



# MARKET SIZING DECK

FOR ASPIRING MANAGEMENT CONSULTANTS,  
STRATEGISTS AND ANALYSTS

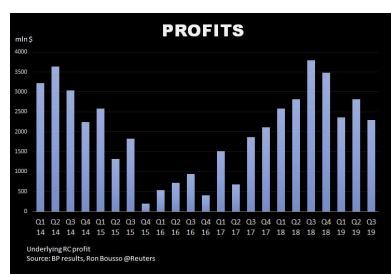
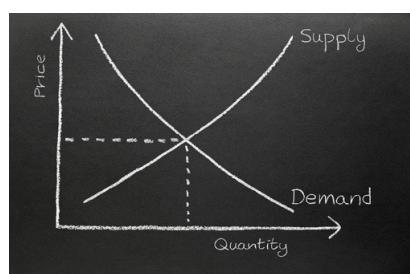
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Author: Aditya Gupta | <https://www.linkedin.com/in/aditya-gupta-366009124/>

## WHAT IS MARKET SIZING?

Market sizing is the “process of estimating the potential of a market.” Market size is made up of the total number of potential buyers of a product or service within a given market, and the total revenue that the sales may generate.

Business organizations utilize market sizing to estimate the total demand, sales, or profits they could potentially generate from a new business, product, or service. Based on the market size, the management can also decide whether the company should invest in the business or not.



**For Example:** Suppose you wish to start an IT-consulting business. If the market size of IT-consulting is too narrow, it may not be financially viable for you to be in that business, i.e., it may fail to generate sufficient income to meet operating payments, debt commitments and to provide scope for growth while maintaining the service levels.

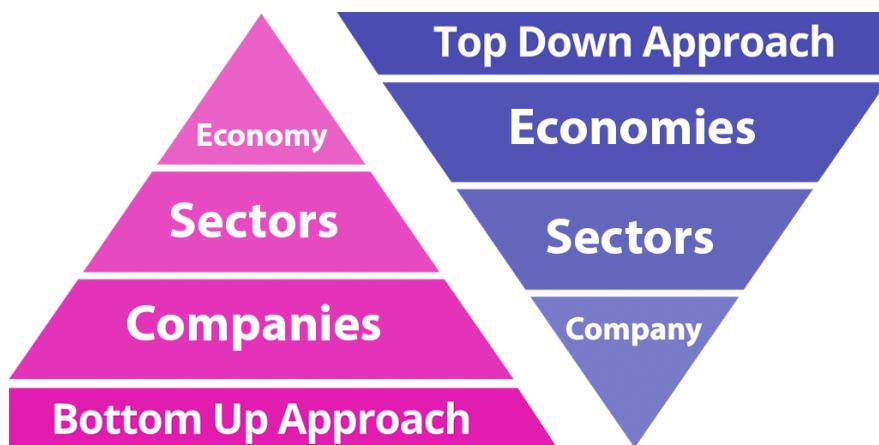
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## MARKET SIZING APPROACHES

There are two ways to solve market sizing problems:-

- Top-Down Approach
- Bottom-Up Approach



**Top-Down Approach:** In a Top-Down Approach, you have to base your hypothesis on a large number and work your way down from there. In other words, in a top-down approach, you start with something general and you keep breaking it down till you arrive at a definite answer.

This type of market sizing is usually done using "demographic variables" such as Population, Age, Income, Sex, and Race, etc.

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You can also use metrics like the unemployment rate, inflation rate, and GDP, etc., while computing the market size.

**For Example:** Suppose you're asked to compute the demand for Lenovo ThinkPad in Hyderabad. In such a case, you'll probably use a top-down approach to compute the market size. The base figure that you'll consider will be the population of Hyderabad and you will narrow it down to reach your end goal.

**Bottom-Up Approach:** In a Bottom-Up Approach, you'll have to focus your analysis on specific characteristics and microeconomic attributes.

In other words, a bottom-up approach goes from the "specific" to "general".

**For Example:** Suppose you're asked to calculate the profits earned by your office cafeteria by selling tea. Would you use the population of your country to estimate the profits? Of course not! You'll simply find out the product of the average selling price of tea, the total number of employees and the total number of working days.

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<https://www.linkedin.com/in/aditya-gupta-366009124/>

## SOLVING A MARKET SIZING PROBLEM

As mentioned before, market sizing is concerned with estimating the total volume of a given market.

