



MARKET SIZE ESTIMATION

02.03.2022

@InventureVC

@laurikokkila



**Lauri
Kokkila**

<https://www.linkedin.com/in/kokkila/>

Currently:



Investment Director at
Inventure

Boards:



Swappie

Announced
108M€ C-Round
in 02/2022



**Material
Exchange**

Raised 5M€
A-round 11/2020



Raised 1M€
Seed
12/2020

(XX)

Investment not
published

Previously:



Acquired by
Amazon Inc.
01/2021



Raised 500k€
round
01/2020



TOPICS FOR TODAY

1. INTRODUCTION TO INVENTURE
2. PART I: WHY MARKET SIZE MATTERS? (VC 101)
3. PART II: MARKET SIZE ESTIMATION
4. Q&A
5. 10 MINUTE MARKET CALCULATION
(TEAMWORK: CALCULATING YOUR MARKET SIZE)

in|venture



in|venture

- Founded in 2005
- Over 60 investments completed in the nordics & baltics
- 500+m€ raised to portfolio companies
- 230 million eur in capital base
- Team of 17 in the nordics
- Signature deals:



RIGHTWARE

CANATU

Blueprint Genetics



Wolt





Lauri Kokkila
INVESTMENT DIRECTOR

- Focus in the team:
- B2B and B2C Marketplaces
 - Proptech
 - Human-machine interfaces
 - Machine learning

HOW DO WE EVALUATE STARTUPS?

We meet 1500-2000 companies yearly and invest in less than 10

- Team-market fit
- Product-market fit
- **Market potential: TAM** 
- Scalability & Unit Economics
- Deal

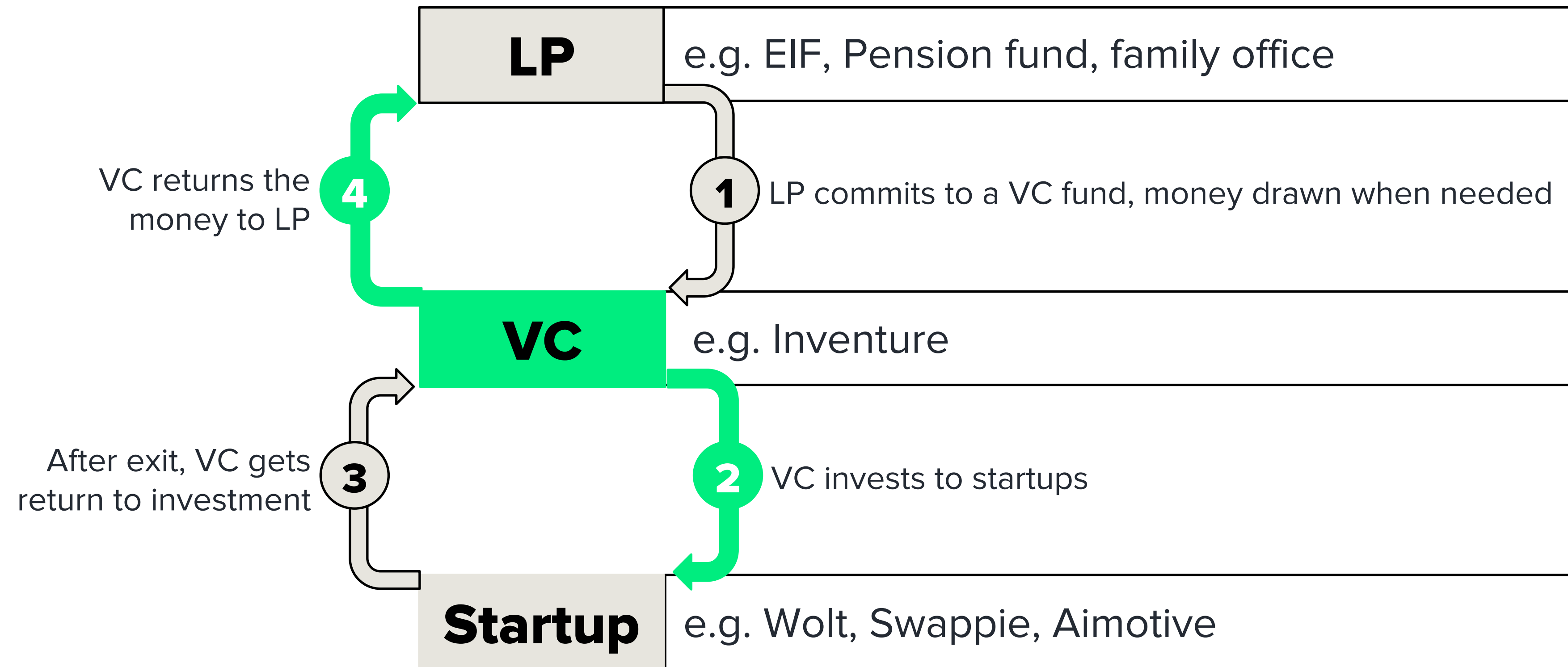
01

VC 101

Why market size matters?

