



Market sizing

MARKET SIZING: WHAT TO EXPECT FROM THIS MODULE?

O1. BASIC LEVEL - Why is Market Sizing important ?

- Team vs Product vs Market
- An overview of Venture Economics

O2. ADVANCED LEVEL - The art of Market Sizing

- The market sizing funnel
- Market sizing techniques
- Examples from EF cohorts

01

Why is Market Sizing important ?



Why is Market Sizing important ?

- A. Team vs Product vs Market
- B. An overview of Venture Economics

- 
01. WHY IS MARKET SIZING IMPORTANT ?
A. Team vs Product vs Market

A

TEAM vs PRODUCT vs MARKET



“**We** need to believe your team is exceptionally **well suited** to build a **very large** business **very fast**.”

EF & investors



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7-10 years

idea/edge fit



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€1 billion+ valuation

Team

Product

Market

Team

Product

Market

“In **a terrible market**, you can have the best product in the world and an absolutely killer team, and it doesn't matter -- **you're going to fail.**”

Marc Andreessen

Team

Product

Market

“In **a great market** - a market with lots of real potential customers - the market **pulls product** out of the startup.”

Marc Andreessen

Determining your market allows you to



Assess **viability**

Is my market big enough to **grow** and be **profitable**?



Gain **insight** into all market players

Who are my real **competitors**? Where am I in my market value chain?



Indicate potential **revenue & profit**



B

AN OVERVIEW OF VENTURE ECONOMICS



Investing in startups is a **risky** and **easy to understand** business...

VC's raise money from investors (LPs). In exchange, they **return them more money** than if those LPs placed it in the bank

A good VC fund should return at least **3x** the total fund.

And what you really need to keep in mind is that, **a single investment** needs to carry the potential to **return the total value of the fund.**

So you need to create **excitement** about the upside potential in the crazy event you do succeed.
Show you are this outlier, **this fund returner**, that investors are looking for!

So what does that investment look like?

€100m fund



Expected return:
€300m+

€100m fund



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**Invests €1m in Series A in a
€1.5m round**



30% ownership

€100m fund



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**Invests €2m in Series B in a
€20m round with new
investors**



10% Ownership =
dilution

€100m fund



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10% Ownership =
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Expected exit valuation: **€3bn+**

Expected exit valuation: €3bn+



Expected exit Revenue: €600mn+ (assuming the *Median*
Valuation/Revenue multiple of your market = 5x)

With a 10% Market Share



You need a Market Size of
€6bn+ !

It is hard to know if a team is an outlier, it is hard to determine whether a product will be outstanding. However,
it is easy to assess a market potential.

A VC might take a risk on your team or on your tech, but **not on your market potential.**



Villi Itchev ✓
@VilliSpeaks



Follow

If you think you can build a \$100M biz, raise VC
and go for it. Otherwise, build a \$10M biz w \$3M
in cash flow and live happily ever after.

RETWEETS

450

LIKES

1,295



12:10 PM - 2 Jan 2017 from San Francisco, CA

**VC fundable
Startup**

**Founders
Business**

02

The art of Market Sizing



The art of Market Sizing

- A. The market sizing funnel
- B. Market sizing techniques
 - a. Top-down
 - b. Bottom-up
 - c. Value theory
- C. Examples from EF cohorts

A

THE MARKET SIZING FUNNEL



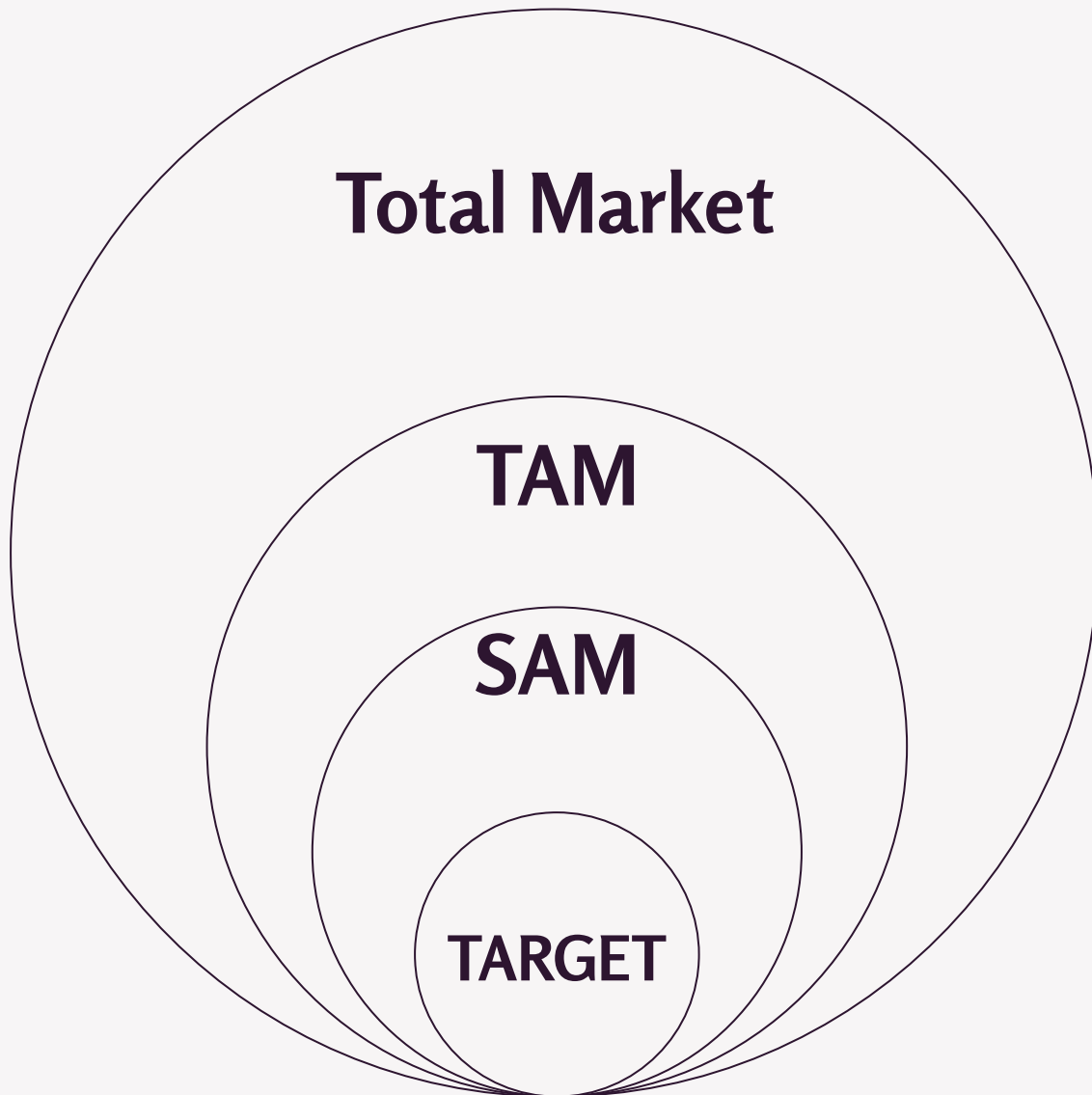
Market size questions can **often be seen as a formality** in the fundraising process

