A key part of any [business plan](https://www.thebusinessplanshop.com/blog/en/entry/business_plan_guide) is market analysis. This section needs to demonstrate both your expertise in your particular market and the attractiveness of the market from a financial standpoint.

**What is a market analysis?**

A market analysis is a quantitative and qualitative assessment of a market. It looks into the size of the market both in volume and in value, the various customer segments and buying patterns, the competition, and the economic environment in terms of barriers to entry and regulation.

**How to do a market analysis?**

The objectives of the market analysis section of a business plan are to show to investors that:

* you know your market
* the market is large enough to build a sustainable business

#### **Market value**

Estimating the market value is often more difficult than assessing the number of potential customers. The first thing to do is to see if the figure is publicly available as either published by a consultancy firm or by a state body. It is very likely that you will find at least a number on a national level.

If not then you can either buy some market research or try to estimate it yourself.

#### **Methods for building an estimate**

There are 2 methods that can be used to build estimates: the bottom-up approach or the top-down approach.

The bottom-up approach consists in building a global number starting with unitary values. In our case the number of potential clients multiplied by an average transaction value.

The top-down approach consists of starting with a global number and reducing it pro-rata.

When coming up with an estimate yourself it is always a good practice to test both the bottom up and top-down approaches and to compare the results. If the numbers are too far away then you probably missed something or used the wrong proxy.

# **TAM SAM SOM - what it means and why it matters**

Diagram

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When doing their market an alysis start-ups often refer to TAM, SAM, and SOM but what do these acronyms mean and why are they useful to investors when assessing an investment opportunity?

## TAM SAM SOM definition

TAM, SAM and SOM are acronyms that represents different subsets of a market.

* **TAM** or Total Available Market is the total market demand for a product or service.
* **SAM** or Serviceable Available Market is the segment of the TAM targeted by your products and services which is within your geographical reach.
* **SOM** or Serviceable Obtainable Market is the portion of SAM that you can capture.

## TAM SAM SOM, when do they matter and why?

Put yourself in an investor shoes. You need to deliver a target return to your own investors which implies both de-risking the investment early (i.e. figuring with the minimum possible of capital if the start-up has a market) and investing in opportunities which offer substantial upside potential (i.e. huge market size).

The SOM and SAM help de-risking the investment while the TAM enables to assess the upside potential.

The Serviceable Obtainable Market is your short term target and therefore the one that matters the most: if you cannot succeed on a fraction of the local market chances are that you will never capture a large part of the global market.

To be realistic your SOM needs to factor in:

* your product: people will want to buy your goods
* your marketing plan and the identified distribution channels: you have a clear plan to reach a large portion of your target customers
* your SAM and the strength of your competition: chances are that you are not going to take 50% market share within 6 months. Therefore your SOM needs to be a reasonable fraction of your Serviceable Available Market.

For the investor the ability to reach your SOM means that he will not lose his shirt. In that context SAM acts as a good sanity check to assess the likelihood of achieving the market share implied by the Serviceable Obtainable Market and as a proxy for the short term upside potential of your business.

If you can deliver SOM in time then you are capable and credible, and you might be able to increase the market share and reach a more important penetration of the SAM which would deliver a good return on investment.

And then comes the Total Available Market.

Once you have demonstrated your ability to penetrate a local market and de-risked the investment, the investor can start looking at how you can expand and increase the company's penetration within the TAM.

As you can see TAM SAM SOM have different purposes: SOM indicates the short term sales potential, SOM / SAM the target market share, and TAM the potential at scale. All play an important role in assessing an investment opportunity and the focus should really be on getting the most accurate numbers rather than the biggest possible numbers.