

What are Niche Markets? What Advantages do They Offer?

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Overview

Niche markets are an attractive opportunity available to small businesses forced to compete against the scale economies that larger competitors are able to achieve. In the food sector, organics, local products, heritage varieties, biodynamics, and humanely treated livestock are a few of the alternative product choices sought by specific consumer segments. The choice to pursue a niche marketing strategy will not guarantee success, and, similar to any business decision, requires critical assessment. Exploring niche markets is representative of the set of management choices every agricultural operation faces, as niche marketing provides creative managers with a means to use new and untapped resources while creating new revenue streams. Doing so successfully requires significantly different management skills and marketing strategies.

This fact sheet defines niche markets, outlines the steps to evaluate an operation's current strategic position, examines how a niche market focus might affect that position, and finally, sketches out the important components of a niche marketing plan.

Essential elements of a niche marketing strategy to consider include:

- Know the customers. Segmenting the overall market allows the business manager to target what the business venture can offer.
- Set clear goals and objectives for what the business hopes to achieve by following a niche marketing approach: Reach new customer segments? Lower marketing costs? Secure premium pricing?
- Does niche marketing match up with the resources, capabilities and preferences of the venture?

Understanding Niche Markets

Niche markets consist of groups of consumers (market segments) within the larger marketplace who have similar demographic, buying behavior, and/or lifestyle characteristics. Examples include food buyers who prioritize quality assurances and source of production, and consumers who seek an easy preparation entrée available in convenient form. Even consumers with the same buying behavior may have differing motivations (which are essential elements to know for marketing and promotion). For example, organic consumers used to be identified by their concern for their environment, but now there are entirely different segments of consumers who buy organics because they perceive those foods as having higher nutritional benefits. Understanding target consumer segments is a crucial factor in determining whether an operation has the resources, interests, and business elements necessary to meet the needs of prospective customers.

Once the like-minded consumers have been identified, it may be helpful to name or label them (called "clustering"), as a way of facilitating targeted marketing activities and "branding"



of the venture's offerings. Clustering of consumers also allows a business to plan more targeted and effective marketing activities, especially if the venture understands the consumers' motivations for buying products or visiting specific shopping or tourism venues. In addition, consumer clustering may also help with estimating potential visitor numbers and appropriate price points for different customer groups. For example, consider a venture that wishes to market to a customer group that prioritizes convenience. If it takes more marketing resources to get the venture's product in ready-to-eat form or to nearby markets (farmers' markets or direct deliveries), then the prices charged can be higher for this customer group to offset the additional resources. In comparison, this method of marketing would not work for a customer group that prioritizes price and is willing to go out of the way to locate lower-cost items (i.e. bulk prices for ranch-purchased freezer beef).

After the niche is identified, the next step is to find this buying public and grab their attention. This takes thoughtful promotional planning and development of messages to connect with potential buyers. Marketing materials, such as websites, brochures, personal communications, packaging, public image, etc., need to integrate credible claims, motivational messages, and consistent images to connect to (and build loyalty with) niche market consumers. In summary, consider these three rules for niche marketing, from Entrepreneur.com:

1. Meet the market's unique needs
 - This may require consumer and/or market research
2. Say the right thing
 - Develop promotional materials targeted at the motivations and interests of the consumer segment
3. Test market
 - Start small with minimal capital investment, which may require partnering with established retailers or partners

Considering Niches as a Business Opportunity

Many times a market, business, or personal event forces producers to make important decisions about the future direction of their agricultural operation. Niche markets are particularly interesting for operations looking to grow or change. One potential decision may be to grow the size or scope of the operation. Generally, goals for growth involve increased sales, a larger set of employees or capital resources (land, buildings and other improvements), or the diversity and number of enterprises integrated into the operation. The desire for growth is usually driven by optimism for market opportunities, or a new resource (or previously untapped resource, such as the business skills of a family member).