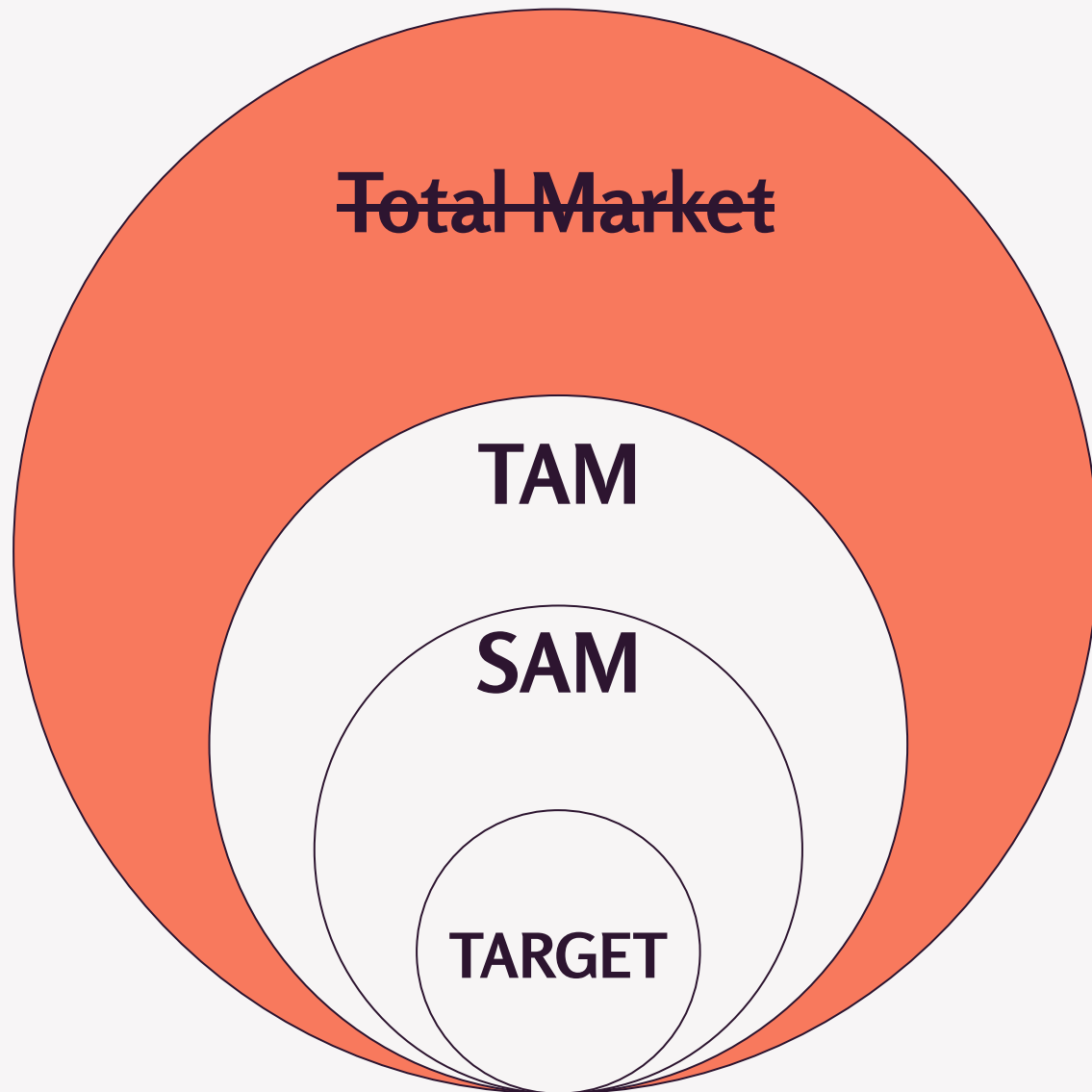
Market is **not a throwaway slide** of your fundraising deck