Determining the market size accurately can be a challenging task. Hence, it is important to clearly define the variables that you would be taking into consideration.



In other words, the most important step in a market sizing process is to identify what you want to know and what kind of data would help you get there.

The basic factors that you can consider in market sizing are:-

- **Government Statistics:** If you're given a market sizing problem to solve, make sure that you know certain figures such as population of the target country or state.

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- **Time Period:** Usually, a market sizing problem has a time frame of one year. For instance, if you are asked to find out the market size of smartphones in India, you'll essentially be computing the potential market for smartphones for one particular year.
- **Competition and Alternatives:** There may be a case that the interviewer/manager asks you to compute the market size for a particular product or service. In such a case it becomes important to consider the competition and alternatives available in the market.
- **Income:** Income is probably the most commonly used segmentation variable. According to Philip Kotler, "*Income segmentation is a long-standing practice in such categories as automobiles, clothing, cosmetics, financial services, and travel*". You may be given a market sizing problem where you'll have to identify your target market on the basis of their income.
- **Geographic Region:** A market size is usually determined for a specific region, city, district or country.

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<https://www.linkedin.com/in/aditya-gupta-366009124/>



# SOLVED EXAMPLES

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Author: Aditya Gupta | <https://www.linkedin.com/in/aditya-gupta-366009124/>

**Problem 1:** You have \$1 Million which you can invest either in a Local Multiplex or an Amusement Park. Assuming that location is Hyderabad, where would you invest?

Population of Hyderabad = 7,000,000

%age of Population above Poverty Line = 40%

Population above Poverty Line = 40% of 7,00,000 = 2,80,0000

[Assumption 1: Total number of people in a household = 4]

Number of Households in Hyderabad = 2,80,000/4 = 700,000

Number of Households in Hyderabad that pay for entertainment services (%age) = \*50%

[\*50% - willing to pay, 50% - not willing to pay]

Number of Households in Hyderabad that pay for entertainment services = 50% of 700,000 = 350,000

These households might have different alternatives that they would consider for entertainment purposes: Movies (12.5%), Theatre (12.5%), Stand-Up Comedy (12.5%), Concerts (12.5%), Tournaments (12.5%), Amusement Parks (12.5%), Shopping (12.5%), and Travelling (12.5%).

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<https://www.linkedin.com/in/aditya-gupta-366009124/>

## MARKET SIZE OF LOCAL MULTIPLEX

Movies [12.5% of 350,000] = 43,750

\*To save your time in doing calculations, you can assume the figure to be 40,000. However, I have taken the absolute figure for now.

Movies can have general alternatives such as:

- OTT (25%)
- Torrents (25%)
- **Cinema (25%)**
- Television (25%)

Cinema [25% of 43,750] = 11,000

Cinema can have specific alternatives such as:

- PVR (20%)
- INOX (20%)
- Cinepolis (20%)
- MovieTime (20%)
- **Our Brand (20%)**

Our Brand (20% of 11,000) = 2,200

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These 2,200 people can either be frequent visitors or occasional visitors.

1. Frequent Visitors (50% of 2,200) = 1,100
2. Occasional Visitors (50% of 2,200) = 1,100

Assume that frequent visitors visit our cinema hall 12 times a year and occasional visitors visit our cinema hall 4 times a year. Also, assume that ticket price = Rs 250.

Total Revenue is

(Total Number of Frequent Visitors x 12 + Total Number of Occasional Visitors x 4) x Ticket Price = Rs 4,400,000

This is your yearly revenue.

\*Alternatively, you can also divide the visitors on the basis of classes:

1. Gold Class (25%)
2. Diamond Class (25%)
3. Standard Class (25%)
4. Platinum Class (25%)

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<https://www.linkedin.com/in/aditya-gupta-366009124/>

## MARKET SIZE OF AMUSEMENT PARKS

Amusement Parks (12.5% of 350,000) = 43,750

Amusement Parks can have specific alternatives such as:

1. SkyZone (25%)
2. Wonderla (25%)
3. Ocean Park (25%)
- 4. Our Brand (25%)**

Our Brand (25% of 43,750) = 11,000

These 11,000 people can either be frequent visitors or occasional visitors.