Other operations may seek to improve or stabilize their financial returns rather than grow. Most change requires some form of diversification or development of new revenue streams. Most niche-driven change is driven by **STRONG** indicators of changing consumer tastes (on the demand side) or changing personnel interests of family members or long-term employees (on the business organization side).

“Opportunity is missed by most people because it is dressed in overalls and looks like work.”
Thomas Edison



No new business direction will come without much planning and thoughtful consideration of the desired outcomes. Whether growing sales and enterprises to meet new financial goals, increasing direct sales to attain personal goals, providing consumer education to develop a loyal customer base, or beginning organic production as a reaction to evolving values and perceptions about environmental stewardship, the internal business intentions must be matched to the external niche market opportunities. If the internal desired outcomes align with available opportunities, it may be time to develop a sustainable and effective plan for action. Any plan directed at niche markets should include:

- Clear and consistent image/themes
- Alignment with business structure/culture
- Clear links between strategy and actions
- Focused attention and action where needed

STRATEGIES → ACTIONS → OUTCOMES

A Strategic Assessment of the Firm within the Broader Industry

What does the market suggest? Is the market signaling growth in an existing niche, or are there possibilities to develop an entirely new market niche? If only a small modification is necessary, the operation may, for example, be able to follow the success of other enterprises with only minor adjustments to the target niche (maybe organic and heirloom fruits instead of just organic) or serving the same niche in a new geographical area (i.e. the operation's local food system).

Another important task is assessing the operation's available resources. If it is determined that the operation is poised to enter the niche market, it will be necessary to identify any new or slack resources that will allow for the new niche activities and/or growth. Beyond resources, an operation considering niche markets must also assess its capabilities, competencies and competitive advantage. The firm's capacity to deploy resources to achieve a desired end state is the first managerial requirement, as it addresses the resource and technical aspects of how well a firm can execute a production and marketing plan for the niche. The primary base for the firm's capabilities is the set of skills and knowledge of its employees.

Once the operation's capabilities have been determined, the next consideration should be its core competencies. These competencies are generally a result of deploying resources using the firm's capabilities. For example, if a farm has a beautiful natural resource base, but is not making the farm available for agritourism, then the farm does not have a core competency. However, even if a farm has a strong capacity for deploying resources, that does not mean it has a competitive advantage. Only a core competency that is unique to the firm will help to create a sustainable competitive advantage (for more information on competitive advantages, please see fact sheet WEMC FS#5-08, "Strategies for Competitive Advantage," in this publication).

Many firms focus on three or four core competencies to differentiate themselves, establish customers within the target niche market, and develop a competitive advantage. Given this, the operation should explore the three or four competencies it has, and consider whether those areas are flexible and responsive enough for the niche market(s) under consideration. To be effective, these core competencies must be distinctive and the capabilities should be performed better (or in a more unique way) than competitors.

In short, identifying core competencies is a key element in the development of a sound marketing strategy, especially for niche markets. Emulating successful models can be lucrative, but the best margins are often in newly created products and services. Remember that innovation can be based on the actual product (new offering), or in how it is marketed (cooperation with existing retailer, bundled with agricultural experience, partnered with credible food or agriculture “brand”). Some examples of core competencies are:

- Expertise in rare production protocol (biodynamic, heritage varieties)
- Organics, humanely raised livestock, grass-fed meats
- Superior personnel and/or customer service (especially services/agritourism)
- Alliances with established marketing partners (chefs, tourism hotspot)
- Unique resources (natural, human, historical)

Five Stages to Fully Address the Niche Opportunity

There are five stages to consider when attempting to address niche marketing opportunities. These stages are strategic planning, defining the mission and objectives, strategies and action, monitoring key projects and objectives, and organizational realignment.

1. Strategic Planning

Strategic planning encompasses many of the issues discussed above, including the assessment of market opportunities, as well as an inventory of internal resources, values, potential strengths/capabilities (addressed in more depth below), and any weaknesses/shortfalls of the current operation. In short, the overall strategy provides a “road map” to attaining the objectives of the operation and its owners, while staying true to their vision and mission.