**Don't let VC's tell you
"it's not big enough for
us"**

4 ways to think about market size





Total Market is a **vanity metric**

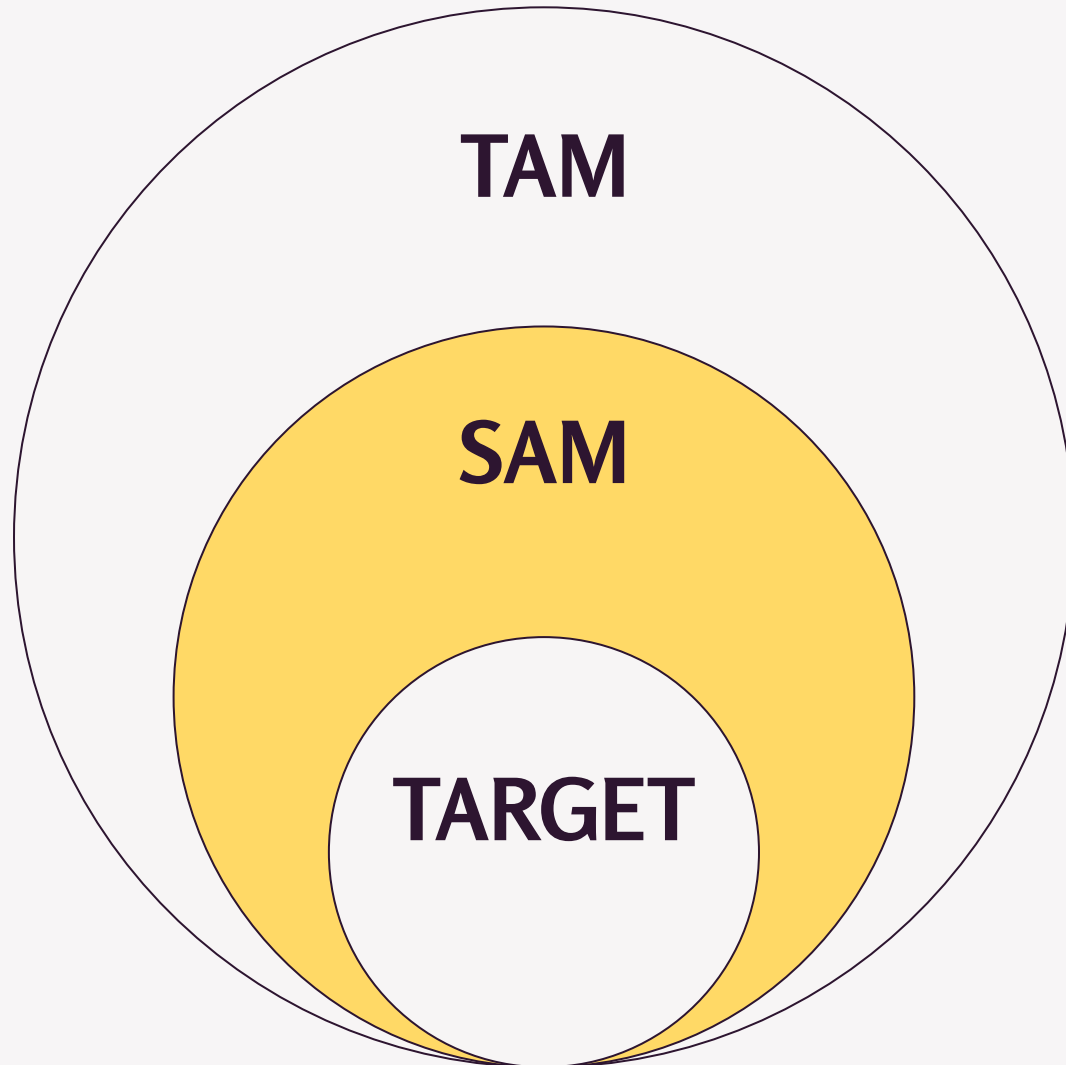


Total Addressable Market

- Total demand of your product

WeWork | Global shared desk

opportunity = \$1.4 trillion/ year revenue opportunity.



