Approaches and Example for Guesstimates

1. Demand Side Approach

Overview

Approach: Break down demand by identifying the target population, usage frequency, and average consumption.
When to use: When estimating market size, revenue, or consumption patterns.
Examples:

- Market Size for Sanitary Pads in India.
- Estimate daily metro passengers in Delhi.

Parameters to Consider

AGE | INCOME | LOCATION

GENDER | OCCUPATION | COUNTRY

LITERACY RATE | MOBILE PENETRATION | INTERNET PENETRATION

2. Supply Side Approach

Overview

Approach: Estimates market size based on the production capacity, supply constraints, or distribution reach of a business rather than customer demand.
When to use: When there are supply constraints, including fixed production capacity, delivery lead times, regulatory restrictions, and transportation limitations.
Examples:

- Number of parcels delivered by Amazon in India in a day.
- Number of limited edition sneakers resold each year.

TAM-SAM-SOM Framework

Used to understand market size and revenue potential:

- **TAM (Total Addressable Market):** Represents the maximum market opportunity.
- **SAM (Serviceable Available Market):** That portion of TAM that a company can serve based on its capabilities and demographics.
- **SOM (Serviceable Obtainable Market):** That portion of SAM that a company can capture given its current resources and competition.

3. General Frameworks

TOP DOWN APPROACH

Start with a high-level estimate and break it down into smaller components.
Example: Estimating total revenue of the coffee industry by starting with global coffee consumption and working down to per-cup pricing.

BOTTOM UP APPROACH

Start with small, measurable components and aggregate them to form a larger estimate.
Example: Estimating total number of cars in a city by calculating cars per household and multiplying by number of households.

PARETO PRINCIPLE

The 80/20 rule states that 20% of activities drive 80% of results.
Example: In a city's restaurant revenue, 80% likely comes from the top 20% of restaurants.

MECE

Mutually **E**xclusive, **C**ollectively **E**xhaustive categories to ensure completeness and prevent overlap.
Example: Estimating marketing effectiveness as: Total Impressions $\times$ Conversion Rate.

UNIT ECONOMICS

Break down the problem into individual units (e.g., per customer) and scale up.
Example: Cost of running a delivery service = Cost per delivery $\times$ Number of deliveries.

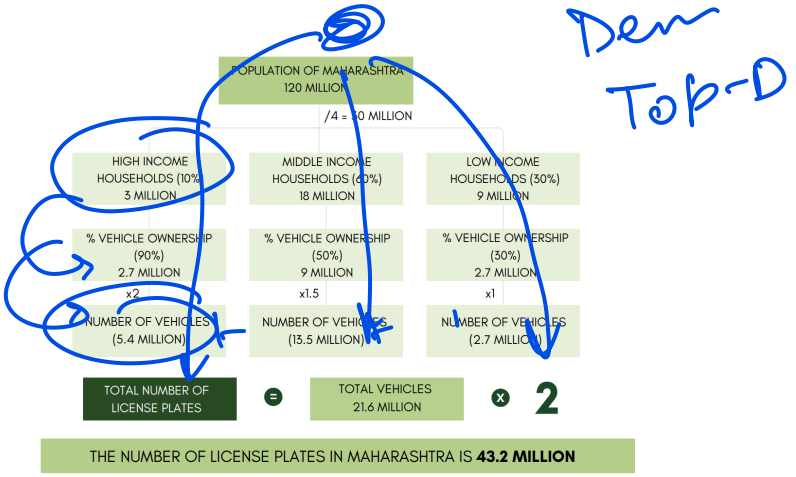
EXTRAPOLATION

Use existing data trends to project future estimates.
Formula: $Y = Y' \times (1 + r)^t$
Where Y=Estimated future value, Y'=Current value, r=Growth rate, t=Time period.

Example 1: Demand Side Guesstimate

Problem: Estimate the number of license plates in the state of Maharashtra.

Assumptions: Avg people per household = 4 # of license plates per vehicle = 2



The number of license plates in Maharashtra is 43.2 Million

Example 2: Supply Side Guesstimate

Problem: Estimate daily revenue of a fast food chain in New Delhi.

Assumptions: Focus on Dine-in orders only.