2. Define Mission and Objectives

The mission is the operation’s statement about why it exists, and sets the tone of what the company and its products’ image should be at the very highest level of the operation. There should be a broad-based buy-in to this mission from owners, employees, other important stakeholders, and maybe even targeted customers. In essence, the mission explains the culture of the business to both internal players and external consumers.

The goals/objectives start narrowing the mission into workable pieces and set a direction for where different elements of the business should or could be to effectively deliver on the mission of the operation. Although these goals should continue to be forward thinking and broad-based, stakeholders should be able to see directed resources, market-driven actions, and business activity changes that may emerge to support the strategic direction chosen by the operation’s management.

3. Strategies and Action

To begin taking specific actions, with timelines and measurable outcomes that will support the broader mission, strategies, and goals of the business, it may be most effective to develop a work plan. That plan should include a key personnel list, timeline for the activity, a list of resources or budget needed to execute the plans, and any other relevant information (partners, pertinent legal or regulatory issues, and connections to other pieces of the work plan). Although a sufficient level of detail on all the actions to be taken may seem overwhelming, it will provide a realistic inventory of what needs to be accomplished and divide the actions into small enough

units to facilitate timely action (rather than inaction due to being overwhelmed by the scale of larger goals of the company). Remember that actions are both effective and realistic steps to achieving the operation's strategy. In short, this step requires the operation to build a plan of execution.

4. Monitoring Key Projects/Objectives

Monitoring a firm's progress towards its goals is one of the most crucial actions during the first years of a new (or significantly changed) enterprise. Determine key projects and areas of potential success within the work plan established above, and then decide on specific measurable elements that will allow the operation to monitor success. These elements should not all be financial indicators, as too many businesses focus on financial goals before they can realistically be met. In addition to monitoring sales growth, visitor numbers, and profits, the operation might also monitor full deployment of resources (land, buildings, employees, etc.), customer satisfaction and return visits, or employee feedback on their participation in the enterprise.

As part of monitoring, the operation should report on key strategies and objectives, following up on any deadlines or specific measurable elements that were set. There should be clear accountability to a person in the organization (or key partner), while being cognizant of guarding against overly loose or tight management (since both will stymie leadership development). Each step in monitoring and redirecting should be used to maintain forward motion towards attaining the change or growth goals of the operation.

What signals will trigger changes or growth for the enterprise? This is an important question since the early years of a new niche marketing plan will require great flexibility and adaptive management responses. The frequency of monitoring will also affect how much time is given for marketing efforts to prove themselves, and how quickly the operation can respond to consumer wishes.

5. Organizational Realignment

In order to clearly link the objectives and strategies of any new niche venture, it is likely that the management will have to consider an organizational realignment of resources, human capital and marketing efforts. To be successful in niche marketing, it is important to align the structure and culture of the business and the personal lives of the owners in ways that are compatible with the niche the business hopes to operate within. This may include a change in the levels of family involvement, the privacy or solitude available on the farm or ranch, the choice to "brand" the owners' family heritage and approach to farming, or even relinquishing control of some business activities to marketing or community partners.

The Decision to Market in a Niche

Even after developing a plan to enter a niche market, it is important to pick one point in the planning process to finally decide whether the new niche venture is feasible, and if so, fully commit to the plan. There are a number of elements that should enter into that final decision:

- Acknowledge the present
- Be aware of intent/vision
- Control dreams:
 - Manage within means
- Determine the risks

Note that the first two are *deliberate visioning* and the second two are *bringing realism*.

In the end, the management and stakeholders of a farm or ranch must consider how to answer the question of whether their operation needs growth, change, or exit from the market. Niche marketing is only one of the potential enterprise diversification strategies that may affect this “big picture” thinking.

References

Gordon, K.T. (2002). “3 Rules for Niche Marketing.” Entrepreneur.com. Online. Retrieved May 2008 from <http://www.entrepreneur.com/marketing/marketingcolumnistkimtgordon/article49608.html> .

