Sizing the Potential of a New Market or Product

Dr. Bruce Isaacson, Senior Managing Director of Litigation Surveys & Consumer Science at IMS Legal Strategies

New markets and new products, or services, provide the engine of growth for many companies. Faced with sluggish demand in existing markets, the need for continued innovation, and investors who require ongoing growth, companies find themselves entering new markets, taking on new products in new markets, and developing new and different products for existing customers.

When considering a new category or a potential product, one of the most important tasks is estimating the size of the category or projecting possible buyer interest for the new product. The problem is that many managers are unsure how to size a new product or marketing opportunity. Some rely on their intuition, while others push forward R&D-driven projects without a clear projection of customer acceptance or potential revenues. Both methods can succeed at times, but they miss the opportunity to gather feedback directly from the marketplace early in a project's progress and to use it to focus resources where they matter most.

You may have heard the cliché that consumers could never have predicted demand for radical innovations, such as the microwave oven or the iPod. This advice oversimplifies the true picture, which is that nearly all projects entering new markets or developing new products can benefit from a series of powerful tools to forecast demand and market share. This article describes some of those tools and explains how to estimate the potential of a new category or product, even when there is no historical precedent.

How to Classify New Markets and New Products

To begin, it is important to understand how products and markets interact. Although this may seem theoretical, the background is useful because the difficulty of estimating demand for a new market or product depends on the type of new product and the market in which it is introduced.

Product	Radically New	Quadrant 3	Quadrant 4
	Incrementally New	Quadrant 1	Quadrant 2
		Currently Served	New
	Market		

Figure 1: The Relationship Between New Products and Markets

As shown by Figure 1 above, new products can be classified into two categories. **Incrementally new products are** improvements on existing products, such as a new flavor of ice cream, an updated car model, or the next generation of an antivirus software program. By contrast, **radically new products** are entirely different from what exists, such as a new category of food, a completely new type of car, or a new type of software program. Estimating demand for radically new products is more difficult because there is no historical data to rely on, unlike with incrementally new products, where past performance can provide guidance.

Markets can also be classified. Figure 1 organizes markets into those that a company currently serves versus those that are new to the company. When a company already serves a particular market, the company typically has pre-existing information about who its customers are, their buying behaviors, and their preferences.

The two axes of the matrix in Figure 1 provide four quadrants. The easiest demand estimation task is Quadrant 1, where the company knows the market and has a history of product introductions. The most difficult is Quadrant 4, where both the product and the market are entirely new. Quadrant 2 and Quadrant 3 fall somewhere in between.

Predicting Demand for a Very New Product

This section addresses the task of predicting demand for a product that is entirely new. We begin with an example in which historical data is available, which corresponds to Quadrant 1 in Figure 1.