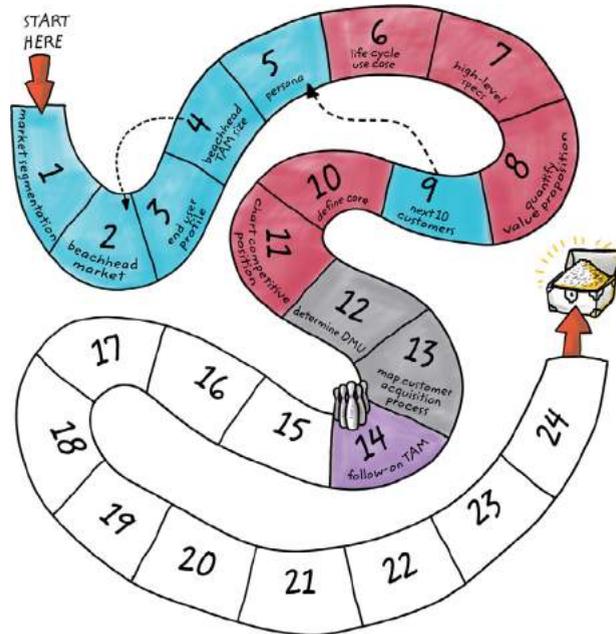


STEP 14

Calculate the Total Addressable Market Size for Follow-on Markets



IN THIS STEP, YOU WILL:

- Briefly consider which “follow-on” markets you will expand to after dominating your beachhead market.
- Calculate the size of these follow-on markets.



While maintaining a relentless daily focus on your beachhead market, you should also do some small amount of analysis on what happens if and when you win the beachhead market; from a general standpoint and without a great deal of detail, what do you project will be your next markets and how big will they be?

So far, you have focused on customers in your beachhead market, and rightly so. At this point in the process, though, you will take a step back and briefly and quickly validate the existence and size of other, similar markets (“follow-on markets”) that you will target once you have dominated the beachhead market. This is a check to make sure you are heading in the right direction to build a scalable business and also a reminder of the size and nature of the bigger opportunity.

There are two types of follow-on markets. One involves selling the same customer additional products or applications, which is often referred to as upselling. Since you already have a keen awareness of your target customer’s needs and priorities from all of your research, this knowledge can be used to determine what additional products you could create for or even resell to the customer. One benefit is that you can use existing sales and distribution channels to sell the new products, leveraging the investment and positive relationship you have built with the target customer. However, making additional products will likely stretch your business beyond your Core, which may hurt your Competitive Position in those markets, unless your Core is something related to customer relationships.

The second market, and the path often taken by innovation-based startups, is to sell the same basic product to “adjacent markets,” which are markets similar to your beachhead. While selling to these new markets usually requires additional features, product refinement, and/or different packaging, marketing communications, or pricing, you are leveraging the same Core, and building off the expertise and scale developed in the beachhead market. The challenge is that you will have to establish new customer relationships in each adjacent market, which can be risky and expensive.

While the Core of innovation-based startups often naturally leads to the latter strategy, you can pursue either strategy, or a mixture of the two, after dominating your beachhead market. Geoffrey Moore in *Crossing the Chasm* uses an analogy of bowling pins, where the “1” or lead pin is your beachhead market, the pins on the left side of the set are adjacent markets; the pins on the right side of the set are additional applications for the customer in a particular market (Figure 14.1).

In this step, you will identify some follow-on markets and determine the Total Addressable Market (TAM) for those markets. You need not and should not spend much time at all on this step right now—probably one-tenth or less of the effort and analysis you did for your beachhead market. Likely, much of the information you need for this Step was already gathered when you did your initial Market Segmentation.

What good does this process do? It keeps you cognizant of the long-term potential of your business as you begin to design your product and build capabilities. You will excite management, employees, and investors by showing that the business has the potential to be overwhelmingly successful. You will also get a better sense of other potential markets if your beachhead market turns out to be much more problematic than you envisioned and you have to either abandon it or revisit other options.

