchmarks can be a useful guide for evaluating whether profitability may be realistic for your market and business type. This is especially helpful to business owners who are still in the planning stage.

	Revenue Per Customer/Year	# of Customers Y1	# of Customers Y2
Assumptions	\$450	135	215
	Revenue		
Year 1	\$60,750		
Year 2	\$96,750		
Totals	\$157,500		

ADDITIONAL SEGMENTATION CALCULATION

- Identifying your TAM, SAM, and SOM requires some market research (levels of research vary depending on your product and market potential), but once you gather the research you'll have a better idea of the percentages that coincide with each area.
- **TAM** = Your Total Available or Addressable Market (everyone you wish to reach with your product)
- **SAM** = Your Segmented Addressable Market or Served Available Market (the portion of TAM you will target, typically 1% of the TAM)
- **SOM** = Your Share of the Market (the subset of your SAM that you will realistically reach – particularly in the first few years of your business)

AN EXAMPLE OF TAM, SAM, AND SOM

- You're starting a concierge service in your city that focuses on doing tasks/running errands for busy people, and people who need additional assistance (elderly, handicapped, and so on).
- Your **TAM** would be all busy people, elderly and handicapped people in your city. If your town has 150,000 people, you may find (through market research) that total possible demand for your business in your city is 15 percent (or 22,500 people). Note: If you have a competitor in your market, your TAM would be smaller since you will be sharing this market with another company.
- Your **SAM** would be the portion of that 22,500 whom your current business model is targeting (this will be outlined in your business plan). For example, your business model is being set-up to service 7500 people/year. This means your SAM would be 33 percent of your TAM (or 5 percent of your total city's population).
- Your **SOM** would be the portion of your SAM that your business model can currently realistically serve. For example, you may only have 3 employees (yourself and two others), so realistically what percentage of SAM can you reach in the first two-to-three years? Let's assume your company can effectively provide concierge services to 100 people/month or 1200 people/year. This means your SOM is about 16 percent of your SAM (or around 5 percent of your TAM, or a little under 1 percent of your total city's population).
- If you're seeking funding, savvy investors will ask you for these items in your business plan, and they'll want you to be able to back-up your numbers. This is why conducting some market research up front is important—and even advisable before you begin writing your business plan. It gives you the validation of your market potential.

<http://articles.bplans.com/tam-sam-and-som-huh/>

Disciplined Entrepreneurship, by Bill Aulet

RESOURCES TO HELP DETERMINE TAM

- **Practical Market Research Resources for Entrepreneurs; Noah Parsons**
<http://articles.bplans.com/market-research/> This article provides links and descriptions of free and pay for websites to help determine the number of end users.
- **Know Your Industry Before You Start Your Business; Tim Berry** <http://articles.bplans.com/know-your-industry-before-you-start-your-business/> This article helps shape the importance of understanding your market before building your business.
- **Starting a business website and checklists;** <http://articles.bplans.com/starting-a-business/> Numerous checklists to help a new business owner organize the steps needed to begin to make money as an entrepreneur.

REFERENCES

- Intro; How to Find Total Addressable Market (TAM) Feat Thyme Labs
 - https://www.youtube.com/watch?v=APF9GI_nM9Y&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4
- What is Total Addressable Market (TAM) Feat. Thyme Labs
 - <https://www.youtube.com/watch?v=MxT7vNJuxUU&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4&index=2>
- Top Down vs. Bottom Up Analysis: Total Addressable Market (TAM) - Feat. Thyme Labs
 - <https://www.youtube.com/watch?v=xrpEwios5MM&index=3&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4>
- How to Calculate Total Addressable Market (TAM) - Feat. Thyme Labs
 - <https://www.youtube.com/watch?v=pdi7zp1Sgo4&index=4&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4>
- What To Do if Total Addressable Market (TAM) is Low - Feat. Thyme Labs
 - <https://www.youtube.com/watch?v=MjbmNaANWkA&index=5&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4>
- Conclusion: How to Find Total Addressable Market (TAM)
 - <https://www.youtube.com/watch?v=eqCXa32AzM&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4&index=6>

SUMMARY

- Choose a single market to pursue; then, keep segmenting until you have a well defined and homogenous market opportunity that meets the three conditions of a market. Focus is your ally!
- The TAM is how much annual revenue you would accumulate if you achieved 100% market share. This is used for your first beachhead market. A bottom up analysis of the number of primary customers you can identify through primary market research coupled with a top down perspective using market analysis reports and extrapolating without direct interaction, provide a great place to start for the next step of the process.

Entrepreneurial Process – Calculate the Total Addressable Market for the Beachhead Market

Date of information: 11 April 2017

Overview: The Total Addressable Market (TAM) for your beachhead market is the amount of annual revenue, expressed in dollars per year, your business would earn if you a 100% market share in that market. To calculate the TAM, first determine how many end users exist that fit your end user profile using a bottom up analysis based on primary market research. Then compliment this with a top down analysis to confirm your findings. Then determine how much revenue each end user is worth per year. Multiplying the two numbers results in the TAM. (Aulet, 2013)

Educational Videos and Short Classes:

- Intro; How to Find Total Addressable Market (TAM) Feat Thyme Labs
 - https://www.youtube.com/watch?v=APF9GI_nM9Y&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4
- What is Total Addressable Market (TAM) Feat. Thyme Labs
 - <https://www.youtube.com/watch?v=MxT7vNJUXUU&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4&index=2>
- Top Down vs. Bottom Up Analysis: Total Addressable Market (TAM) - Feat. Thyme Labs
 - <https://www.youtube.com/watch?v=xrpEwios5MM&index=3&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4>
- How to Calculate Total Addressable Market (TAM) - Feat. Thyme Labs
 - <https://www.youtube.com/watch?v=pdi7zp1Sqo4&index=4&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4>
- What To Do if Total Addressable Market (TAM) is Low - Feat. Thyme Labs
 - <https://www.youtube.com/watch?v=MjbmNaANWkA&index=5&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4>
- Conclusion: How to Find Total Addressable Market (TAM)
 - <https://www.youtube.com/watch?v=eqCXa32AzM&list=PLQykyC1zr8f9VWiPKVQXewGRqByUpwPT4&index=6>

Summary

Choose a single market to pursue; then, keep segmenting until you have a well-defined and homogenous market opportunity. The TAM is how much annual revenue you would accumulate if you achieved 100% market share. This is used for your first beachhead market. A bottom up analysis of the number of primary customers you can identify through primary market research coupled with a top down perspective using market analysis reports and extrapolating without direct interaction, provide a great place to start for the next step of the process. (Aulet, 2013)

Works Cited

Aulet, B. (2013). *Disciplined Entrepreneurship*. Hoboken, New Jersey, United States of America: John Wiley & Sons, Inc.