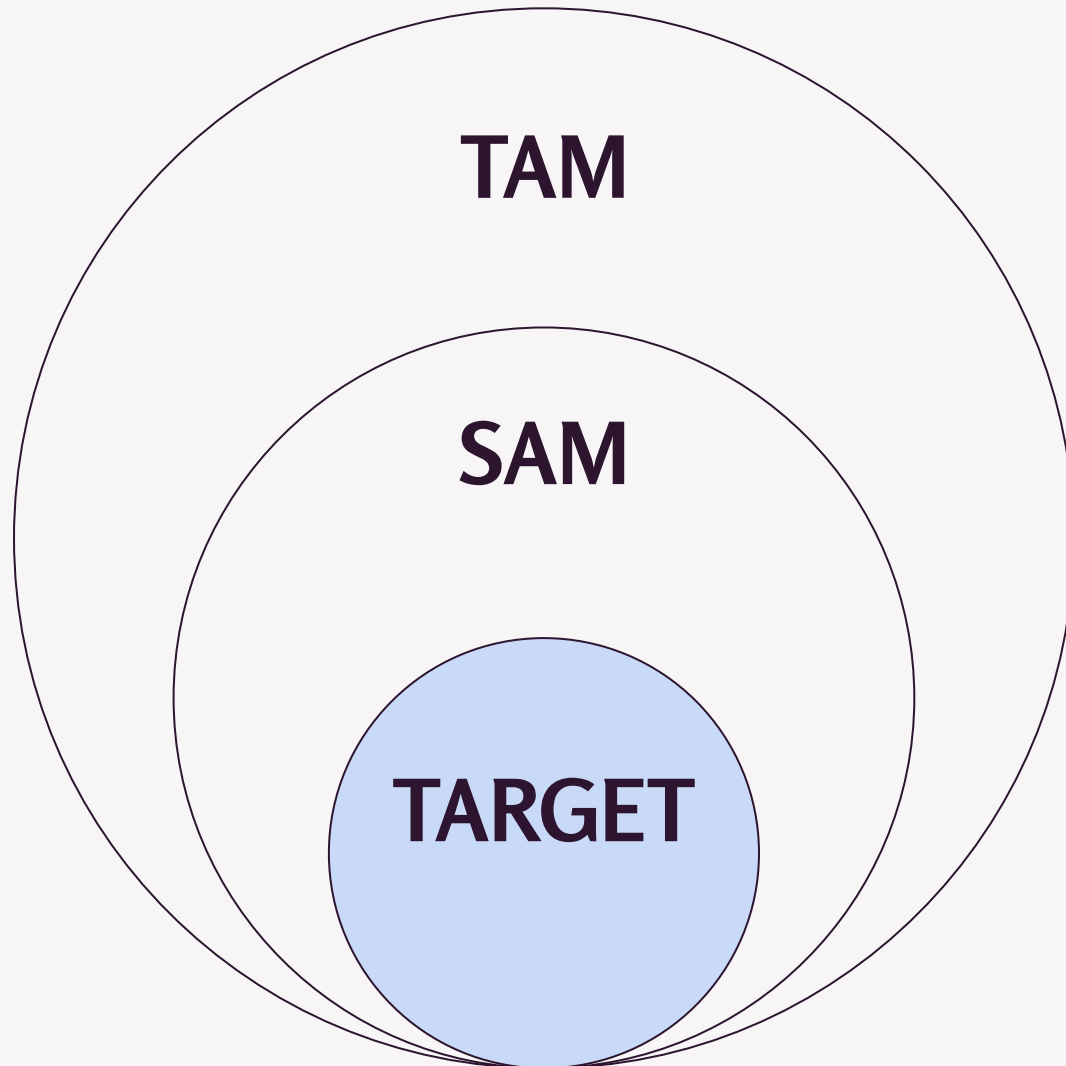
Serviceable Available Market

- The part of the TAM for which you current's Business Model proposition is strongest

WeWork | Global shared desk

opportunity in urban areas = \$169

billion/ year revenue opportunity (12% of its TAM)



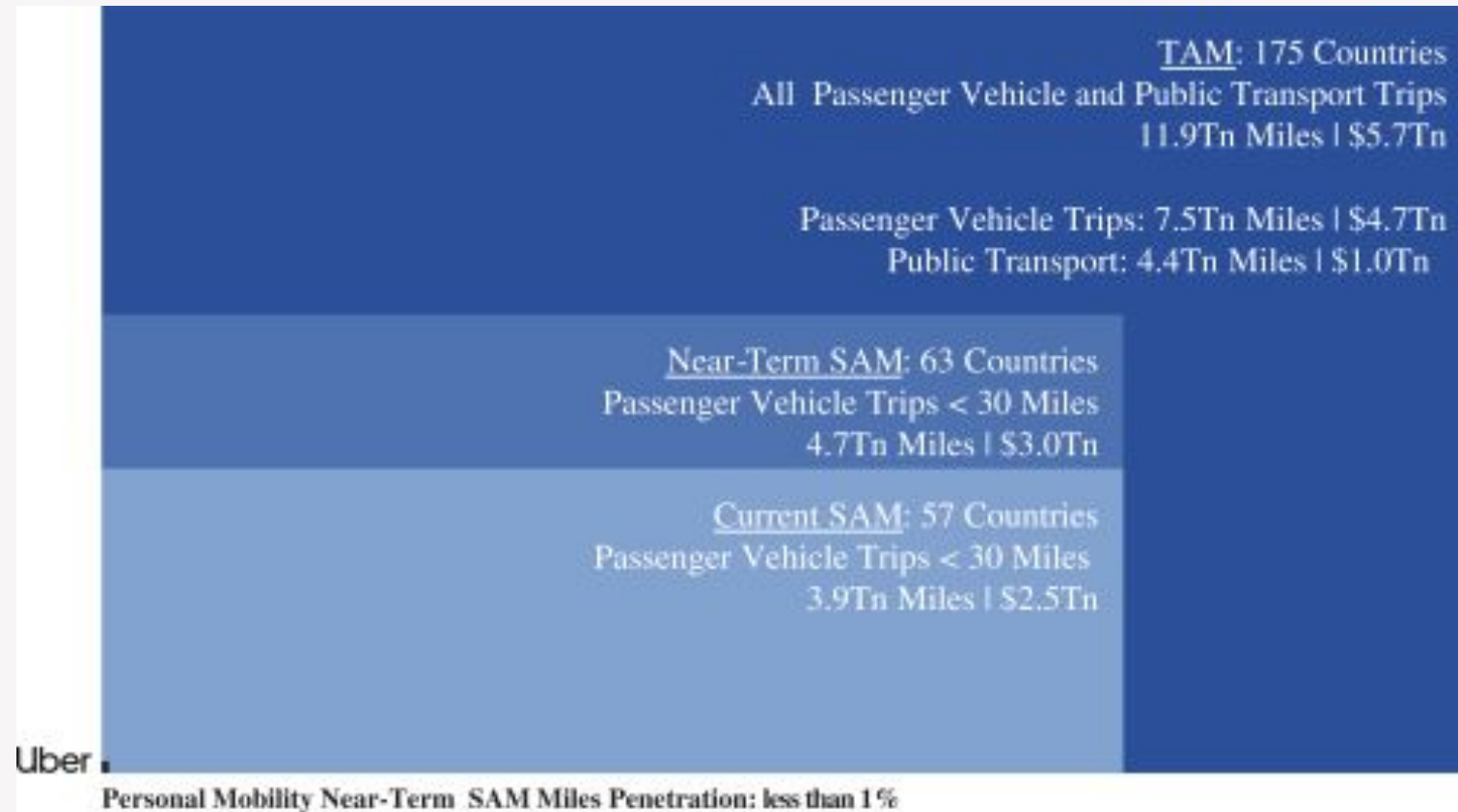
Target Market

- Segment of the SAM with the most direct path to success

WeWork | achieving 25% market share in 20 core cities taking into account financial projections based on resources = \$33.8 billion/ year opportunity (2.6% of TAM)