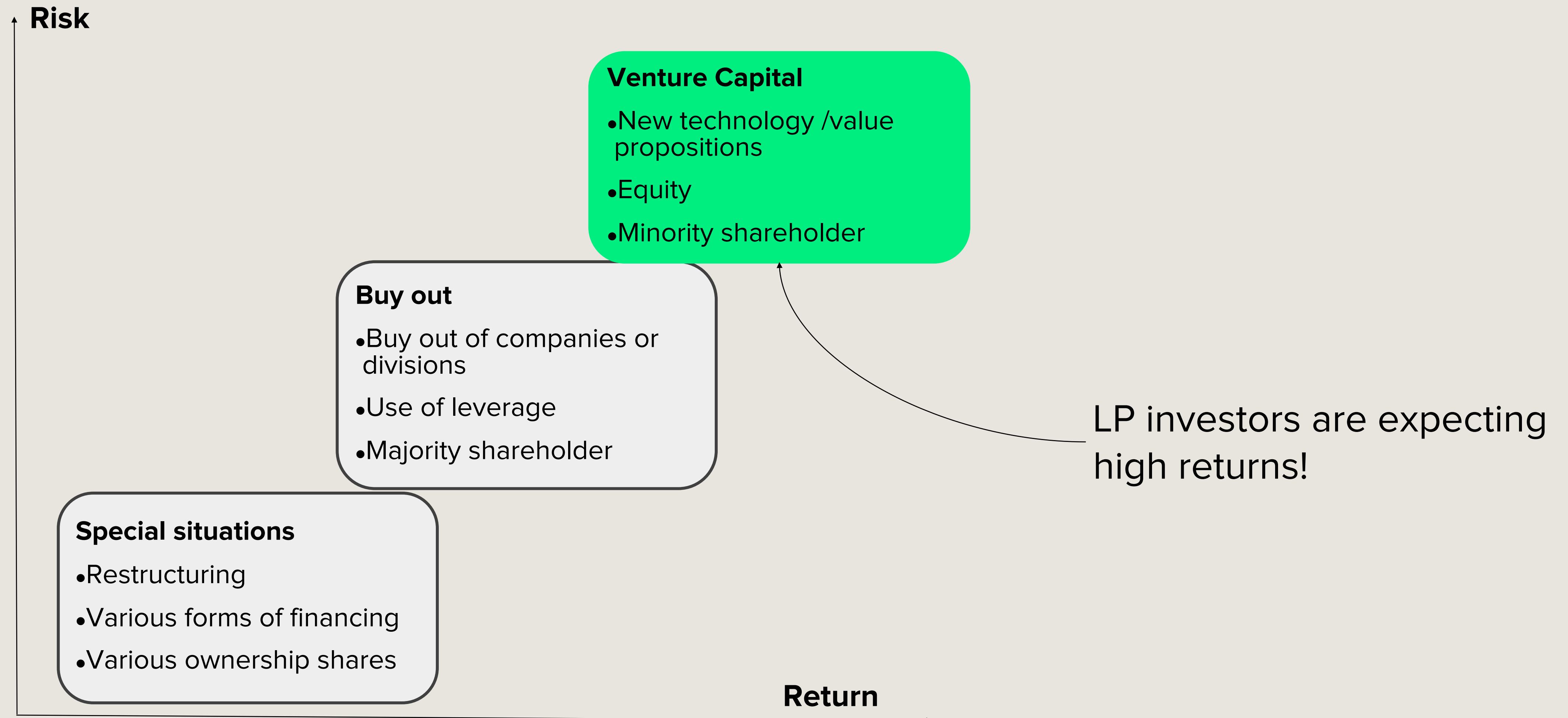


VENTURE CAPITAL (VC)



20+% IRR?

FOR INVESTORS VC IS ONE OF THE RISKIEST ASSET CLASSES



VC MATH: IS YOUR IDEA BIG ENOUGH?

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100 M€ FUND (GOAL 3X RETURN)

VC MATH: IS YOUR IDEA BIG ENOUGH?

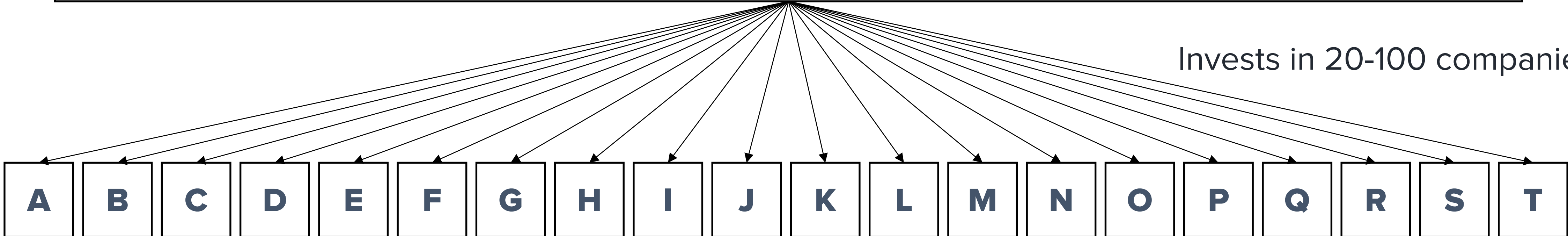
$$\$100\text{m} * 1.2^6 = \$299\text{m}$$

100 M€ FUND (GOAL 3X RETURN)

VC MATH: IS YOUR IDEA BIG ENOUGH?

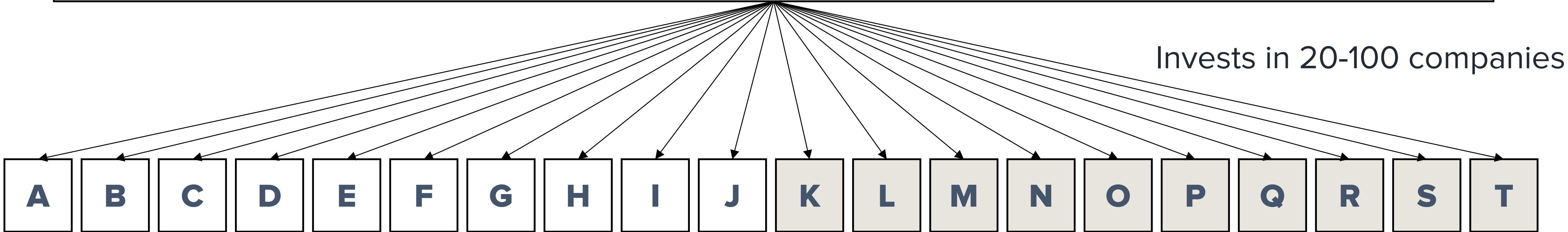
100 M€ FUND (GOAL 3X RETURN)

Invests in 20-100 companies



VC MATH: IS YOUR IDEA BIG ENOUGH?

100 M€ FUND (GOAL 3X RETURN)

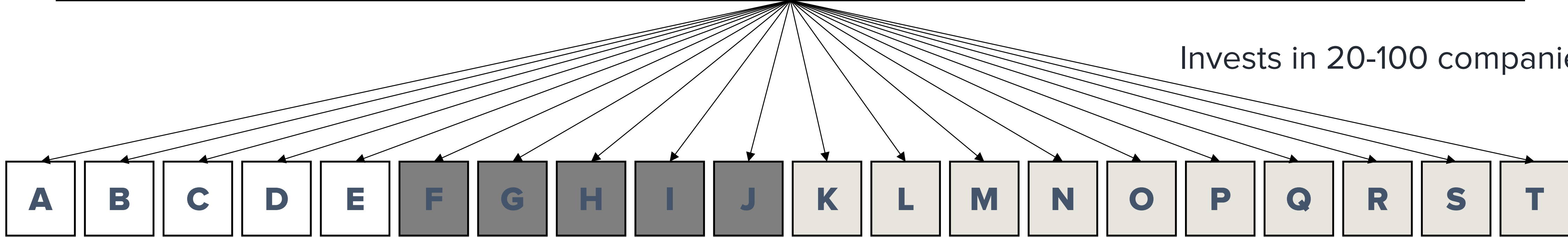


50% Startups fail & return no money to investors
=
20-50M€ lost

VC MATH: IS YOUR IDEA BIG ENOUGH?

100 M€ FUND (GOAL 3X RETURN)

Invests in 20-100 companies



25% return 2X

=

25-40M€ returned to fund

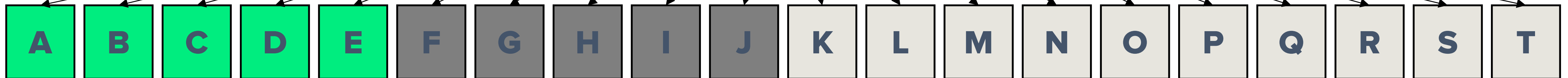


= +/- 0€ returned from 75% of the portfolio

VC MATH: IS YOUR IDEA BIG ENOUGH?

