

Market Sizing

For Startups



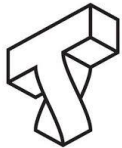
About Me

Current Roles

- Partner at CoVenture
- Investor-in-Residence at Cornell Tech
- Red Bear Angels

Prior Roles

- 10+ prior years in venture capital: 18 investments
 - Gotham Ventures
 - North Hill Ventures
- Sometimes angel investor: 12 investments



Investing Interests

Marketplaces, finance, education, clean web, health, future of work



Personal

- Grew up in Nebraska
- Cornell, Wharton
- Boston sports



LendKey



SAILTHRU



COVENTURE²



COVENTURE

How I Can Help

Idea Evaluation

- Considerations
- Market sizing

Team Issues

- Cofounder responsibilities and equity
- Hiring plans

Strategy

- What to build
- What business model(s) to pursue
- Go-to-market

Service Providers

- When to get help
- Recommendations for lawyers, accountants, designers

Financial Projections

- How to develop initial projections
- Reactions and feedback

Fundraising

- Materials
- Process
- Pitch practice
- Opinions

Why Market Size Matters

1. Impact
2. Financing strategy
3. Future studio work

What Is Market Size?

**Total Addressable Market =
the revenue your business would generate with 100% market share**

Calculating TAM

Top-Down

- Start with available estimates of relevant existing market(s) that subsume your Addressable Market
- Make assumptions about the portion of the existing market(s) that might be addressable to estimate TAM
- Examples: assume a % of mobile app purchases or of IT spend

Bottom-Up

- Estimate the potential total number of unit sales per year
- Estimate the sale price
- Multiply units by sale price to derive market size

Calculating TAM: Bottom-up

$TAM = \text{units sold} \times \text{price per unit}$

$= \text{buyers} \times \text{units per buyer} \times \text{price per unit}$

Ice Cream Example

- Entire market for ice cream is 10 people
- There are only 3 flavors of ice cream: strawberry, mint, or Rocky Road(with nuts)
- Each person likes only one flavor
- Each person eats 1 cone/mo
- The cost of ice cream is \$5 per cone

Ice Cream Example



Uni Examples

- Work with small group to estimate market size
- Report out

Resources

- [Thatcher Bell](#)
- [Mark Davis](#)
- [Steve Blank](#)
- [OpenView Labs](#)
- [MaRS](#)



Thank You

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The Magic Number

20x Multiple that a professional early-stage investor demands

x \$20M Assumed valuation basis

\$400M Required minimum valuation at exit

÷ 5-10 Trailing price-to-sales ratio

\$40-80M Required revenue at exit

5-10% Realistic market share in ~5 years

\$400M-\$1.6B Minimum TAM

The above analysis leads most professional investors to demand a

\$1B+ TAM