Uber Example

Source: S-1



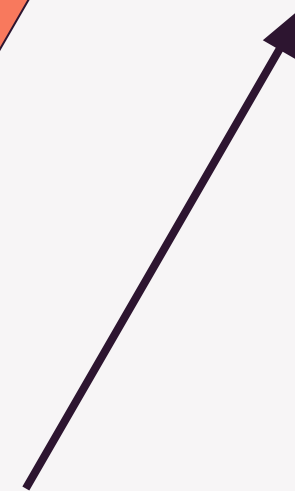
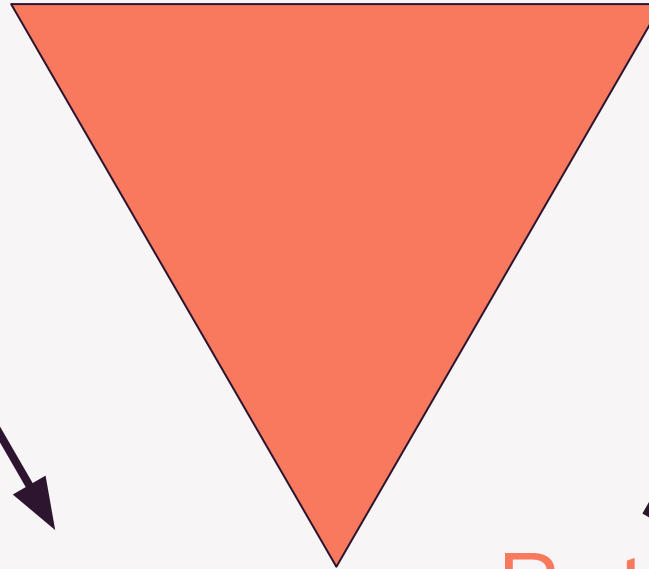
B

MARKET SIZING TECHNIQUES



There are 3 main approaches to **calculate** your market size :

Top down



Bottom up

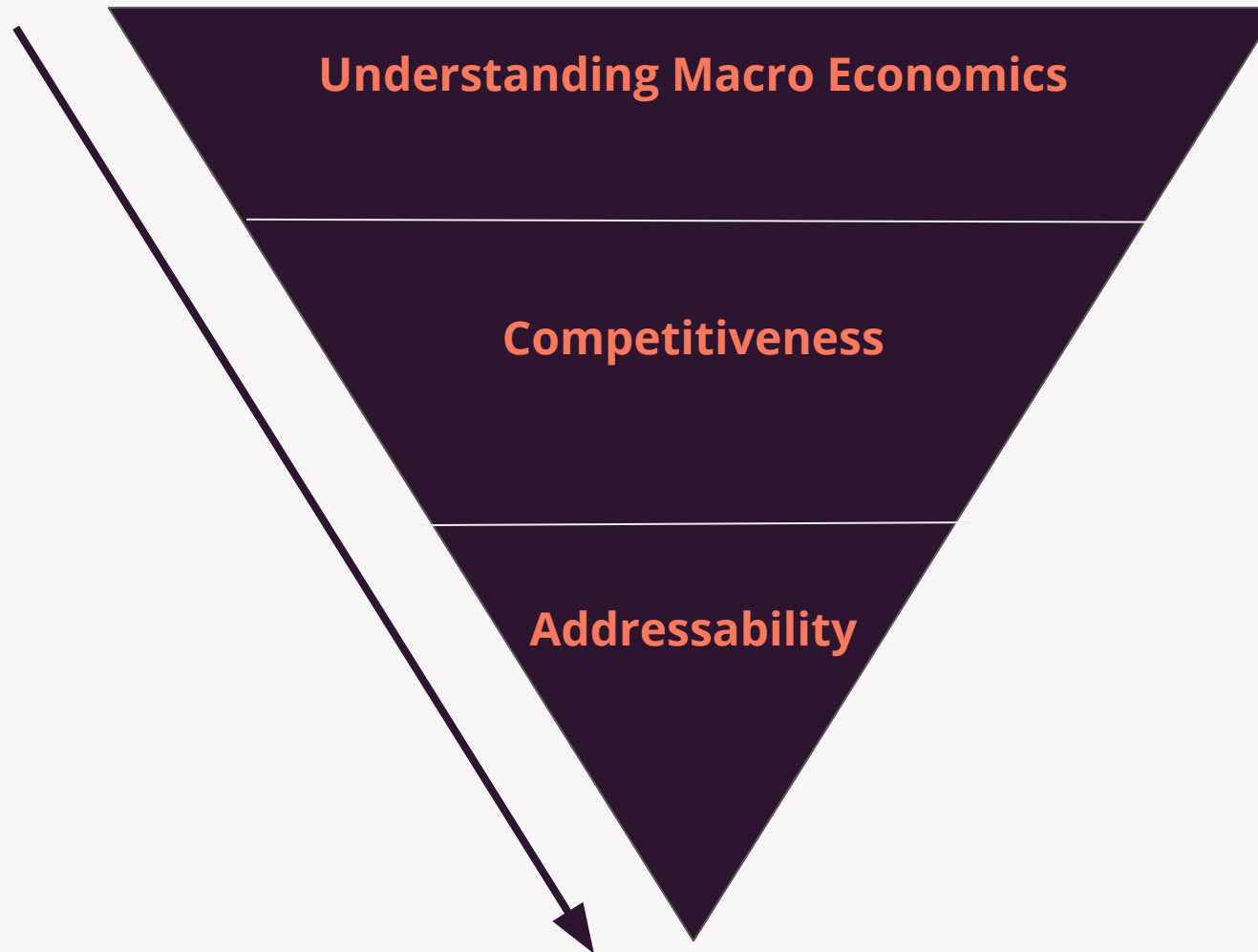
+ Value Theory

Market sizing techniques

Top-down



Top-Down Approach



This would usually be based on **an external report** validating **total industry value**, such as:

- + Gartner
- + Forrester
- + *Statista*
- + *ONS*
- + *Consulting Reports*
- + *INSEE*
- + *OCDE*

Let's try to find a market for
“*Tomatology*, a tomato delivery startup in the US.”
using a Top-Down approach...