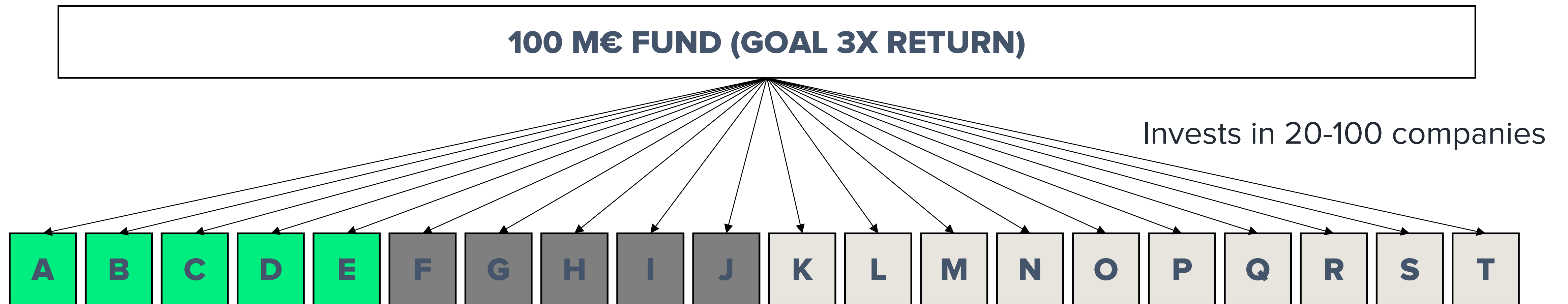
100 M€ FUND (GOAL 3X RETURN)

Invests in 20-100 companies



With 25-40M€ invested,
these companies have to
return **260+M€**

VC MATH: IS YOUR IDEA BIG ENOUGH?



With 25-40M€ invested, these companies have to return **260+M€**

In exit, VC owns 10% of the company.

→ 5 companies needs to be worth at least **2,6B€**

IN SHORT

Every single vc investment should have the theoretical possibility to return at least 1x the entire fund

- E.G. If the fund is 50m€, your startup should have the opportunity to reach 500 m€ valuation in 10 years

VC DOES NOT SUIT EVERYONE !

Other ways to finance your startup

- Customer revenue
- Private Equity Funds
- Debt Financing (Venture Debt)
- Angel Investors
- Crowdfunding
- Grants
- Donations
- ...

NAAVA

Gubbe

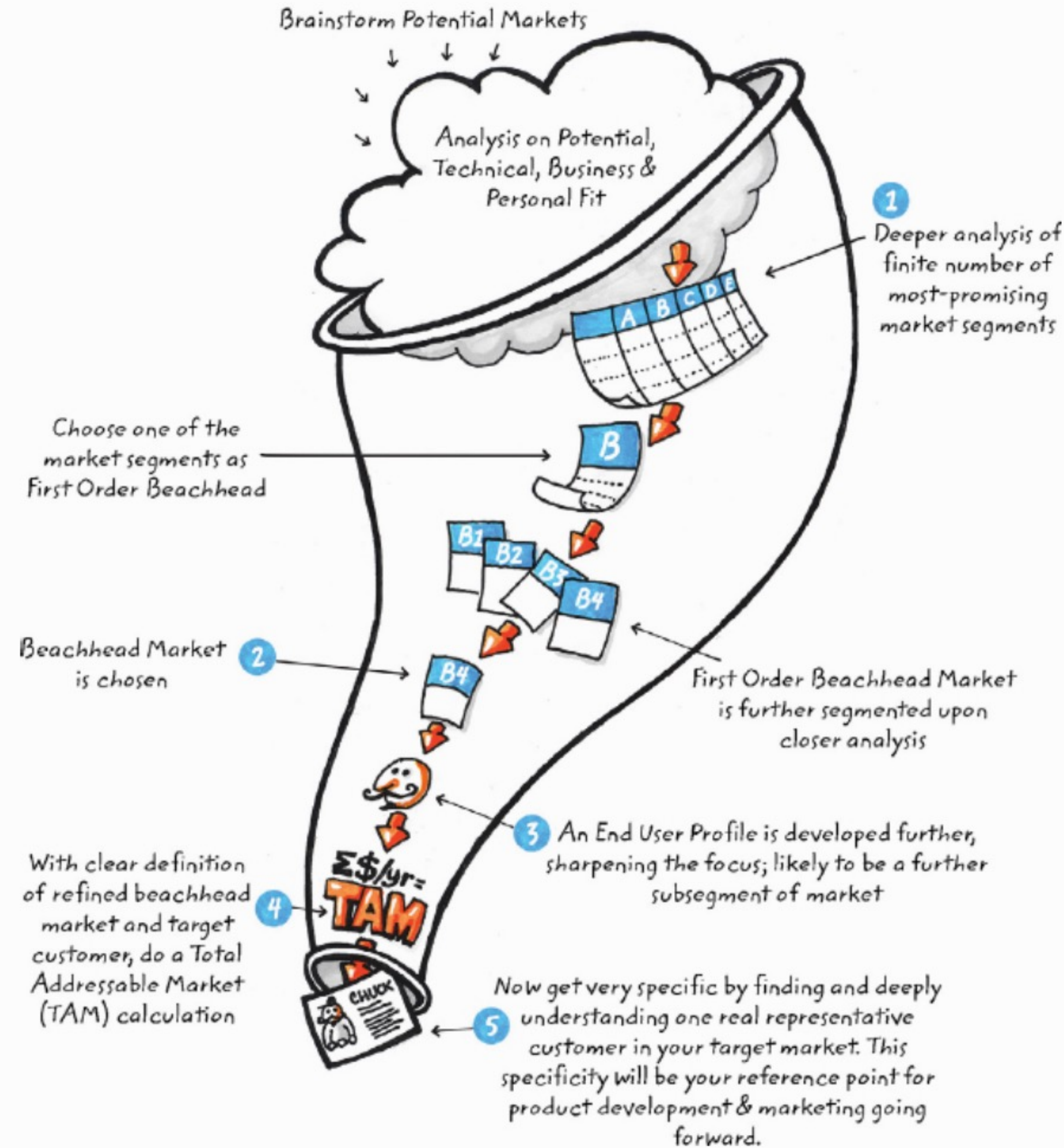
 kodit.io

02

MARKET SIZE ESTIMATION



THE SEARCH FOR THE HOLY GRAIL OF SPECIFICITY



Needed for Market Size calculation:
1. Beachhead market
2. Target Customer (not user!)

GLOSSARY

TAM = Total Available Market is the total market demand for a product or service. In other words, your yearly revenue potential if you achieve 100% market share.



Because your product does not serve everyone in the market

SAM = Serviceable Available Market is the segment of the TAM targeted by your products and services which is within your geographical reach.

