

# Redefining Market Potential: Definitions, Dimensions, and Index

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# **Redefining Market Potential: Definitions, Dimensions, and Index**

**Abstract:** Market potential is a core construct in marketing literature, guiding decisions on location, demand concentration, and market expansion. Despite its importance, it remains frequently confused with sales and demand forecasting. This study addresses these gaps through a systematic literature review. We propose a definition of market potential that emphasizes demand, spatial dimensions, and temporal context. We identify its four core dimensions—demography, economy, market characteristics, and geography—and discuss their application in the literature. Next, we introduce a comprehensive Market Potential Index (MPI) framework that integrates multiple dimensions to enhance academic research and strategic decision-making. This work advances marketing theory by clarifying a foundational construct and suggesting a research agenda to refine MPI applications across diverse contexts.

**Keywords:** *Marketing Theory; Market Potential; Systematic Literature Review.*

**Track:** *Marketing Strategy & Theory*

## 1. Introduction

Despite the market's potential relevance for marketing theory and practice, its concept is surprisingly not well-defined in the literature. Definitions and guidelines for estimating the concept vary in academic literature, undergraduate textbooks, and websites aimed at practitioners. The lack of consensus leads to considerable confusion among different terms, particularly sales forecasting, demand forecasting, and market potential. Given this context, our research aims to achieve three objectives: (1) to identify current definitions of market potential through a systematic literature review; (2) to specify key dimensions of the market potential construct; (3) to propose a research agenda that includes the framework for the creation of a new, more comprehensive, and generalizable market potential index.

The study followed the Preferred Reporting Items for Systematic Reviews and Meta-Analysis protocol, according to Page et al. (2021): *Eligibility Criteria*. We included peer-reviewed, empirical, and secondary studies published in English that analyzed market potential. *Information Sources and Search Strategy*. We collected documents from the Web of Science and Scopus databases to ensure the quality of studies. The search strategy employed predefined terms, refined through adherence tests. We searched for other eligible studies in the references of the selected studies and sources such as Google Scholar. *Study Selection Process*: We imported the studies into Rayyan (<https://rayyan.ai/>) to remove duplicates. We evaluated and selected the remaining studies in two phases: title and abstract screening (Phase I), and full-text reading (Phase II). *Data Extraction Process*. We analyzed the selected studies to extract definitions, dimensions, and methods for measuring market potential. *Data Synthesis*. We synthesized the data qualitatively (in a narrative format), covering definitions, dimensions (variables), and measurement methods. This process helped us develop a research agenda for the field. The adherence test results and data are available in the project repository: <https://osf.io/2pd7t/>.

First, we highlight the existing lack of agreement in the literature on defining market potential. Second, we discuss key dimensions of the market potential construct, emphasizing aspects that have been underexplored in previous studies. Third, we propose a framework for developing a more comprehensive market potential index. Finally, we create a research agenda that outlines areas for future studies related to the dimensions of the market potential index. Our research addresses Hulland's (2024) call for review papers that extend beyond mere description and challenge scholars to think innovatively and plan future research. In summary,

by redefining market potential definitions, dimensions, and indexes, we aim to advance the marketing literature and its practical implications for practitioners.

## 2. Dimensions of the market potential construct

Table 1 summarizes the 11 most relevant market potential studies, their areas, and dimensions covered. Based on the literature review, we identified four dimensions for the market potential construct: Demography (e.g., age, population, household income), Economy (i.e. Gini coefficient, GDP per capita, employment rates, consumer trust), Market characteristics (e.g., consumer expenditures; market size including retail sales and sector hiring, visit counts, competition, agglomeration /store clustering, entropy), and Geography (e.g., the distance between zones; centrality; accessibility; points of interest count; diversity). As Table 1 shows, most studies covered geography and market characteristics dimensions. However, only five studies incorporated demographic and economic variables into their market potential models. This highlights a significant disparity in the dimensions addressed in previous studies. One interpretation is that most studies tend to emphasize the supply side—represented by market characteristics and geography—while the demand side, encompassing demographic and economic characteristics, remains comparatively underexplored. For a precise market potential evaluation, it is essential to consider both supply and demand elements.

