7 WAYS TO SEGMENT YOUR MARKET

BY SUE-ELLA PRODONOVICH

Professional services firms are often told that success comes from focusing on, and 'owning' a particular market segment. But what exactly does that mean? And how should you go about defining which space you want to play in?

Here are 7 easy ways to define your market.

1. BY INDUSTRY OR SECTOR

This is probably the most common way to define and segment an audience - and in many ways, it's also probably the easiest. I say that because your audience will be concentrated, easy to access (ie they will read the same publications and go to the same industry events) and the people in it will probably know each other. That means it's reasonably easy to market to them. It also means that if someone who engages you moves on, they're likely to move on to a competitor, opening doors at another potential client.

The other thing I'd say is that becoming synonymous with a particular industry becomes easier when you drill down in your segmentation. Too often firms define their potential audience so broadly as to be meaningless. From instance, 'financial services' can mean anything from the Big 4 banks to the latest fintech start up and from insurers through to hedge funds. You really probably shouldn't be going after every single player in this massive sector and if you set a goal of capturing 10% of a market of that size and diversity, it becomes an almost impossible task.

With this in mind, I'd advise firms doing business in Australia or New Zealand to define your potential market by looking at the ANZIC definitions of divisions and even sub-divisions.

There is, however, an obvious risk that comes from defining yourself as an expert in one particular field. If it goes down - eg if the mining industry slumps or the construction industry stops building - you go down with it. That's why it pays to specialise in at least a couple of industries.

So if you're looking to expand, I'd again recommend using those same ANZIC definitions to find out which industries are related to, or share similar characteristics, to the ones you already specialise in. Finally, by concentrating on a particular industry, you're also likely to be conflicted out of a lot of work. If there's a big deal going down you can't expect to advise parties on all sides - you'll have to choose. And the higher up you go, and the more strategic your advice becomes, the more likely you are to face these conflicts.

That's why, when you segment your potential clients by industry or sector, you should begin with the assumption that you'll never pick up more than, say, 25% of participants.

2. BY VALUE CHAIN

This one's a bit of a twist on segmenting by industry. Instead of looking to expand into parallel businesses in a particular sector, go for the verticals. For example, if you advise a muesli manufacturer, you might also try to work for the people supplying the grain, the manufacturers who

put the boxes together, the guys who distribute and warehouse the product and, potentially, even the people selling the finished product.

When you segment this way you still face similar risk issues to those that comes from specialising in an industry. But it does reduce the risk of conflicts - at least a little - and gives you the opportunity to advise businesses who are 'friendly' to your client base rather than competitors. You'll also have the opportunity to become very much part of a networked community as you build bridges across players in the supply chain.

3. BY SIZE

Businesses of similar sizes usually tend face similar issues.

If you're looking to segment by size, again I'd say it's important that you get as specific as possible and that you also go to a published source for help. For instance, if you decide you want to target large listed companies, I'd recommend using the ASIC definition of a 'large proprietary company', which suggests that it is one with revenue of more than $25m a year.

But I'd encourage you to become even more specific still. You'll find it easier to target potential clients if you combine segmentation by structure with segmentation by industry or value chain. You might decide, your core market is "listed companies specialising in women's fashion who generate more than $25 million a year".

Alternatively, you might choose to segment by number of staff, number of locations or any other metric that you can use to determine a business's size.

4. BY STRUCTURE

You could decide that the common factor uniting your client base is their structure - eg you could become an expert in listed companies, unlimited liability companies, private companies, trusts, sole traders and so on. This can be an especially powerful way for accountants to segment because a lot of the taxation issues that businesses face will stem from the way they're arranged.

One tactic I've seen work well is to target the local subsidiaries of global businesses. This can be an especially effective for smaller players looking to get some big names on their books. (It also means you'll have multiple reporting seasons which can be a bonus for workflow.)

Again, if you're taking this approach, I'd always recommend marrying it up with at least one of the methods above, so you might end up targeting, say "the Australian subsidiaries of global fashion brands, so long as they have at least 5 bricks and mortar stores and generate more than $25 million in revenue."

5. BY GEOGRAPHY

It's become somewhat unfashionable to draw from your local area. But I think owning your own turf should be the starting space for most small to mid-sized practices - particularly if they're not differentiated in any other way.

Generally, the larger you are, the larger your geographic footprint should be: eg a generalist accounting firm based in Parramatta with 30 partners might try to own Western Sydney. A firm located just next door with only two partners is probably better advised to try and win work from businesses in the surrounding blocks.

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6. BY WHO OWNS THE BUSINESS

You could concentrate on attracting businesses whose owners share a common characteristic. They could be family-operated, they could come from a particular demographic (eg gen X or gen Y) or they could even share the same gender. You only need look at the proliferation of women's business groups to notice how effective this approach can be.

The benefit of defining your target audience this way is that there's usually an immediate level of trust between adviser and the clients, which comes from the assumption that you see the world the same way they do.

7. BY STAGE IN LIFE-CYCLE

Again, businesses face similar issues when they're at similar stages in their life-cycle: whether that's startup, growth, consolidation or even decline. It's become quite fashionable to target 'innovative startups' but there's a lot to be said for targeting businesses at other stages in the cycle too. In fact, I'd say that all up there are probably greater benefits in targeting mature businesses rather than new ones.

After all, besides the obvious constraints that come from having a lack of capital, the problem with being a startup specialist is that the moment that things take off your clients could well feel that they've outgrown you and look elsewhere for advice... And that's exactly when you should have been doing some serious billing.

HOW DO YOU DEFINE YOUR POTENTIAL CLIENTS?

So there you have it, 7 easy ways to segment your market. Which one have you chosen? Or - like most of the successful businesses I deal with - have you chosen a combination of several?

And if you haven't yet segmented your client base - or if you need some help doing so - give me a call. I'd be more than happy to lend my years of experience helping professional services firms do this very thing.

PS: For more advanced and predictive insights, firms are using 'big data' analytics, simulations, observational research, psychographics, personas and buyer profiling to define and price opportunities. But that's for another article...

WANT MORE?

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