However, it is very important that you do not let this broader market and subsequent TAM calculation distract you and your team from the beachhead market. The broader TAM calculation

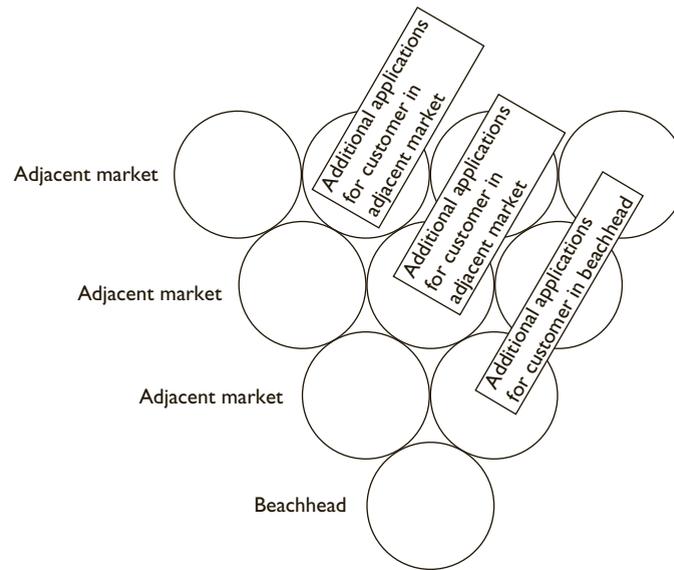


Figure 14.1 Modified Moore bowling pins.

should galvanize the team to conquer the beachhead market first, while keeping the team thinking about the importance of developing and growing the Core. As the cartoon at the beginning of the step illustrates, success in the follow-on markets only happens after you win your beachhead market.

HOW TO CALCULATE BROADER TAM

Think through the various adjacent markets and upselling opportunities that logically make sense with your product. You should be able to identify at least five or six follow-on markets. Use the same general methodology to calculate the TAM for each follow-on market that you did for your beachhead TAM in Step 4.

If you want to attract venture capital and/or build a big business, the general rule is that the broader TAM (for 10 or less follow-on markets), plus your beachhead market TAM, should add up to over \$1B.

Use all the techniques I mentioned in Step 4, like making sure the units are correct; but you need a lot less primary market research for now.

EXAMPLE**Smart Skin Care**

This team started with a beachhead market of sunscreen for extreme athletes, with a \$20M per year TAM. Considering that their gross margins would be very high, this was a good-sized market to get started in and build up some momentum to attract much bigger markets—such as sunscreen to general consumers, potentially a multibillion dollar per year TAM.

They looked at other follow-on markets as well to see where they could use the underlying technology to easily enter markets and gain a large market share. Each of the market opportunities in their simple flow chart (Figure 14.2) were \$100M or more per year and the TAM for the follow-on markets added up to around \$2B per year. You don't need to get into a lot more detail than a

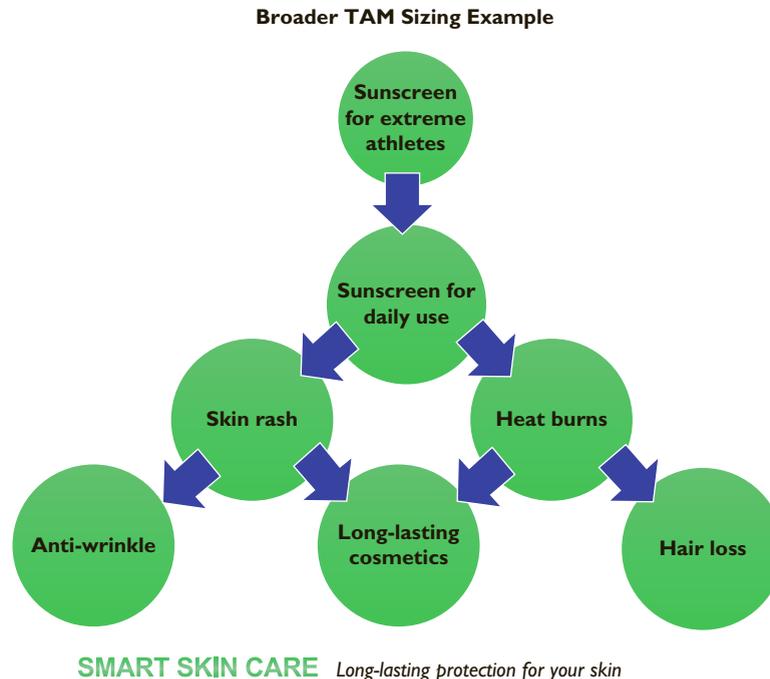


Figure 14.2 Broader TAM sizing for Smart Skin Care.

flowchart, though you should include the dollar amount for each follow-on market and the total TAM, neither of which are included in the flowchart shown.

SUMMARY

The Calculation of the Broader TAM should be a quick validation that there is a bigger market and should reassure team members and investors that your business has great potential in both the short term and long term.