**Table 1. Dimensions of the market potential construct**

Paper (authors, year)	Field (related to journal)	Demography	Economy	Market characteristics	Geography
Harris (1954)	Geography	√		√	√
Huff (1964)	Marketing	√		√	√
Lakshmanan & Hansen (1965)	Regional/Urban Planning				√
Ghosh & Craig (1986)	Marketing	√		√	√
Johansson & Klaesson (2011)	Regional Science			√	√
Paroli & Maraschin (2018)	Urban Science			√	√
Buzzacchi et al. (2021)	Urban Analytics/ City Science			√	√
Liang et al. (2020)	Geography			√	√
Silveira Netto et al. (2023)	Expert Systems	√	√		√
Yang et al. (2024)	Urban Analytics/ City Science				√

Yang et al. (2024)	Urban Analytics/ City Science			√	√
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### 3. Definitions of market potential

Table 2<sup>1</sup> summarizes the most relevant definitions of market potential found in the literature. Based on the literature review, we have identified five fundamental aspects that a comprehensive definition of the market potential definition should include: (1) it should include both latent and unmet demand, rather than just focusing on customers who are currently interested; (2) it should address the potential of the entire market, not just the current players within it; (3) it should consider more than just monetary exchanges, as markets can define value in various ways; (4) it should refer to a specific geographical area; and (5) it should be restricted to a particular time period, since, as Littler (2014) states, the market potential may vary as consumer preferences, demographics, and technology change and evolve.

Table 2 shows that current definitions either restrict market potential to current demand or confuse it with sales potential. For instance, Kotler & Keller (2007) state that a potential market is a group of consumers interested in the market's offer. This definition reflects the current demand available for that market, specifically targeting customers who are aware of the offerings, and needs and are interested in purchasing it. However, there are other individuals with means to purchase (or proceed with any type of exchange) that were still not reached by marketing efforts. This latent demand or demand not yet attended by marketing is missing in this definition. Another example is the Monash Business School dictionary's definition. By stating that it is the number of sales possible given a level of industry marketing effort, the definition restricts market potential to those reached by the current level of marketing efforts. By saying that market potential is the number of sales possible, it creates confusion between demand and sales. Demand reflects interest, while sales represent the actual fulfillment of that interest, considering that the product or service is available when and where the customer seeks it.

Another important factor in assessing market potential is that the concept inherently requires a comparison or benchmark. The fact that a market has more potential than another

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<sup>1</sup> Currently, the AMA website lacks a definition for market potential, only providing for sales potential forecasting. However, this definition does not include information about competitors, their strategies, channels, macroeconomic variables, brand awareness, seasonality, or consumers' intention to purchase, some of the variables known to influence sales. The existing definition aligns more closely with the concept of market potential, which is why we have included it in the table as well.

market is intrinsic to the definition. Therefore, we argue that location is a critical component of the market potential definition. The business's location choices shape the economic landscape, influencing cities' growth and wealth distribution across space. Therefore, we highlight the importance of the spatial dimension in the development of the market potential as a construct or as an index. Once we look at research from different fields using geospatial data to conduct spatial analysis, such as estimation of area attraction and flows to predict sales (Silveira Netto et al., 2023), prediction of hourly store visits (Liang et al., 2020), verification of store's attractiveness (Paroli & Maraschin, 2018), calibration of the Huff model (Lu et al., 2017), and estimation of visitation frequency, distance traveled, and attractiveness for a retail agglomeration (Wang et al., 2016), we see that the importance of the spatial dimension becomes even more prominent.

To summarize the points made in the introduction and after concluding our literature review, we present our definitions. We define sales forecasting as the estimation of future sales (in items or value in exchange) for one particular firm; Demand forecasting as the estimation of sales (in items or value in exchange) for a market (i.e. the current satisfied demand by a firm and competitors); and, **Market potential estimation refers to the theoretical upper limit of a product's or service's reach in the market under the highest possible level of market penetration, in a determined geographic area and time period.**

#### **4. General discussion, framework for a new index, and research agenda**

This study aimed to clarify the “market potential” concept within the marketing literature. Our review revealed a lack of consensus on a precise definition. This ambiguity extends beyond academic circles; it also permeates practitioner websites and educational materials, where the term is used inconsistently and often confused with related concepts. For instance, while some definitions emphasize the latent and unmet demand (Kress, 1992; Littler (2014), others focus on the current market absorption capacity (Rewoldt et al., 1969; Stevens et al., 2006) or even confuse it with sales potential (Kotler & Keller, 2007).