“Tomatology, a tomato delivery startup in the US.”

- Average household spends \$751 on fruits and vegetables every year, for a total of **\$94B** spent every year in the US

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- Only 5% of fruits & vegetables purchased are tomatoes. That reduces our estimate to **\$1B**.

“*Tomatology*, a tomato delivery startup in the US.”

- Average household spends \$751 on fruits and vegetables every year, for a total of **\$94B** spend every year in the US
- 30% of the population lives in large cities. That reduces our estimate to **\$28B**
- Only 5% of fruits & vegetables purchased are tomatoes. That reduces our estimate to **\$1B**.
- We will assume that 20% of households would order their tomatoes on demand if offered. That brings our estimate to **\$140M**.

“Tomatology, a tomato delivery startup in the US.”

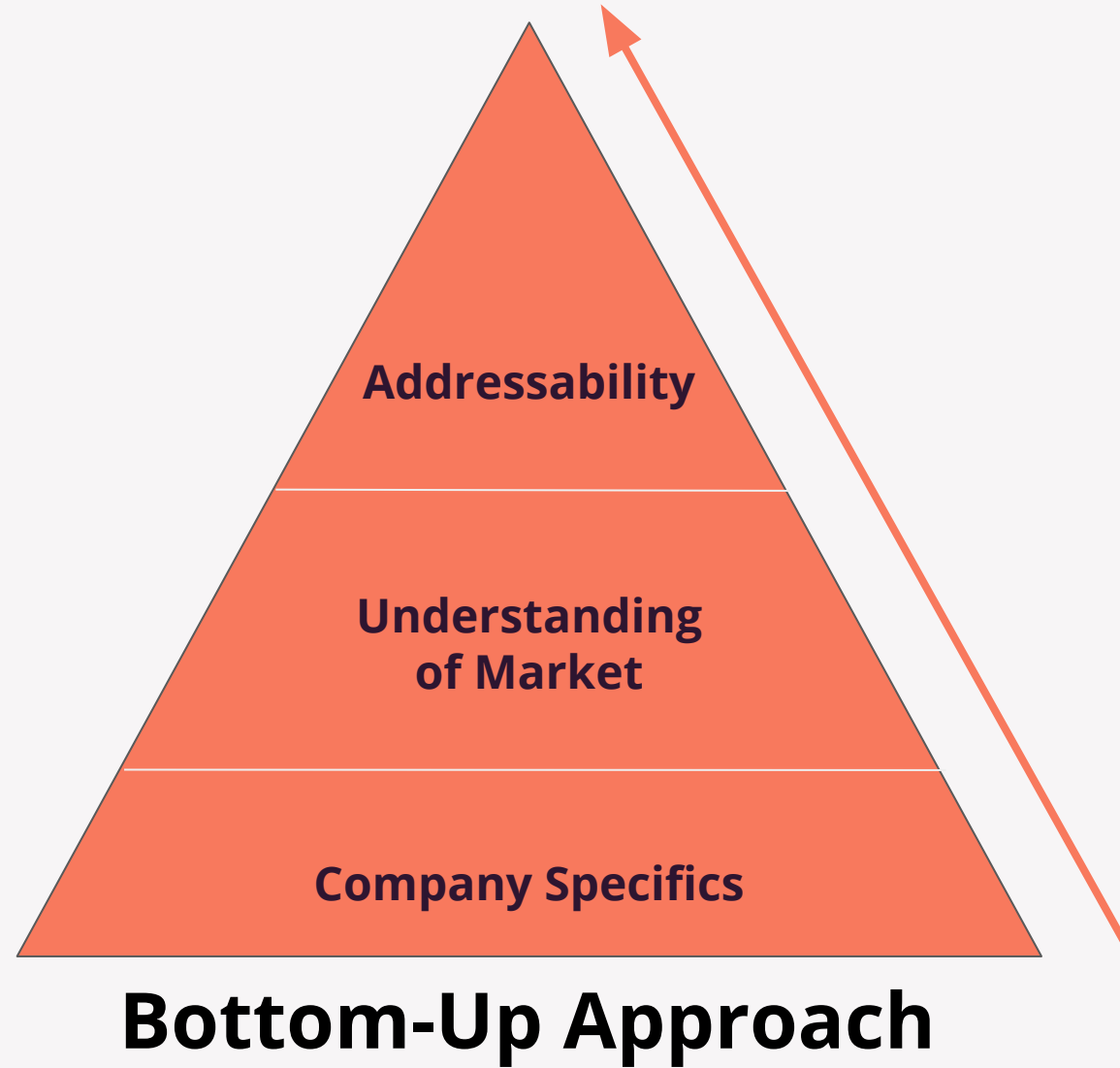
Total spent on Fruits and Vegetables	\$94.4B
... 30% spent in cities	\$28.3B
... 5% spent on tomatoes	\$1.4B
... 20% desire delivery	\$140M

‘Top-down’ approach is probably **too generic** to effectively demonstrate depth of thinking and true market opportunity

Market sizing techniques

Bottom-up





Basics

Number of **customers** x **price** each customer is willing to pay

Let's try to find a market for
“*Tomatology*, a tomato delivery startup in the US.”
using a Bottom-Up approach...

“*Tomatology*, a tomato delivery startup in the US.”

- Price is \$1 for a large tomato in the area. Our local customer survey tells us that consumers buy 3 tomatoes when they go to the market once a week. That means the average consumer would buy **\$150** of tomatoes per year.

“*Tomatology*, a tomato delivery startup in the US.”