1. Frequent Visitors (50%) = 5,500
2. Occasional Visitors (50%) = 5,500

All types of visitors can be divided into 4 categories:

- |                 |                          |
|-----------------|--------------------------|
| 1. Kids (25%)   | 2. Students (25%)        |
| 3. Adults (25%) | 4. Senior Citizens (25%) |

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1. Frequent Visitors (Students and Adults) = 2,750
2. Occasional Visitors (Students and Adults) = 2,750

[Note: We took only students and adults, as most of the amusement parks do not charge senior citizens and kids]

Assume that frequent visitors visit the park 12 times a year and occasional visitors visit the park 4 times in a year.

Assume that ticket price = Rs 600

Total Revenue is

(Total Number of Frequent Visitors x 12 + Total Number of Occasional Visitors x 4) x Ticket Price = Rs 26,400,000

**Conclusion:** Since the yearly revenue is greater in case of Amusement Parks, our recommendation would be to invest the \$1 million in an amusement park.

\*Alternatively, you can also assume some variable costs and calculate the gross margin. [Yearly Gross Margin = Total Yearly Revenue – Yearly Variable Costs]

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<https://www.linkedin.com/in/aditya-gupta-366009124/>

**Problem 2:** How many Dominos Pizzas will be sold online through company's website in Delhi in a year?

Population of Delhi = 20,000,000

Population Above Poverty Line (40%) = 8,000,000

Assume that there are three income classes – Lower Income Segment (33%), Middle Income Segment (33%) and Rich Class (33%). Also, assume that only middle and rich classes go out/order online.

Population that would dine-in or order food (66% of 8,000,000)  
= \*5,280,000

\*I have taken the absolute figure. However, to save your time in calculations you can round it off to 5,000,000.

General Food Alternatives (Cuisines) Available:

1. North Indian (20%) = 1,056,000
2. South Indian (20%) = 1,056,000
3. Italian (20%) = 1,056,000
4. Chinese (20%) = 1,056,000
5. Mexican (20%) = 1,056,000

Alternatively, you can categorize the alternatives as Fast-Food and Non Fast-Food.

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Italian (20% of 5,280,000) = 1,056,000

General Italian Food Choices Available:

1. Pizza (20%)
2. Pasta (20%)
3. Lasagne (20%)
4. Salad (20%)
5. Spaghetti (20%)

Pizza (20% of 1,056,000) = 211,200

Specific alternatives available:

1. Dominos (20%)
2. Chicago Pizza (20%)
3. Pizza Hut (20%)
4. Papa John's (20%)
5. US Pizza (20%)

Dominos (20% of 211,200) = 42,240

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You can either dine-in, order through phone or order online:

1. Dine-in (33%)
2. Order Through Phone (33%)
3. Order Online Through Website (33%)

Order Online (33% of 42,240) = 14,000 approx.

Based on our approach, about 14,000 people in Delhi would order Dominos' Pizza online in a year.

Assume that each household comprises of 4 individuals.

Number of Households ordering Dominos' Pizza online = 3,500

Assumptions:

1. On an average, a household orders a Dominos' Pizza 12 times in a year.
2. On an average, each household orders 2 pizzas.

Number of Dominos' Pizza sold in a year is

[Number of Households ordering Dominos' Pizza online x Number of Orders x Number of Pizzas sold per order] = 84,000

**Conclusion:** Based on our approach, we can conclude that 84,000 Dominos' Pizzas will be sold in Delhi in a year.

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<https://www.linkedin.com/in/aditya-gupta-366009124/>

**Problem 3:** What is the revenue for the board game Monopoly in India per year?

Population of India = 130 Crores

Income Segment:

1. Below Poverty Line (60%)
2. Above Poverty Line (40%)

Population Above Poverty Line (40% of 130 Crores) = 52 Crores

Assumption 1: People above poverty line have sufficient income and are willing to spend on wants and desires.

These 52 Crore people can be categorized on the basis of Age:

- |                            |                            |
|----------------------------|----------------------------|
| a. 0 – 7 Years Old (11%)   | b. 8 – 15 Years Old (11%)  |
| c. 16 – 23 Years Old (11%) | d. 23 – 31 Years Old (11%) |
| e. 32 – 39 Years Old (11%) | f. 40 – 47 Years Old (11%) |
| g. 48 - 55 Years Old (11%) | h. 56 - 63 Years Old (11%) |
| i. 64 - 71 Years Old (11%) |                            |

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Reasons for choosing such intervals:

1. Usually board games are played by 8 – 15 year old kids.
2. The life expectancy of an average Indian is 70 years.

8 – 15 Years Old (11% of 52 Crores) = 5.72 Crores.