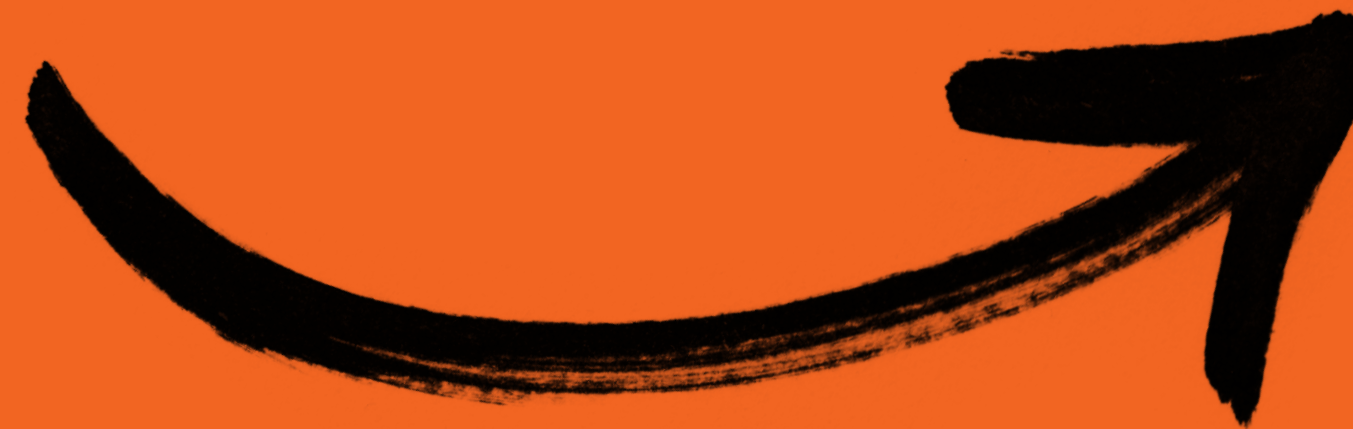


Because you will never have 100% of the market

SOM = Serviceable Obtainable Market is the portion of SAM that you can capture

HOW DO STARTUPS TYPICALLY CALCULATE TOTAL ADDRESSABLE MARKET?

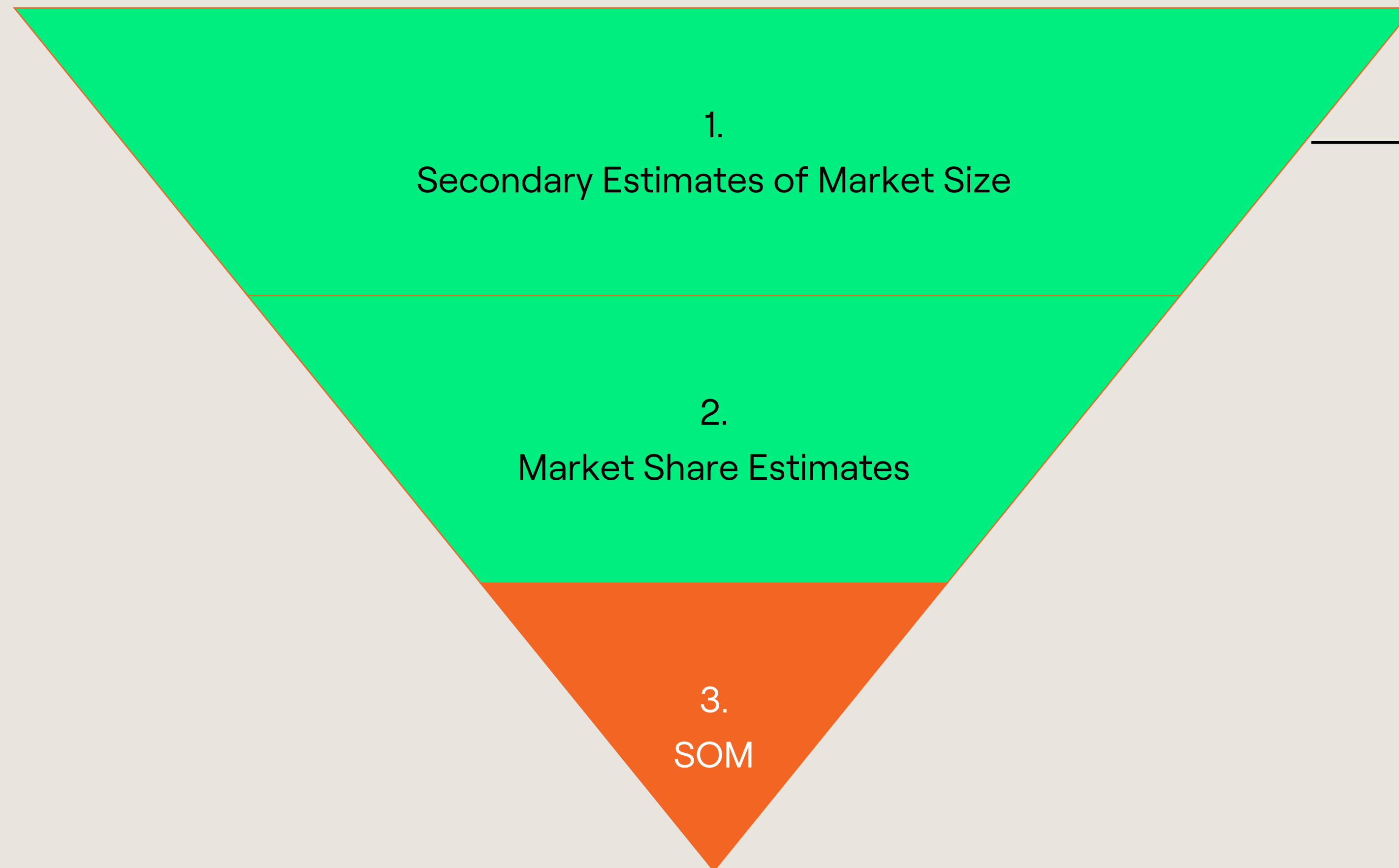
TOP-DOWN / BOTTOM-UP



Use to validate the other!