- Price is \$1 for a large tomato in the area. Our local customer survey tells us that consumers buy 3 tomatoes when they go to the market once a week. That means the average consumer would buy **\$150** of tomatoes per year.
- Based on the effectiveness of our marketing strategy, we can reach about 35,000 households in our hometown. That brings our estimate to **\$5M.**

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- Price is \$1 for a large tomato in the area. Our local customer survey tells us that consumers buy 3 tomatoes when they go to the market once a week. That means the average consumer would buy **\$150** of tomatoes per year.
- Based on the effectiveness of our marketing strategy, we can reach about 35,000 households in our hometown. That brings our estimate to **\$5M.**
- We assume that we can expand into the top 30 cities based on our operating plan and available capital. That gives us an audience of 1.1M households or a total of **\$156M.**

“Tomatology, a tomato delivery startup in the US.”

Price per tomato	\$1
... 150 per household	\$150
... 35,000 reachable households per city	\$5.3M
... 30 cities	\$156M

This approach gives you an opportunity to **show in-depth understanding** of your market...

... and **demonstrate a structured model of thinking** about potential future scale of your company.

Market sizing techniques

Value theory



Demonstrate how much **value** you can **create**, and why you're able to **capture** it.

It also gives you an opportunity to really sell **growth potential** of your company.

Value Theory = Value Created × % Captured

Value Theory = Value Created × %Captured

Increasing Usage = Increasing market size

“Tomatology, a tomato delivery startup in the US.”

- Which tomato **consumption growth** do you expect ?
- Which % are you planning to **capture** from this new consumption ?

Example 1: We assume consumers will buy more tomatoes when they are delivered. Our expectation is to **grow tomato consumption by 10%**. This increases our estimate to **\$154M**.

Value Theory = Value Created × %Captured

Increasing Usage = Increasing market size

Example 2: Uber

Ridesourcing customers survey: Responses to *“How would you have made this trip if Uber/ Lyft were not available?”*

8% said they would not have made the trip at all, suggesting that ridesourcing induces a small but not inconsequential amount of travel



Ps: Ask Lime how they sized their market - \$310m funding, \$2.4bn valuation ;)



Summary: Triangulate a number with these 3 approaches

Top-Down

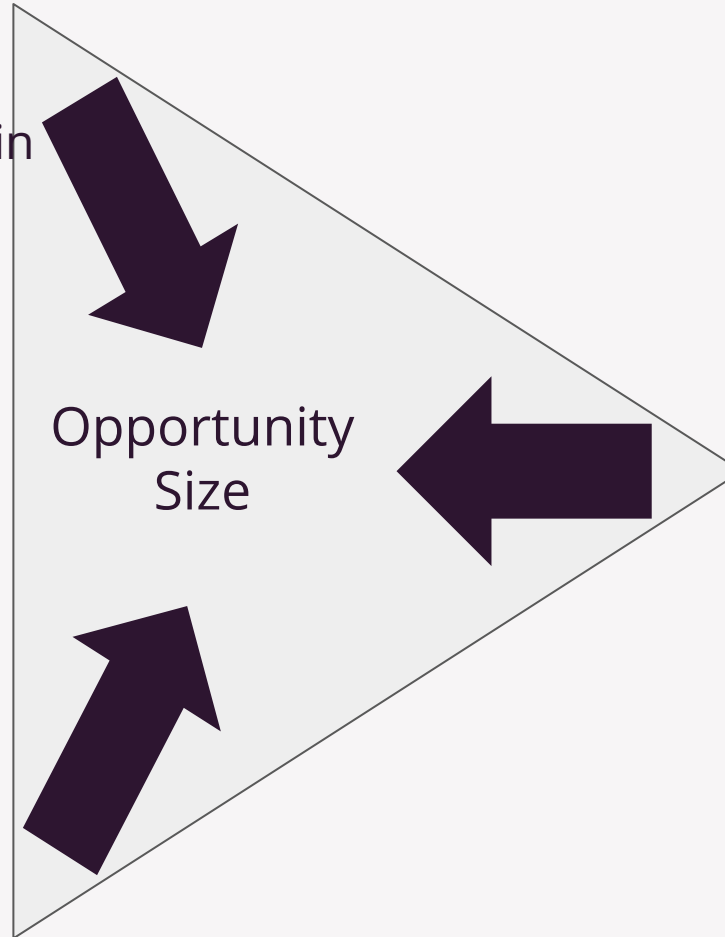
Percentage of total revenue in current market

Value Theory

Value you can add to existing markets

Bottoms-Up

Customer or competitor customer spend on this solution



C

EXAMPLES FROM EF COHORTS



OilFront (EF7) - Marketplace for marine fuel

OilFront currently uses the proven commission model and will use the data gathered to offer higher margin services.

\$1/ MT standard commission.
We get the data we need to offer other services.

These services rely on having data and SaaS tools.
Worth ~\$2.50 / MT

Shop the market for the best deal

\$1.2Bn
Potential Savings

\$400 Million
Assumed Market Size

Manage logistics

\$2Bn
Potential Savings

\$400 Million
Assumed Market Size

Assure quality and quantity

\$2Bn
Potential Savings

\$400 Million
Assumed Market Size

Arrange credit

\$1Bn
Potential Savings

\$200 Million
Assumed Market Size

Risk Management

\$0.3Bn
Potential Savings

\$100 Million
Assumed Market Size

OILFRONT

Please do not share

9

Weak example

Too much information

Market size hidden in text

Several Market Sizes

CargoMate (EF8) - Helping container ships leave ports early

CargoMate can save \$180,000 per ship annually on fuel and port costs



6000 ocean-going container ships
322,000 port calls annually
\$2.2B Total Addressable Market



Additionally, there is \$5-7B wasted due to inefficiencies in port operations

Weak example

Market size hidden in text

Starts Bottom-Up, then goes Top-Down

Two confusing Market Sizes

Metis Labs (EF8) - AI Process optimization for industrial companies

Large global market



250,000

Qty of process
Facilities in
Europe alone



8,000

Qty of large process
manufacturing facilities in
Europe alone



\$145 bn

Global Industrial control
and automation market

Growing market:

Market is growing rapidly through Industry 4.0 / Industrial IoT movement

Confidential

Market

A bit better example

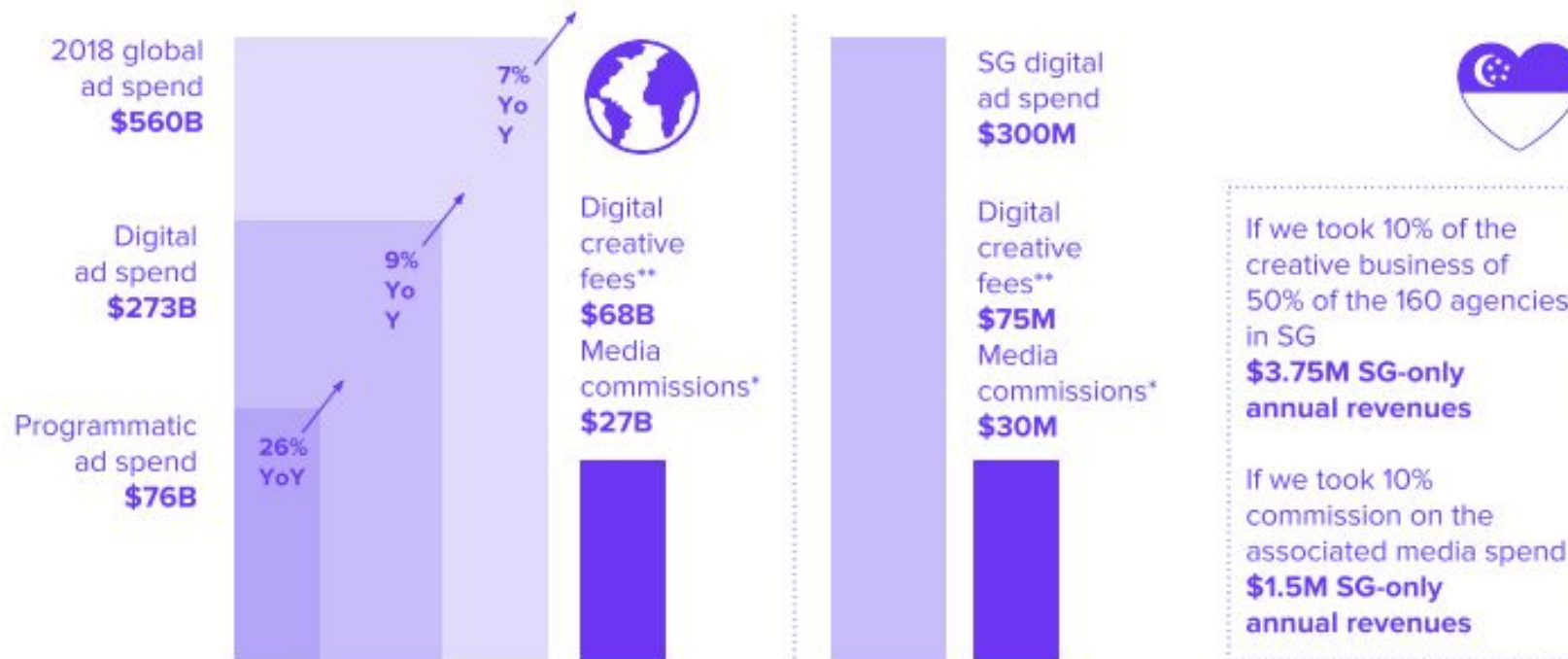
Generic title with no
information

Top-Down attempt

Lacks consistency
between the three
figures

Pencil (EFSG₃) - AI to create large-scale personalized ad campaigns

Advertising is huge. It's the foundation of the digital economy



Good example

Catchy title

Good split between TAM / SAM and immediate target market

Emphasizes YoY growth within the industry

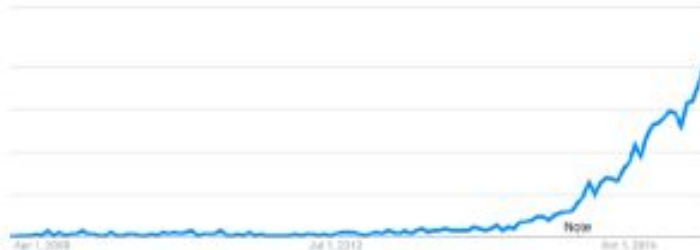
<https://www.campaignlive.co.uk/article/global-programmatic-spend-grows-quarter-digital-media-budgets/1456683>
<https://www.statista.com/outlook/216/124/digital-advertising/singapore> and <https://iab.sg/wp-content/uploads/2017/04/AdSpend-Report.pdf>
<https://www.campaignasia.com/agencyportfolio>
* Calculated at 10% of media spend and **Calculated at 20:80 ratio to media spend

Affable (EFSG2) - AI platform for influencer marketing platforms

The market is growing rapidly

TAM for influencer marketing expected to be worth \$10B by 2022. It was \$500M in 2015.

Instagram spend alone growing at CAGR ~48%



Search interest for 'influencer marketing' 2008 - Nov'2017

As google trend shows, there has been a staggering rise in interest for Influencer Marketing in last 2 years

[1] <http://www.marketing-interactive.com/how-big-is-instagram-influencer-marketing-infographic/>

[2] <http://mediakix.com/2015/12/influencer-marketing-5-10-billion-dollar-market/>

Good example

Clear Market size demonstration

Emphasizes on an impressive growth

Search interest for "Influencer Marketing" makes it punchy



YOUR EXERCICE FOR THIS WEEK



**CALCULATE YOUR MARKET
OPPORTUNITY**

We want to know at your check-in:

- Total Available Market
- Serviceable Available Market
- Your Target Market Size
- Market dynamics
- How did you get there



Q&A