

## How to Size an Emerging Market in Your Business Plan

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In developing their business plans, companies of all sizes face the challenge of determining the size of their markets. To begin, companies must present the size of their “relevant market” in their plans. The relevant market equals the company's sales if it were to capture 100% of its specific niche of the market. Conversely, stating that you were competing in the \$1 trillion U.S. healthcare market, for example, is a telltale sign of a poorly reasoned business plan, as there is no company that could reap \$1 trillion in healthcare sales. Defining and communicating a credible relevant market size is far more powerful than presenting generic industry figures.

The challenge that many firms face is their inability to size their relevant markets, particularly if they are competing in new or rapidly evolving markets. On one hand, the fact that the markets are new or evolving is the reason why there may be a large opportunity to establish them and become the market leader. Conversely, investors, shareholders and senior management are often skeptical to invest resources because, since the markets do not yet exist, the markets may be too small, or not really exist at all.

Growthink has encountered the challenge of sizing emerging markets numerous times and has developed a proprietary methodology to solve the problem. To begin, it is critical to understand why traditional market sizing methodologies are ill-equipped to size emerging markets. To illustrate, if a research firm were to use traditional methods to size a mature market such as the coffee market in the United States, it would consider demographic trends (e.g., aging baby boomers), psychographic trends (e.g., increased health consciousness), past sales trends and consumption rates, price movements, competitor brand shares and new product development, and channels/retailers among others. However, conducting such an analysis for emerging markets presents a challenge as several of these factors (e.g., past sales, demographics of the customer when there are no current customers) don't exist because the markets are presently untapped.

The methodology required to size these new markets requires two approaches. Each approach will yield a different approximation of the potential market size, and often the figures will work together to provide a solid foundation for the market's potential. Growthink calls the first approach “peeling back the onion.” In this approach, we start with the generic market (e.g., the coffee market) that that company is trying to penetrate, and remove pieces of that market that it will not target. For instance, if the company created an ultra high-speed coffee maker that retailed for \$600, it would initially reduce the market size by factors such as retail channels (e.g., mass marketers would not carry the product), demographic factors (lower income customers would not purchase the product), etc. By peeling back the generic market, you eventually will be left with only the relevant portion of it.

The second methodology requires assessing the market from several angles to approximate the potential market share, answering questions including:

- Competitors: who is competing for the customer that you will be serving; what is in their product pipeline; once you release a product/service, how long will it take them to enter the market, who else may enter the market, etc.
- Customers: what are the demographics and psychographics of the customers you will be targeting; what products are they currently using to fulfill a similar need (substitute products); how are they currently purchasing these products; what is their degree of loyalty to current providers, etc.
- Market factors: what other factors exist that will influence the market size – government regulations; market consolidation in related markets, price changes for raw materials, etc.
- Case Studies: what other markets have experience similar transformations and what were the customer adoption rates in those markets, etc.

While these methodologies are often more painstaking than traditional market research techniques, they can be the difference in determining whether your company has the next iPod or the next Edsel.

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