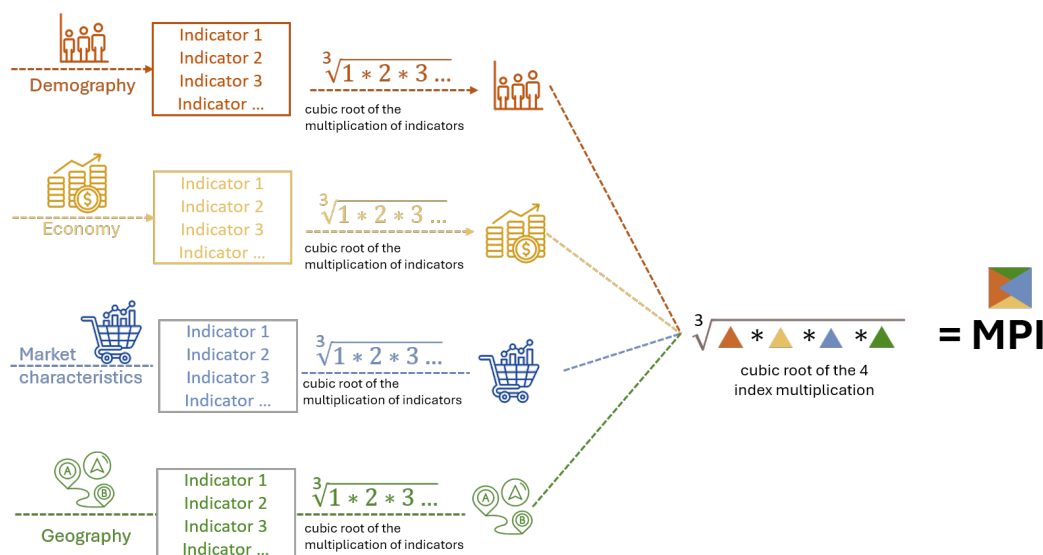
Our analysis identified four key dimensions commonly associated with market potential: demography, economy, market characteristics, and geography. These dimensions, though valuable, are not consistently applied across the literature. Some studies prioritize geography and market characteristics, focusing on elements like distance, accessibility, and competitive intensity (Buzzacchi et al., 2021; Harris, 1954; Huff, 1964; Johansson & Klaesson, 2011; Lakshmanan & Hansen, 1965; Liang et al., 2020; Paroli & Maraschin, 2018; Yang et al.,

2024). Other studies incorporate demographic and economic variables, such as population, income levels, and economic growth indicators (Ghosh & Craig, 1986; Silveira Netto et al., 2023). This variability can be attributed to the diverse research objectives and disciplinary perspectives employed in the studies analyzed.

The lack of a clear definition and the variability in applying the four dimensions underscore the need for a more rigorous and standardized approach to conceptualizing and measuring market potential. This ambiguity hinders the development of measurement tools and complicates comparisons across studies, potentially slowing the development of knowledge in this area. The fact that there is no consensus on the definition of Market Potential makes it impossible to create a unified, comprehensive, index used by all stakeholders. It also impacts our knowledge of what impacts market potential, and how to shape it and shift it, if necessary (e.g., climate change-induced relocation).

We propose a framework (Figure 1), following the example of the Human Development Index, to create a Market Potential Index. We urge marketing scholars to take the initiative to create, test, and teach a rigorous and standardized index that brings clarity to market potential studies in different sectors and industries. Likewise, we have developed a research agenda suggesting avenues for future research addressing key market potential dimensions and unanswered research questions. Table 3 details the research agenda.