TOP-DOWN

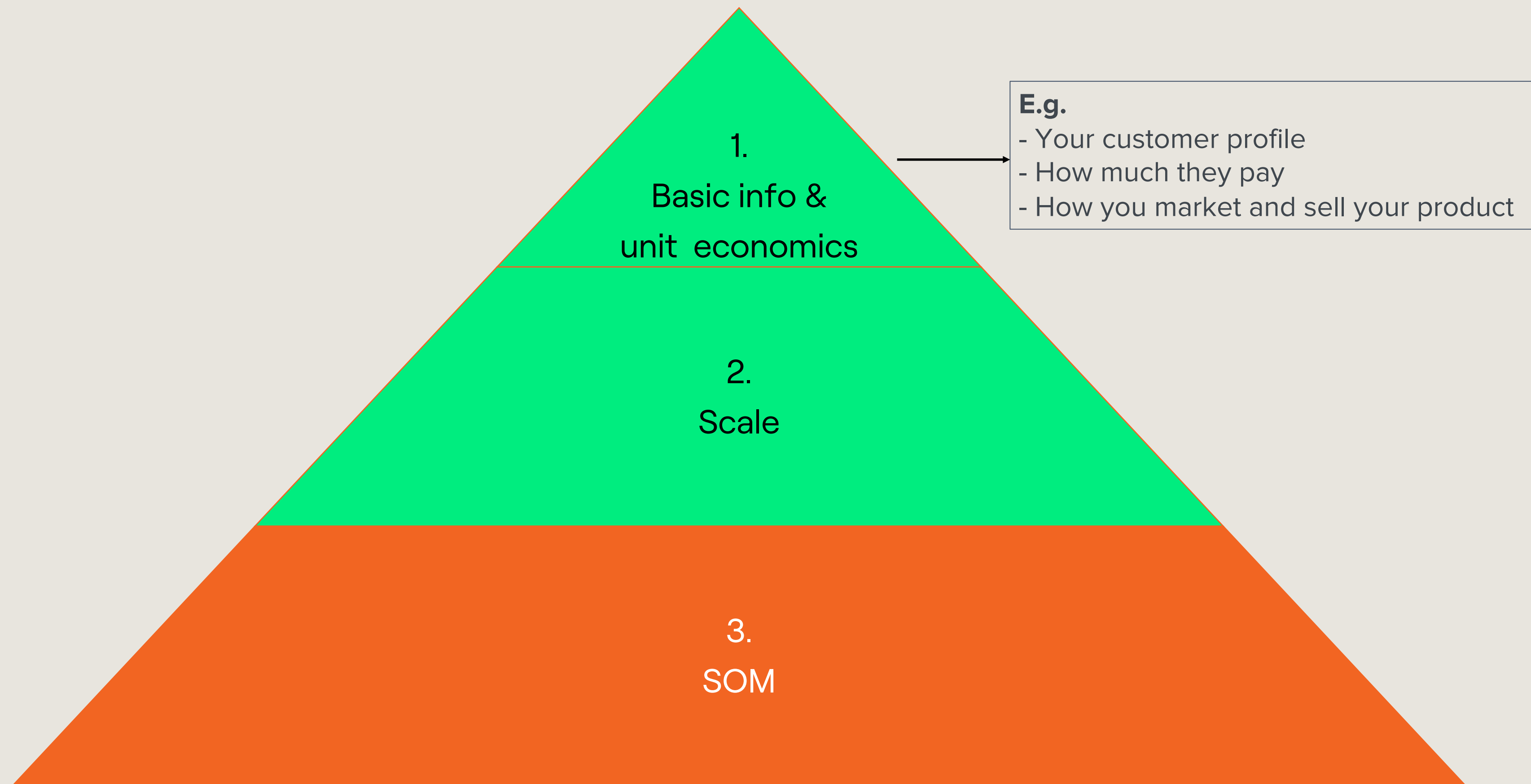
HOW MANY TOOTHBRUSHES CAN YOU SELL IN CHINA?

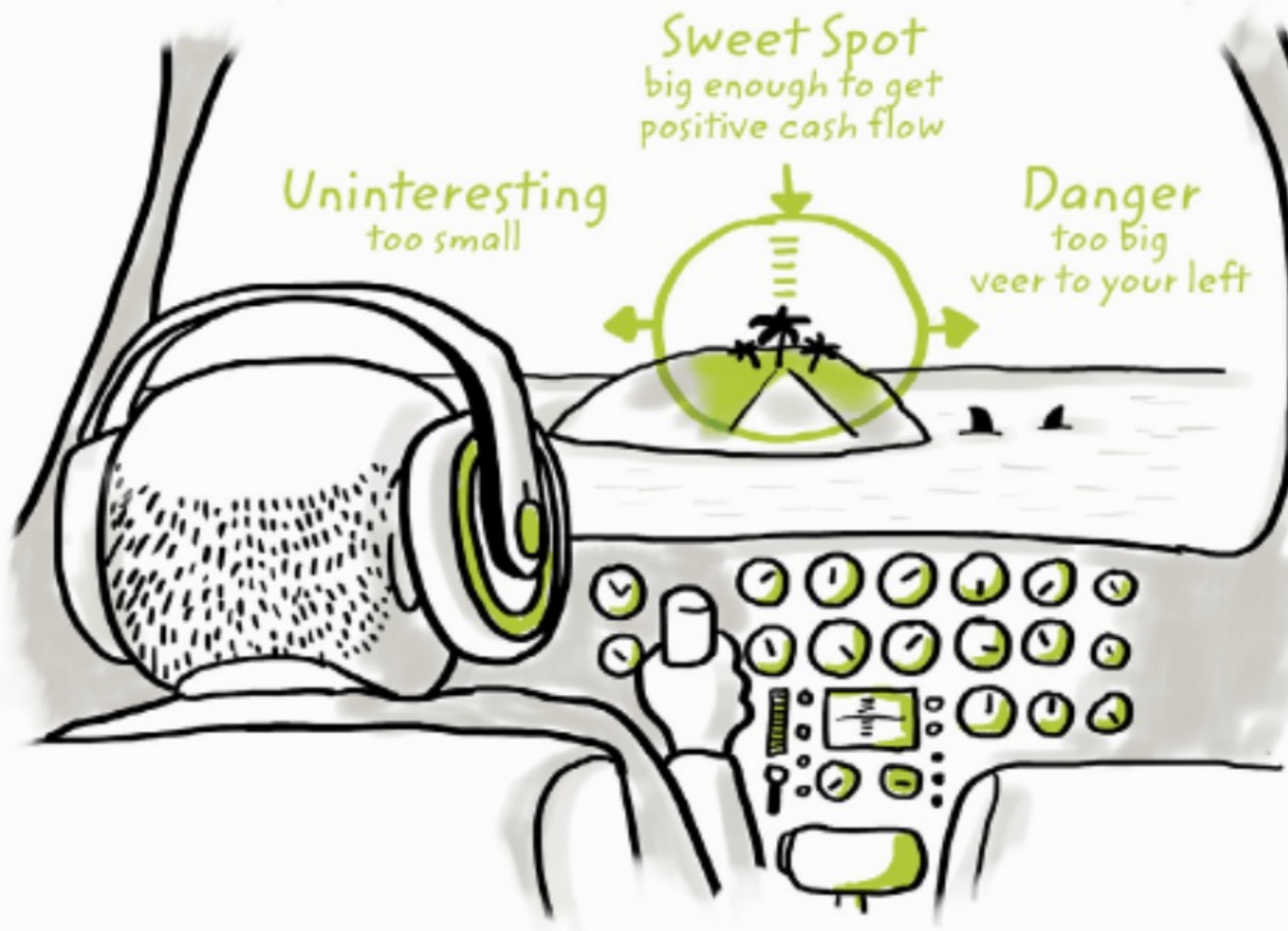


E.g.

