Market Sizing



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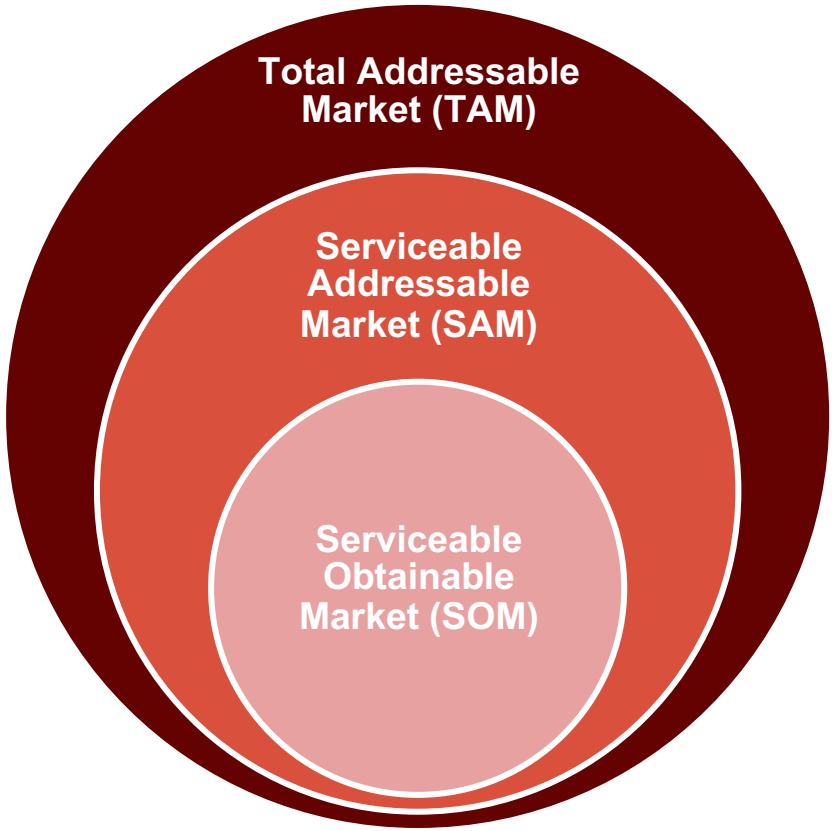
Market sizing quantifies the total rev. opportunity and provides a waypoint for assessing product market fit



TAM describes the total revenue opportunity for a product/service

SAM describes the sub-markets of the TAM addressed by a product

SOM describes how much of the SAM can be captured in the short/mid term

Market Sizing Methodology

There are multiple ways to develop a Market Sizing estimate, e.g.,

Top-down sizing

Start by building a macro view of the market, then break it down into a relevant chunk, e.g.*:

5M companies * **$5K** average contract value = **$25B** TAM
$25B * **20%** of companies in target geography = **$5B** SAM

Bottom-up sizing

Start with the individual customer and pricing information then extrapolate from there, e.g.*:

250K potential customers * **$5K** average contract value = **$1.3B** TAM

External research reports

Leverage industry research report providers such as IDC, Forrester, or Gartner to estimate the size of a specific market

**Illustrative metrics*

Market Sizing – Bottom-Up Example

We estimate that the total addressable market is $1.5B+ today based on the company's existing pricing structure. We believe pricing will increase over time and also note that eCommerce is expected to double in 5 years

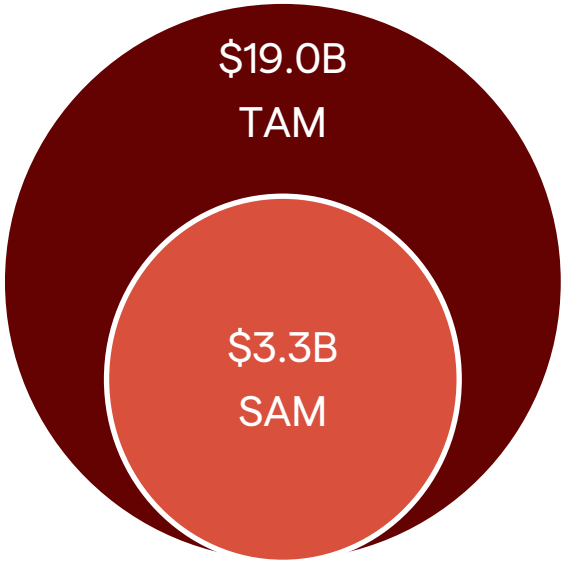
Rev Stream 1	# Potential Customers	250,000	*SMB stores on Shopify, WooCommerce, Magneto, BigCommerce*
	Average Price / Month	$500	*Avg from company projection model*
	MRR	$125,000,000	
	ARR	$1,500,000,000	
Rev Stream 2	# Potential Customers	250,000*	
	Addl 100 Shipments	1	*Assumes each customer has 1 overage shipment charge*
	Average Price / Addl 100 Shipments	$10	*Avg from company pricing model*
	Monthly Variable Revenue	$2,500,000	
	Annual Variable Revenue	$30,000,000	
	Total Monthly Revenue	$127,500,000	
	Total Annual Revenue	$1,530,000,000	

* Assuming 0 customers pay overage shipment charges, the company's total monthly revenue is $125M and total annual revenue is still $1.5B

Market Sizing – Top-Down Example

The company's initial target market includes eCommerce retailers that use Shopify, WooCommerce, Magento, and BigCommerce. Based on data from Hosting Tribunal, there are 3.8 million companies using these four platforms.

Using the company's average annual contract value of $5,000, the TAM is ~$19 billion for the company. Assuming the U.S. accounts for 17.2% of the companies on the 4 platforms, the service addressable market is $3.3B for the company



3.8M companies on 4 platforms x $5,000 Average Contract Value

654k* U.S. companies on 4 platforms x $5,000 Average Contract Value

Sources: Hosting Tribunal, PipeCandy

* U.S. accounted for 17.2% of total eCommerce market in 2019

Market Sizing Resources

Articles

- TAM Methodology: An Explanation and Example of Total Addressable Market Analysis
- Sizing Up: Market Sizing for Your Business

Videos / Podcasts

- Startups: Know Your Competitive Landscape and Market Sizing (Stephanie Palmeri from SoftTech VC)