**Figure 1. Proposed framework for the index**



**Table 2. Market Potential Definitions**

Source	Definition	Latent and not attended demands included	Refer to the whole market	More than monetary exchanges	Market defined as geographical area	Temporal aspect
Ours	Market potential refers to the theoretical upper limit of a product's or service's reach in the market under the highest possible level of market penetration, in a determined geographic area and time period.	√	√	√	√	√
AMA	A sales potential forecast comprises the number of prospects and their buying power.	√	√	√	√	
Monash Business School Dictionary	An estimate of the amount of sales, in units and dollars, that might be possible in a given territory or region under a given level of industry marketing effort under given environmental conditions.	√	√	√	√	
Harris (1954)	An index of potential market contacts, considering regions' purchasing power and distance		√		√	
Rewoldt et al. (1969)	The capacity of a market to absorb a product or a group of products of an industry in a specific time period		√	√		√
Kress (1992)	Market potential identifies the maximum units of a defined product/service capable of being purchased within a designated geographic area, during a designated time period, when supported by a realistic level of marketing activity		√		√	√
McDonald et al. (2003)	(McDonald et al., 2003)Market potential has been defined as the maximum possible sales opportunities for all sellers of a good or service.	√	√			
Stevens et al. (2006)	Marketing potential is a quantitative measure of a market's capacity to consume a product in a given time period.	√	√	√		√
Kotler & Keller (2007)	The potential market is a group of consumers interested in market offer.		√	√		
Littler (2014)	Total demand possible for a product class. All possible users multiplied by the amount each is likely to use. The market potential may change over time because of the effects of changes in consumer tastes and preferences, demographics, and technology.	√	√	√		√



**Table 3. Research agenda**

<b>MPI Dimensions</b>	<b>Possible research questions to be addressed</b>
Demographic	<ul style="list-style-type: none"> <li>- Which characteristics of the population are determinants for market potential? Is income more correlated or could other aspects such as rent prices, square feet/meters per capita, and type of house play a more significant role?</li> <li>- Does the presence of certain segments (age groups, lifestyles, social classes) in a region increase the market potential (e.g., gentrification)?</li> </ul>
Economic	<ul style="list-style-type: none"> <li>- Which economic indexes are more relevant to determine market potential (e.g. consumer confidence index, employment levels, entrepreneurs' confidence in the economy, stock market performance, country's debt, inflation levels, population's savings levels)?</li> <li>- Do increased employment levels correlate with higher consumption in the same regions? Do people typically shop near their homes, near their workplaces, or along their commute?</li> </ul>
Market	<ul style="list-style-type: none"> <li>- Does business agglomeration in a particular area enhance or inhibit market potential?</li> <li>- Is visit counts a good proxy for market performance? To what extent?</li> <li>- Does the presence of large, well-known brands support or undermine the market potential in a given area?</li> <li>- Can increasing combined marketing efforts (e.g., out-of-home advertising) in an area boost its market potential?</li> <li>- Can online and offline market potential be determined for each area?</li> <li>- Which points of interest (POIs) should be considered a competitor or a factor of attraction?</li> </ul>
Geography	<ul style="list-style-type: none"> <li>- How to estimate the distance decay using secondary or publicly available data while maintaining privacy?</li> <li>- What is the best method for measuring distance for offline businesses?</li> <li>- What is the best way to measure distance for online businesses?</li> <li>- How do urban movements caused by changes (e.g. in employment or infrastructure) affect the market potential of a region?</li> <li>- Which POIs in an area can attract more individuals to move there?</li> <li>- How to attract people to an area experiencing a decline in market potential (e.g., city centers losing visits due to government regulations aimed at reducing car traffic)</li> </ul>
<b>New MPI Index</b>	<ul style="list-style-type: none"> <li>- Test various indicators in each of the dimensions and propose the final estimation of MPI</li> <li>- Compare the proposed MPI with established benchmark models found in the literature</li> <li>- Test and validate the new index with entrepreneurs</li> <li>- Do we need to perform any adaptations in the proposed index in different contexts, such as new offers in new markets, new offers in existing markets, or existing offers in existing markets?</li> </ul>

## 5. Conclusion

This study provides compelling evidence that the market potential definition, dimensions and index must be redefined. Our key findings highlight the lack of consensus on a market potential definition, the shortfall of dimensions covered in previous studies, and the need for a complete and comprehensive market potential index. This study is not without limitations. our review may not capture every instance of the term “market potential” in the literature, despite our extensive search efforts. Interpreting the findings and identifying the key dimensions are inherently subjective, despite our efforts to maintain objectivity throughout the analysis. However, this study underscores the importance of having a clear definition of market potential and its dimensions. We also contribute to the literature by suggesting areas for future studies. For businesses, a new and more comprehensive market potential index will offer

valuable insights for strategic decision-making. By identifying the key components of market potential, businesses can make informed decisions, *e.g.*, where to locate franchising, evaluate business competition, identify regions' unmet customers' needs, and estimate business success in a given location. We urge scholars to reply to our call for this new index.

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