- Gartner estimation on market size
- B€ spend on X yearly

BOTTOM-UP (IN MANY CASES BETTER)





TAM calculation
is your sanity check
that you are headed
in the right direction

*Source: *Disciplined Entrepreneurship* (great book for entrepreneurship methodologies!)

Example: **Blok**

Sell your home with Blok. Save thousands.

You show your home, we take care of the rest

SELL YOUR APARTMENT

FREE HOME VALUATION

- More affordable commission
- You don't pay anything if the apartment doesn't sell
- The safety and support of a licensed real estate broker

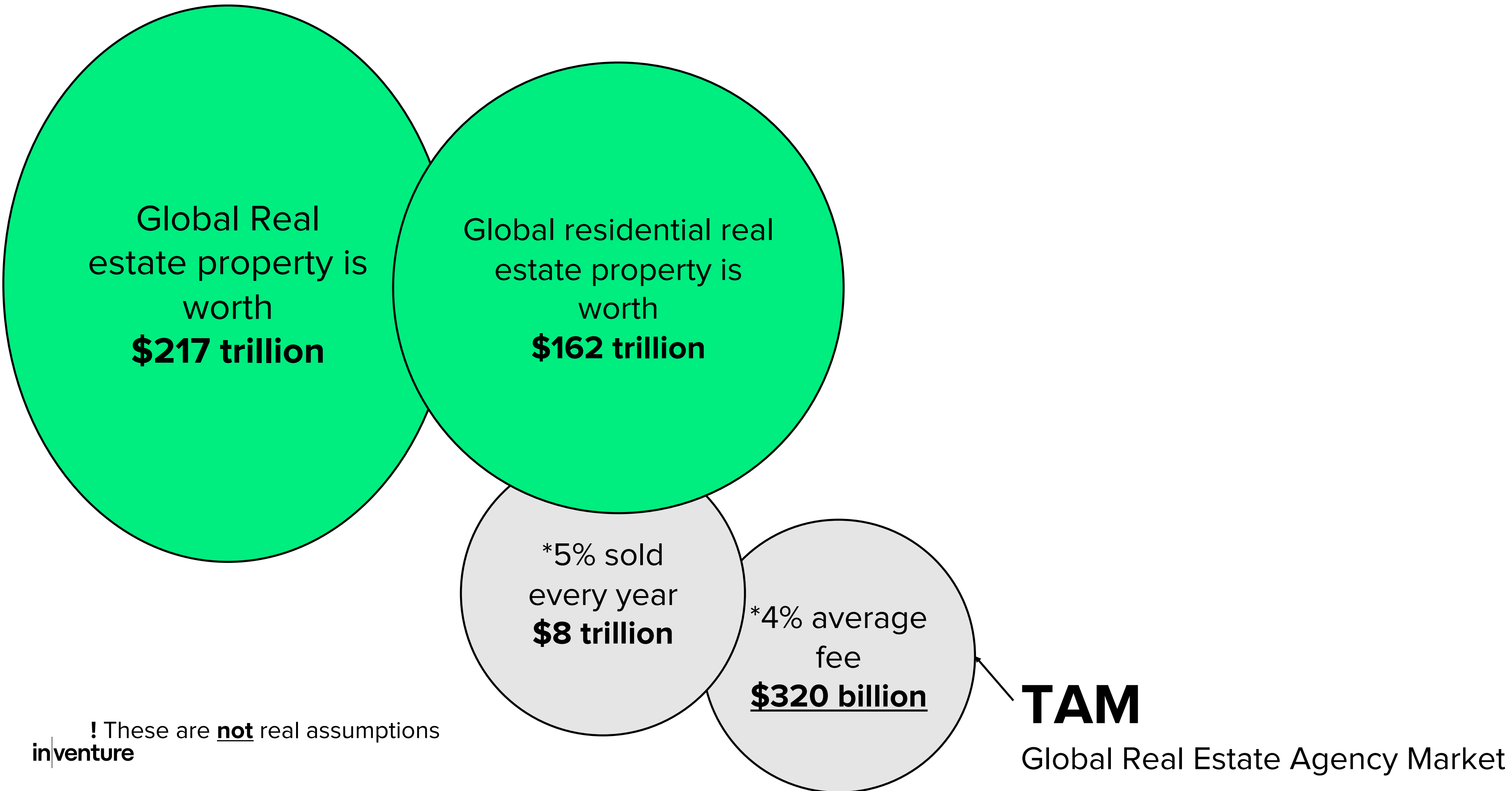


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(pvm/mpm, open 9-21)

