



Source: [HubSpot](#)

Total Addressable Market (TAM)

"Total Addressable Market (TAM), also called total available market, is a term that is typically used to reference the revenue opportunity available for a product or service. TAM helps prioritize business opportunities by serving as a quick metric for a given opportunity's underlying potential."

Source: [Wikipedia](#)

Example: Assume you own an electric toothbrush company operating in the United States. Your TAM would be the global electronic toothbrush market.

Why Is It Important To Calculate TAM, SAM, SOM To Win Investor's Trust?

Source: TAM, SAM, and SOM: fundamental market size metrics([opens in a new tab](#))

The more you can prove that your SOM is attainable, the more it will increase your investors' confidence. You will be able to win investor trust by creating a business plan calculation which is in line with your SOM estimate.

When And Why You Must Include TAM, SAM, SOM In Your Business Plan?

Source: [TAM, SAM, and SOM: fundamental market size metrics](#)(opens in a new tab)

Put yourself in the shoes of investors. It is necessary to provide investors a target return that implies both:

- a low-risk early investment (i.e., understand if the startup has a market by spending as little money as possible); and
- investment in opportunities that offer considerable upside potential (i.e., huge market size).

The SOM and SAM help to reduce the investment risk, while the TAM allows you to assess the upside potential. The Serviceable Market is your short-term goal and, therefore, the one that matters the most: if you fail to succeed on a fraction of the local market, chances are you will never capture many parts of the global market.

Investors expect you to have a realistic goal, and they will judge you on your ability to achieve that goal.

Defining Value and Viability

Now let's put it together and build your company's growth code; what is the rate of growth to get you from Point A (today) to your ultimate vision of success Point B (in the timeline you desire)?

Disclaimer: You also will need to run these analyses for the future product and services in a hypothetical state; 1 TAM projection per product/service offering.

TAM As Marker for Growth

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Year 1 [this year], for Product/Service 1, growth in customers will come from:

- Existing market
- New market
- Global market

TAM Calculation

You can determine your business' TAM with the following equation.

$$\begin{array}{l} \text{Average} \\ \text{Sales Price} \end{array} \times \begin{array}{l} \text{Number of Expected Customers} \\ \text{at the End of Year 1} \end{array} = \begin{array}{l} \text{Your} \\ \text{Annual Contract Value} \end{array}$$

$$\begin{array}{l} \text{Annual} \\ \text{Contract Value} \end{array} \times \begin{array}{l} \text{Total Number of Potential Customers} \\ \text{in the Market} \end{array} = \begin{array}{l} \text{TAM} \end{array}$$

Source: [HubSpot](#)

ACTIVITIES TO ENABLE EXPANSION	PEOPLE / PRODUCT / PROCESS		
	PEOPLE	PRODUCT	PROCESS
Expansion of Location			
Expansion of Product and Services			
Expansion of Geography			
Increase in Value of Goods	\$	\$	\$
Increase of Average Revenue per Customer	\$	\$	\$
Channel Strategies (Direct vs Indirect)			
Average Cost of Customer (Marketing)	\$	\$	\$

Let's look at the bigger picture through your projections in the next 5 years for Product/Service 1:

	YEAR				
	YR1	YR2	YR3	YR4	YR5
Growth in customers will come from	<input type="checkbox"/> Existing market <input type="checkbox"/> New market <input type="checkbox"/> Global market	<input type="checkbox"/> Existing market <input type="checkbox"/> New market <input type="checkbox"/> Global market	<input type="checkbox"/> Existing market <input type="checkbox"/> New market <input type="checkbox"/> Global market	<input type="checkbox"/> Existing market <input type="checkbox"/> New market <input type="checkbox"/> Global market	<input type="checkbox"/> Existing market <input type="checkbox"/> New market <input type="checkbox"/> Global market
Average sales price	\$	\$	\$	\$	\$
Number of expected customers end of the year					
Annual Contract Value (AVC)	\$	\$	\$	\$	\$
Total number of potential customers in entire universe					
TOTAL ADDRESSABLE MARKET (TAM)	\$	\$	\$	\$	\$