These 5.72 Crore people can either live somewhere where the board games are available or they can live somewhere where board games are not available.

People who live in areas where board games are available (50%) = 2.86 Crores.

Assumption 2: People do not travel to other places to buy board games.

There can be two general alternatives here:

1. Children who play board games (50%)
2. Children who do not play board games (50%)

Children who play board games (50% of 2.86 Crores) = 1.43 Crores

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Assumption 3: The average number of board games purchased per child = 3

Number of board games purchased (1.43 Crores x 3) = 4.29 Crores

Assumption 4: Market share of Monopoly is 10%.

Number of Monopoly board games sold = 0.429 Crores.

Assumption 5: Average price of a Monopoly board game is Rs 250.

Yearly Revenue of Monopoly Board Games (0.429 Crores x Rs 250) = Rs 107.25 Crores

**Conclusion:** Based on our analysis, Monopoly earns Rs 107.25 Crores in a year through its board games business.

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<https://www.linkedin.com/in/aditya-gupta-366009124/>

**Problem 4:** How many One Plus smartphones were sold in Delhi in a year?

Population of Delhi = 2 Crores

Population Above Poverty Line (40% of 2 Crores) = 80 Lakhs

Number of Households in Delhi Above Poverty Line = 20 Lakhs

Number of Households that have a smartphone (50%) = 10 Lakhs

Assumption 1: Only the people above poverty line can afford to buy a smartphone.

Assumption 2: Each household has 4 members.

These household can be divided into two three categories:

1. People that have an entry-level smartphone (33%)
2. People that have a budget-smartphone (33%)
3. People that have a premium smartphone (34%)

\*It is assumed that people don't have a mix of smartphones, i.e., if a household has a premium smartphone it won't have any other type of smartphone.

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Number of Households that have a premium smartphone (34% of 10 Lakhs) = 3.4 Lakhs

It would not make any sense if we calculate the market size of One Plus on the basis of this number by assuming a definite market share of One Plus in the Indian Premium Smartphone Industry.

In other words, if we assume that One Plus' market share is 20% then its market demand = 20% of 3.4 Lakhs = 68,000.

### **This is not a correct figure!**

**Why?** Because smartphone is a commodity that is "*replaced*" frequently. Hence, we will also have to consider the replacement cycle while computing the market size of the smartphones.

As a result, we will divide these households into two categories:

1. First Time Buyers (50%) = 1.7 Lakhs
2. Buyers Who Are Replacing their Smartphone (50%) = 1.7 Lakhs

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Assumption 3: The replacement cycle = 4 years

Buyers Who Are Replacing their Smartphone (Yearly Figure)  
(1.7 Lakhs/4) = 42,500

Total Market Size of Premium Smartphones (Yearly Figure) is  
First Time Buyers + Buyers Who Are Replacing their  
Smartphone (Yearly Figure) = 212,500.

Specific Alternatives Available to the Consumers:

1. Apple – 20%
2. Samsung – 20%
3. One Plus – 20%
4. Motorola – 20%
5. Vivo (The company recently announced that it is entering the Indian Premium Smartphone Market) – 20%

Number of One Plus smartphone sold in a year (20% of 212,500) = 42,500

Alternatively, you can compute the market size based on the actual Market Share of One Plus in the Indian Premium Smartphone Market.

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**Conclusion:** Based on our approach, the number of One Plus smartphones sold in a year in Delhi is 42,500 units.

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**Problem 5:** Compute the potential market of Tinder's Premium Services in India.

Population of India = 130 Crores.

These 130 Crore people can be categorized into different age groups:

- a) 0 – 17 Year Old (25%)
- b) 18 – 35 Year Old (25%)
- c) 36 – 53 Year Old (25%)
- d) 54 – 71 Year Old (25%)

Population belonging to the Dating Age (18 – 35 Year Old)  
(25% of 130 Crores) = 33 Crores

Assumption 1: The dating age is 18 – 35 years. This is based on the fact that the target audience of dating apps like tinder comprise of people belonging to this age group.