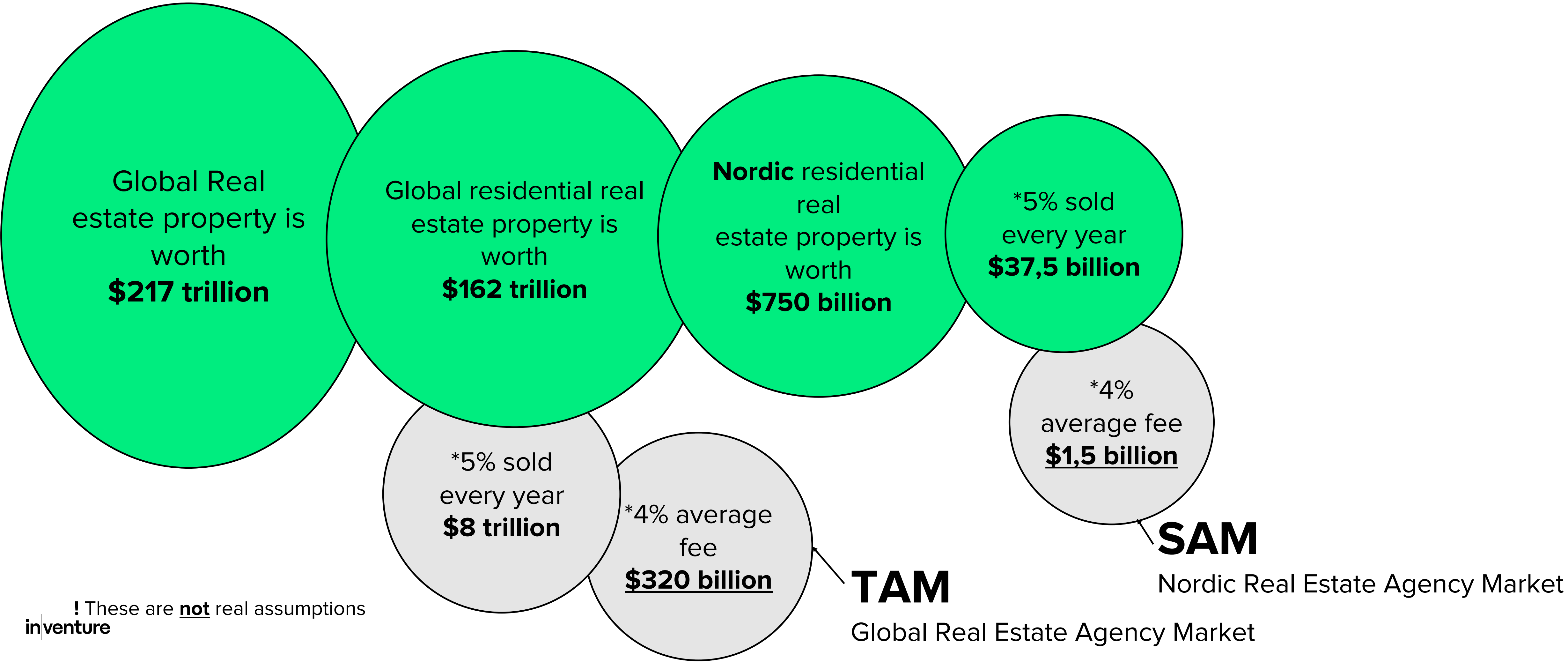


BLOK MARKET SIZE: TOP-DOWN



! These are **not** real assumptions
in|venture

BLOK MARKET SIZE: TOP-DOWN



Global Real estate property is worth **\$217 trillion**

Global residential real estate property is worth **\$162 trillion**

Nordic residential real estate property is worth **\$750 billion**

*5% sold every year **\$37,5 billion**

*5% sold every year **\$8 trillion**

*4% average fee **\$320 billion**

*4% average fee **\$1,5 billion**

TAM
Global Real Estate Agency Market

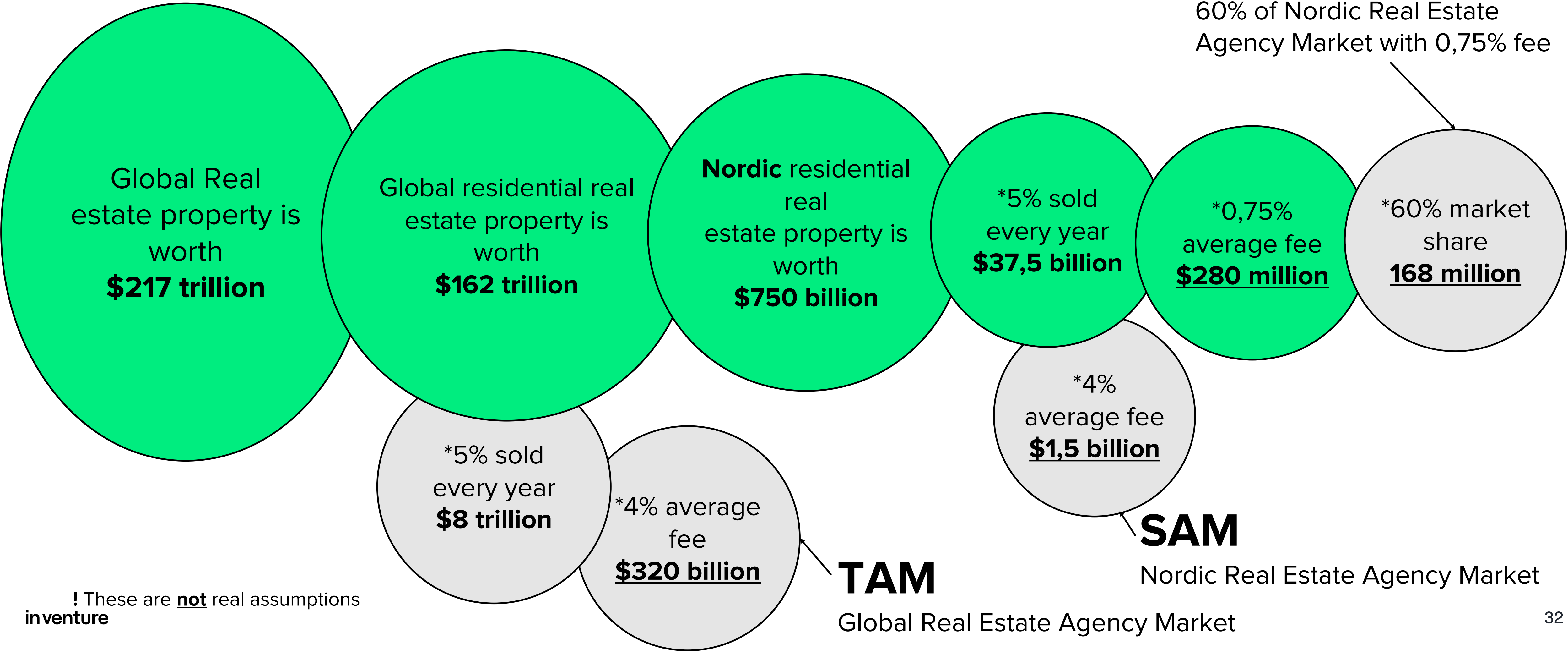
SAM
Nordic Real Estate Agency Market

! These are **not** real assumptions
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BLOK MARKET SIZE: TOP-DOWN

