TAM, SAM and SOM

Introduction

In the early stages of starting a new business entrepreneurs are usually excited and eager to get their companies off the ground and start generating profits. However, it's important to remember that these goals should be reality based. Before making lofty predictions, take a step back and understand the market potential for a business. Do some research and set realistic targets to make informed decisions about a company's direction. Openness to the risks (i.e., not enough market, lack of investors, burning out employees) involved in starting up a business can increase chances of success. Don't be afraid to take risks—just make sure you know what you're doing first.

When assessing an investment opportunity, it's important to know about TOM SAM SOM. They help figure out how big the market is and what a company's chances are of getting a piece of it.

Definition

When investors want to create a successful business plan, TAM, SAM, and SOM are key metrics to better understand the market that a company operates in. They are crucial in crafting a realistic and achievable marketing and sales strategy.

TAM or Total Available Market means accounting of all the potential customers that exist.

Your products and services are only as good they can be if the market is accessible. SAM or Serviceable Available Market determines how many potential customers can you close a sale with considering some limitations such as geographical location.

SOM or Serviceable Obtainable Market is the portion of SAM that you can realistically capture. This includes all those who would buy from your business because they understand what you offer and its value.

When to Use it

For a business to be successful, you need two things:

- the ability to see investments with huge returns, and
- know when an opportunity has reached its limit.

An investment makes more sense if a company can deliver what they promised to clients more so, go above and beyond their vision. As such, a company can add more product feature or function which can potentially increase their overall value. By being creative with incentive structures, investors and clients get encouraged not to miss out on an opportunity for this additional value.

However, in business, the "show does not always go as planned" hence, ROI is not hundred percent guaranteed. SAM and SOM play a role in terms of assessing risks and setting achievable objectives.

Considering the following factors:

Product: What product does my target client needs? Would they want to buy it?
Marketing Plan: How can I reach my target client? What are the lead generation channels that I can use to get a wider customer reach?
Competitor Research: What percentage of my target market buys from my competitors? What can I offer that my competitors do not have? How can I capture a realistic percentage of the target market?

SAM is like having check and balance in terms of investments. It's like playing a chess game. An investor needs to know his/her move, the board layout, and how each piece fits into play to win. SAM helps an investor assess whether it's worth investing time on any given market segment - giving an accurate reading about short term upside potential with regards long-term strategies.

Finally, how do you know if your marketing strategy is working?

By using data, a company can demonstrate its ability to penetrate the local market and reduce risk for investors. Once this has been done, they'll be able look at ways of expansion that may have greater potential within the total available market (TAM).

Details

TAM – Total Available Market

This refers to the highest revenue amount that a company could generate by selling a product or service in a particular market. It's used to objectively predict potential market growth.

SAM – Serviceable Available Market

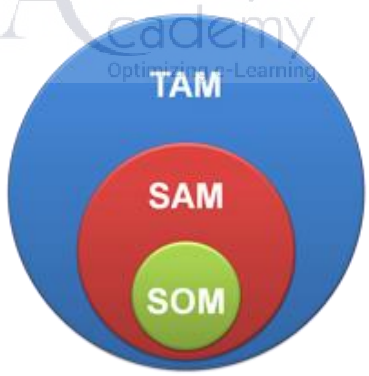
A portion of your total available market because there is no guarantee that a business can capture hundred percent of the target customers due to geographical limitation or specific requirements. It's most useful to accurately estimate a portion of the target market that a company can reach or acquire.

SOM – Serviceable Obtainable Market

SOM refers to the portion of your target market that is both willing and able to buy your product or service. This is an important metric for businesses to measure, as it gives you a realistic target for growth.

In summary, they help you to understand the size and scope of the market you're looking to enter, as well as the potential for success. By taking the time to accurately assess TAM, SAM, and SOM, you can make sure that your business plan is on solid footing from the start.

Example:



Here's how to calculate TAM:

For a market of 6,000 accounts at $1500 ACV, the TAM would be $9M.

(No. of Accounts in a Market) x (Annual Contract Value)

Note: Annual contract value is determined by your company's historical data of existing customers.

Here's how to compute SAM:

(Target Segment of TAM) x (Annual Contract Value)

Say the market is 6,000 but only 3,333 lives in a particular area your business serve. With a $1500 ACV, the SAM is approx.. $5M.

Lastly, calculate the SOM:

(Last Year's Market Share) x (This Year's SAM)

For example, last year's SAM was $4M and your business earnings was $1.5M (37.5%). If this year's SAM is %5M, multiply that by 0.375 to get a SOM of approximately $1.88M.

References:

https://www.thebusinessplanshop.com/blog/en/entry/tam_sam_som

https://blog.hubspot.com/marketing/tam-sam-som