**Source:**

<http://alvomedia.com/5-marketing-lessons-from-tinder-app/#:~:text=With%20a%20user%20base%20of,can%20never%20call%20Tinder%20boring.>

These 33 Crore people can be classified on the basis of their relationship status: Single (33%), In a Relationship (33%) or Married (34%).

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Number of people who are single and belong to the dating population (33% of 33 Crore) = 11 Crores.

These 11 Crore people may or may not be using a dating application:

1. People using a dating application (50%).
2. People not using a dating application (50%).

People using a dating application (50% of 11 Crores) = 5.5 Crores.

These 5.5 Crore people may or may not be paying customers, i.e., there might be customers who use premium services provided by the dating applications or there might be the customers who simply rely on the free version of the dating application:

1. Paying Customers (50%)
2. Non-Paying Customers (50%)

Number of paying customers (50% of 5.5 Crores) = 2.75 Crores

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Assumptions:

1. Average amount spent by a dating application per app/website per month = Rs 100
2. Average spending cycle = 10 months.
3. Average number of paid apps/websites (app, social media accounts, website) per user = 4

Amount spent per year per paying customer ( $\text{Rs } 100 \times 10 \times 4$ ) =  
Rs 4,000

Dating Apps Premium Service Market Size ( $2.75 \text{ Crores} \times \text{Rs } 4,000$ ) = Rs 11,000 Crores

Players in the Indian Online Dating Market:

1. Bumble (20%)
2. Tinder (20%)
3. Happn (20%)
4. OkCupid (20%)
5. TrulyMadly (20%)

Tinder's Potential Market/Market Size (20% of Rs 11,000 Crores) = Rs 2,200 Crores

Alternatively, you can calculate potential market for Tinder's premium services based on the actual market share of Tinder in the Indian Premium Online Dating Market.

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**Conclusion:** Based on our approach, we can conclude that the potential market for Tinder's Premium Services is Rs 2,200 Crores.

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<https://www.linkedin.com/in/aditya-gupta-366009124/>

## THE KNOW-HOW

Market Sizing can be a bit tricky since there is no correct answer. So, feel free to devise your own approach. But remember, an interviewer will always set some acceptable limits for you.

As per the experts, your final answer must not be off by 15-20% compared to the actual answer.

In order to ensure that you arrive at a realistic answer, you can follow the below guidelines:

### **Ask questions to clearly define your problem statement.**

An interviewer might ask "What's the market size for vehicles in Delhi?". That's a pretty vague problem statement. Why?

What are we talking about here?

- Passenger vehicles or commercial vehicles?
- Are we talking about Delhi state or New Delhi city?
- Are we considering luxury cars or non-luxury cars?

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In order to arrive at a logical answer, make sure define your problem statement as accurately as possible by clarifying all your doubts with the interviewer.

## **Keep your calculations clean.**

Would you be able to calculate the product of 12234 and 99824 in a matter of seconds without using a calculator?

Of course not, unless you're a mathematical prodigy like Shakuntala Devi. In a typical market sizing problem, you might have to do some complex calculations which would unnecessarily waste your time.

With a typical market sizing round lasting up to 10 minutes only, it becomes quite difficult to be accurate and effective at the same time.

Try to use simple, round numbers as far as possible. But do not round up the numbers without asking the interviewer if he/she is fine with it.

**Tip:** Do not round off the number by more than 10%.

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<https://www.linkedin.com/in/aditya-gupta-366009124/>

## Sanity Check.

A wise man once said, "*Mistakes are inevitable, what separates a person from others is the improvement made after a mistake is realized*".

While solving a market-sizing problem, you might make mistakes throughout the process. With sanity checks, you may be able to detect them in time. A sanity check is a basic test to evaluate whether your answer can possibly be true or not.



For instance, suppose you're asked to calculate the sales for Dominos in Delhi for the year 2020 and you tell the interviewer that the answer is 84,000 [as calculated for Problem 2]. This answer would make no sense to the interviewer as we did not take the impact of COVID-19 on Dominos' sales into account.

In order to arrive at a logical answer, you will have to take this into account and proceed with your calculations.

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<https://www.linkedin.com/in/aditya-gupta-366009124/>

And with that, you have reached the end of this market sizing deck!

I hope you found it informative.



P.S. the room is always open for suggestions and feedback.

Thank you!