SOM

60% of Nordic Real Estate Agency Market with 0,75% fee



! These are **not** real assumptions
in|venture

BLOK MARKET SIZE: BOTTOM-UP

0,75% margin x 200 000€ (avg price of an apartment) = 1500€ per sold apartment

50 000 (apartments sold per year) x 1500€ = 75 000 000€ market in Finland

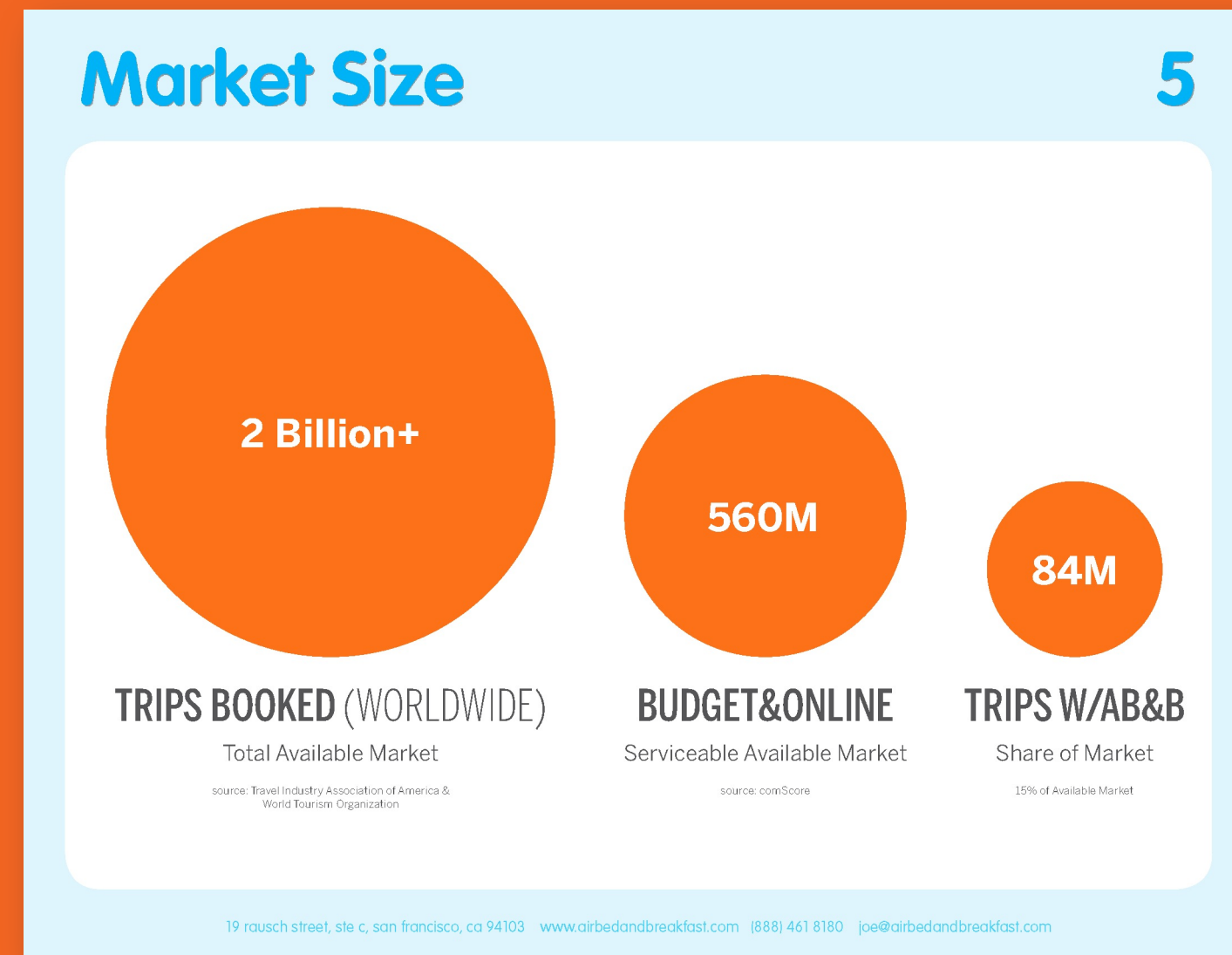
75M€ x 5 = 375 M€ market in the Nordics

375M€ x 60% market share = **225 M€ market for Blok in the Nordics**

SOM

← 60% of Nordic Real Estate Agency Market with 0,75% fee

AirBnB first investment deck



The number is as important as the rationale behind the number !

ESTIMATING THE UNKNOWN: FROM SMALL TO BIG

MARKETS ARE NEVER STATIC



Motorola Transportable CM 451 (1991)



DJI Phantom, Magic Leap, or Aimotive? (2019)

INVESTING IN MEGATRENDS

FUTURE OF MOBILITY



CANATU



VIRTUAL REALITY

sólfar.



Vizor



MARKETPLACES

Wolt



RECAP AND Q&A

1. Use Bottom-up analysis to calculate your market size, and top-down to validate your calculation
2. Market size is about **convincing** someone (e.g. investor, future employee) about a big enough market, not about the actual number, and that you know your market.
3. Think about the market dynamics (e.g. growth)
4. Don't waste too much time on market size calculations, you have more important things to do also 😊

GROUP WORK

Calculate your market size using either top-down or bottom-up methodology

Deliverable:

1. Market Size Calculation Spreadsheet with sources for initial data points. If you can't find data, estimate and explain why you think it is correct.
2. One pager on about your calculation logic and what does this market size tell (there is no bad market size, only honest ones)

LET'S TRY THIS!

Market Size in 10 minutes

WE WOULD LOVE TO HEAR FROM YOU!

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inventure.vc

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[@laurikokkila](https://www.instagram.com/laurikokkila)



Real life Example

Material Exchange Fundraising; TAM Caluculation.xlsx

	Business Model	Total Addressable Market (GMV)	Total Addressable Market (Comission + SaaS)	Rationale	Product Stage	Sources	
Marketplace: Supplier Management System	Supplier Subscription (SaaS) & later Manufacturer Subscription (SaaS)		€ 320 000 000	80 000 relevant manufacturers and materials suppliers (tier 1 & 2) * 4000€ per year	Beta Launched for Material Suppliers	There are no accurate statistics about number of suppliers globally. Best estimates are that together Tier 1 and 2 could be around 80-100k. Open Apparel registry (does split into Tiers) has mapped 70 000 facilities. https://openapparel.org/	35
Marketplace: Brand Management System	Brand Subscription (SaaS)		€ 400 000 000	10.000 Global Brands*40€k yearly fee	Beta Launched for first Brand	There are hundreds of thousands of Brands globally, however we can do a conservative estimate that there are at least 10.000 brands in our target market. https://golden.com/query/list-of-fashion-companies-W9V https://www.stylight.com/Brands/ https://www.ibisworld.com/industry-statistics/number-of-businesses/clothing-boutiques-united-states/	36 ★
Exchanges: Supplier yearly fee	Supplier Subscription (SaaS) & later Manufacturer Subscription (SaaS)		€ 200 000 000	50% of the market has specialised area and want to pay for visibility * 80 000 manufacturers and materials suppliers (tier 1 & 2) * 5000€ per year	Launched for Kingpins Exchange	There are no accurate statistics about number of suppliers globally. Best estimates are that together Tier 1 and 2 could be around 80-100k. Open Apparel registry (does split into Tiers) has mapped 70 000 facilities. https://openapparel.org/	37
Experts: comission on orders	Commission from orders	€ 1 892 000 000 000	€ 75 680 000 000	20% of \$2T market (1,72T€), where our take rate is 4% of order value. Naturally, we are aiming to a lot higher take rate on average.	Launched and operational in denim	Textiles market will reach \$1 412B and Leather Goods industry \$624B market size by 2028, which only cover our market partly. https://www.grandviewresearch.com/industry-analysis/textile-market https://www.grandviewresearch.com/industry-analysis/leather-goods-market	
Scanning Service	Price per scan		€ 20 000 000	50% of the market * 45 000 relevant material suppliers (tier 1 & 2) * (100 materials per year * 2€ per scan for all materials + 50 materials per year * 12€ per scan for 3D)	Launched with Scanning Hubs in China and India		38
Dead Stock "eCommerce"	Transactions / Listing Fee		€ 309 600 000	30% of 120B market, where we take 1% of order value	Live stock launched in 2021, no separate "deadstock" marketplace launched.	https://fortune.com/2021/04/29/retail-deadstock-unsold-clothes-fashion-supply-chain-covid/	
Order Funding	Providing Suppliers with Funding		€ 430 000 000	5% of 2T market, where we take 0,5% of order value	Initial discussion started with possible partners		39