

CARVING OUT A NICHE

What can retailers do to compete when times are hard and bigger competitors are gobbling up their customers? One answer is: Think Small.

Small retailers can use their size to their advantage if they adopt a niche marketing approach. With niche marketing, they can dominate a segment of the market, that to a large competitor would be unprofitable. “They can be the big fish in a small pond,” says Dr. Peter Johnson, marketing strategist and President of the Strategic Performance Institute, Newport Beach, California.

According to Dr. Johnson, niche marketing is “specializing in very narrow segments of the marketplace which have been broken down by a common denominator.”

That common denominator can be one of many characteristics, including demographics (age, sex, income), profession, industry, geography, etc.

But whatever the denominator, Dr. Johnson recommends, “retailers need to pick something that they can be so good at in their niches, that if someone else should try to come into those same niches, the retailers can rip their heads off.”

To be able to have that power, the retailers must establish a reputation with their customers, based on exemplary service. However, it takes both research and constant monitoring to learn exactly what products and services are needed by a particular industry, profession or other market segment.

Niche marketing “is purely an accuracy game,” Dr. Johnson



Dr. Peter Johnson
Marketing Strategist

explains. “Accuracy is everything. The single most important factor in niche marketing is how precise a retailer markets himself or herself.”

Jack Trout, co-author of the books *Positioning*, and *Marketing Warfare*, and partner in Trout & Ries, Greenwich, Connecticut, has a similar definition for niche marketing, but he takes the selection of a target group one step further.

Trout says, “I look at it from the mind’s position. Niche marketing is the opening up customers’ minds for a certain idea.”

He continues, “In niche marketing, retailers need to look for a certain group of minds that the idea of their products or services would play reasonable well in. Then they need to create a ‘position’ in the minds of those prospects.”

That ‘position,’ Trout emphasizes, is a mental impression of the superiority of the retailer’s products and services in comparison to any competitors. Companies can

use advertising and promotion, in addition to marketing to ‘position’ themselves in their customers’ minds.

Trout lists retailers who have found the concept of niche marketing to be a profitable one. “Look at Foot Locker, which sells sports shoes, and Toy ‘R’ Us, which sells toys — they’ve done remarkably well,” he says.

Plenty of Consumer Demand

The timing is right for niche marketing, Dr. Johnson says. In addition to it being a good competitive strategy, there is plenty of consumer demand to support it.

“The market is so fragmented these days. People are looking for personalized service. They know what they want and they don’t want to waste time hunting for it,” Dr. Johnson comments.

“Further, the growing number of niche marketers has put tremendous pressure on mass marketers,” he adds.

“But, department stores have countered by putting ‘boutiques’ in their stores—like a Ralph Lauren boutique. So what they present are specialty stores within their store,” he points out.

Another reason why niche marketing has become an attractive alternative is that “price is less of a factor in niche marketing than in traditional retailing,” Dr. Johnson notes.

During the interviews of office products dealers for the case studies in this issue, one comment was echoed by most of the niche marketers: “We’re not the cheapest guys in town, but they know they can get everything they need from us.” Those dealers found that niche marketing was an effective tool in fighting price pressures.

Adopting a Strategy

“One hundred percent” of retailers could successfully adopt a niche marketing strategy, Dr. Johnson speculates. “But they have to be careful not to focus on a niche that is already owned by a major competitor.”

To find room for all these retailers, he says, “they’ll have to keep sub-dividing the niches — creating niches within niches.”

According to Dr. Johnson, there is only one time when niche marketing isn’t a good strategy. “That is if there is an extremely boom market, he states. “Then you don’t need any competitive advantage.”

The concept works best, “when there is an economic recession or tremendously aggressive competition,” Dr. Johnson declares. “It is the only way to do well then,” he believes.

Both Trout and Dr. Johnson believe that certain types of retailers make better niche marketers. However, the experts look for different qualifications.

“Entrepreneurs are the best niche marketers,” Trout claims. “Owners that start the business from scratch tend to be much more oriented toward niche marketing.”

“Older stores seem to have the most difficulty with the niche marketing concept,” he continues, “because it requires a lot of changes. Sometimes that is too difficult for them to handle. Start-ups are much better at it.”

From Dr. Johnson's perspective, the success of a potential niche marketer depends greatly upon its management. His first choice is “one that the owner of the business is actively involved in the day-to-day management of the business and the marketing of the products and services — because the decisions for niche marketing need to be made at the top.”

“In general, big chains tend not to be good niche marketers, because it is hard to translate ideas geographically,” he explains. “It’s tough to set up the same strategic alliances with vendors and know what people want in other areas of the country.”

“In times of economic change Niche Marketing can be your greatest strategy.”

In Tune With the Marketplace

Johnson stresses, “You have to be extremely in tune with your marketplace with niche marketing. You must appear to be a strategic partner to your customer.”

“They aren’t buying just the product, they are buying understanding, consulting, support and flexibility in prices and delivery that meets their needs,” he underscores.

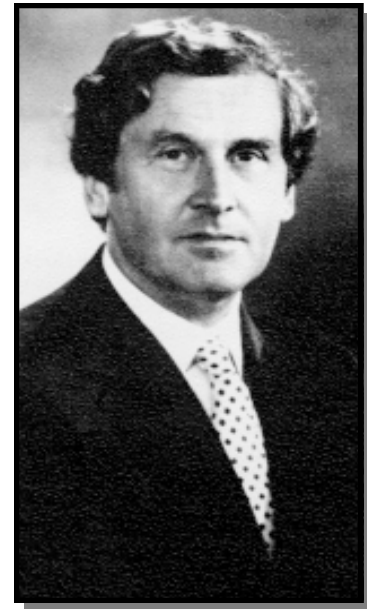
“That sense of closeness to the marketplace should also extend to the competition,” Trout cautions.

“You have to be sensitive to trends where your business is going. You have to be aware of what would happen if someone should come into your market with a niche marketing idea. You should be prepared to defend yourself or attack yourself.”

“When I say ‘attack’ yourself, I mean, add a competing store to your existing store — open a branch with a more specific concept. It will take away the ideas that someone else might have arrived with in your market. You will take business away from yourself, instead of them doing it for you.”

“*Blocking* is another strategy retailers can use if threatened by a competitor,” Trout says. “If someone comes in with an idea, you can come up with something similar.”

An office products dealer in the San Fernando Valley in California has instituted a blocking move against the encroachment of superstores. Before one of the chains could



Jack Trout

open an outlet in her area, the dealer closed one of her branch stores and opened a superstore of her own. By opening the warehouse store, she captured the customers that would have been lost if a larger chain had moved in.

Identifying a Potential Niche

Before undertaking any niche marketing strategy, it is extremely important for retailers to do their homework. Successful niche marketing requires research and planning, the strategists stated.

Determining which niche to serve should be the first step. However, that is not as easy as it might seem at first. Many factors, including size, location, spending habits, will all influence the selection process.

Trout offers some suggestions for retailers when trying to identify a potential niche.

He points out, “Obviously the niche has to be emerging, it has to have a certain impetus — or growth potential.” Special care should be taken to avoid niches that are too narrow.

“And the time has to be right,” Trout insists. Niches that are looking for more personalized service — and can’t find it — are prime candidates. “It should be a new idea to serve that particular niche,” he outlines.