

# What are Niche Markets?

## What Advantages Do They Offer to Your Operation?

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*This fact sheet defines niche markets, describes how producers access them and lists issues to consider when integrating niche markets into your business planning.*

Niche markets are the most attractive opportunity available to small businesses looking to compete against the scale economies that their larger competitors achieve. In the food sector, organics, locally produced, heritage varieties, biodynamics, and humanely treated animals (among others) are attractive product choices sought by specific consumer segments.

Still, 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 ag operation faces since they provide 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 paper outlines the steps to evaluate an operation's current strategic position, examines how a niche market focus might affect that position, sketches out the important components of a niche marketing plan.

Essential elements of Niche Markets to Consider...and to Build Upon Include:

- Know your customers. Segmenting the overall market allows you to target what you offer
- Set clear goals and objectives for what you hope to achieve by following a niche marketing approach: Reach new customer segment? Lower marketing costs? Secure premium price?
- Does niche marketing match up with your resources, capabilities and preferences?

## **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. For example, there may be some food buyers who prioritize quality assurances and source of production while others 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 of their perceptions of the higher nutritional benefits from those foods. Understanding target consumer segments is an essential element in determining whether your operation has the right resources, interests and business elements necessary to meet the needs of likely customers.

Once you identify like-minded consumers, you may want to name or label them, as a way to facilitate targeted marketing activities and “branding” of your offerings. “Clustering” of consumers also allows a business to plan more targeted and effective marketing activities, especially if you understand their motivations for buying products or visiting specific shopping or tourism venues. In addition, clusters of consumers may also help you better estimate potential visitor numbers and appropriate price points for different customer groups. For example, if convenience is prioritized by your customers, but it takes more marketing resources to get your product in to ready-to-eat form or to nearby markets (farmers markets or direct deliveries), the prices charged can be higher than for those who look for value, but are willing to go out of the way to buy (bulk prices for ranch-purchased freezer beef).

Next, after the niche is identified, you have to find this buying public and grab their attention. This takes thoughtful promotional planning and development of messages to connect with potential buyers. Your marketing materials (Website, brochures, personal communications, packaging, public image) need to integrate credible claims, motivational

messages and consistent images to connect (and build loyalty with) niche market consumers.

In summary, [Entrepreneur.com](http://Entrepreneur.com) gives three rules for Niche Markets:

- Meet their Unique Needs
  - This may take consumer/market research
- Say the Right Thing
  - Promotional materials targeted at motivations and interests of consumer segment
- 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 untapped resource such as business skills of a family member).

Other operations may seek to either improve or stabilize the financial returns to the operation 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 to provide consumer education and 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 do in fact align with 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
- Aligned with business structure/culture
- Clear link between strategy and actions
- Focus attention and action where needed

## **STRATEGIES → ACTIONS → OUTCOMES**

### **A Strategic Assessment of your 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 you may for example be able to follow other enterprises' successes 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 (your local food system).

Another important task is assessing your resources. If you conclude your operation is poised for the new venture, you will need to identify the new or slack resources that will allow for the new 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 you have determined your capabilities, you should next consider your Core Competencies. These competencies are generally result from deploying resources using

the firm's capabilities. For example, a farm with a beautiful natural resource base, but not making the farm available to potential agritourists, it does not have a core competency. But even though a farm has a strong capacity for deploying resources 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**.

Research indicates that most firm's focus on 3 or 4 core competencies to differentiate themselves, establish customers within the target niche market and develop a competitive advantage. Given this finding, you should explore what your 3-4 competencies will be and if those areas are flexible and responsive enough for the niche markets you have identified. To be effective, those core competencies must be distinctive and the capabilities should be done better (or in a more unique way) than competitors

In short, identifying core competencies is key to development of sound marketing strategy, especially for niche markets. Emulating successful models can be lucrative, but the best margins are often in more newly created products and services. Remember that innovation can be in the actual product (new offering) or in how it is marketed (cooperate with existing retailer, bundle with ag experience, partner with credible food or ag "brand") Some examples of these competencies are:

- Expertise in Rare Production Protocol (Biodynamic, Heritage Foods)
- Organic, Humane Treatment of livestock, Grassfed Foods
- Superior Personnel and 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**

### *1. Strategic Planning*

Strategic planning entails 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 more below) and weaknesses/shortfalls of the current operation. In short, the overall strategy provides a "road map" to attain your objectives while staying true to vision and mission of your operation (or family/household).

## *2. Define Mission and Objectives*

The Mission is your operation's statement about why it exists, and sets the tone of what the company and its products' image will 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, it 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, resources or budget 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 effective and realistic steps to achieve your strategy that must be clear. In short, this step requires you to Build an Execution Plan.

## *4. Monitoring Key Projects/Objectives*

Monitoring a firm's progress towards its goals is one of the most crucial actions during the first year 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 you to measure success. These should not all be financial indicators, as too many businesses focus on those before they can realistically be met. In addition to monitoring sales growth, visitor numbers and profits, you might also

monitor full deployment of resources (land, buildings, employees), customer satisfaction and return visits or employee feedback on their participation in the enterprise.

As part of monitoring, you should report on key strategies and objectives, following up on any deadlines or specific measurables that were set. There should be clear accountability to a person in the organization (or key partner), being cognizant to guard 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 for the change/growth goals of the operation.

What signals will trigger changes or growth for your enterprise? This is an important question since the first 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 business, 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 your operation and personal life in ways that are compatible with the niche you hope to operate within. This can include a change in the levels of family involvement, the privacy or solitude you have on your farm or ranch, the choice to “brand” your family’s 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 your Intent/Vision

- **Control your 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?** Niche marketing is only one of the potential enterprise diversification strategies that may affect this “big picture” thinking.

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