

## Is Niche Marketing Suitable for Your Accounting Practice?

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**ABSTRACT.** In recent years, accounting firms like many other professional organizations have been facing more aggressive competition from marketing-driven competitors. To compete effectively, some accounting firms are turning to niche marketing or niching. However, this strategy of subdividing a market into very small slices and then selecting a slice to serve may not be feasible for all firms. Although there are numerous advantages to niche marketing, there are also certain risks associated with it. By conducting a niche opportunity analysis for each element in the marketing mix, a firm can make a decision whether it possesses the resources to serve a niche. The discussion in this paper focuses on a way to approach and develop a niche opportunity analysis. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-342-9678. E-mail address: [getinfo@haworth.com](mailto:getinfo@haworth.com)]*

### INTRODUCTION

In recent years, the ethical codes of many professional associations have been altered to permit their members to advertise and

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*Journal of Professional Services Marketing*, Vol. 15(1) 1996

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engage in other marketing activities. Actions by the Federal Trade Commission and the courts to create more competition among professionals have fostered this change. In the past, a company typically solicited one or two proposals from accounting firms to perform audits. Now, three to five firms or more are contacted by major companies, and an accounting firm may spend \$10,000 to \$50,000 developing its audit-work proposal (Baldwin 1987). Many professionals who were initially reluctant even to advertise have now embraced a more encompassing marketing concept. For instance, some accounting firms are employing marketing specialists to develop and execute their marketing plans. These specialists in marketing-driven firms analyze what the clientele wants and then develop the accounting services to satisfy those wants.

Since 1978, when the American Institute of Certified Accountants removed its ban on advertising, numerous accounting firms have pursued a variety of marketing efforts. Many of these efforts have been haphazard, lacking a specific marketing plan. One study indicated that only 13 percent of the responding CPA firms had a written marketing plan. However, 78 percent of the respondents indicated that a written plan is necessary (Hodge, Brown, Lumpkin 1990). These firms recognize that as competition increases, the firms that will experience the greatest growth and profitability are those with a clear focus and a plan.

To obtain this focus, marketers in many industries are turning to niche marketing or niching. This is a strategy that involves subdividing a market, based on its characteristics, into very small slices and then selecting a slice and developing a plan to serve it. The purpose of this paper is to assist an accounting firm in determining whether niche marketing is suitable for it. This is accomplished by examining the advantages and risks of niching and showing how a niche opportunity analysis can be developed and used.

### ***NICHE MARKETING IN RELATION TO THE STRATEGIC MARKETING PLAN***

The elements in a strategic marketing plan have been widely chronicled for accountants in numerous professional publications (Bushong 1993; Ahmed and Hopson 1990; Festervand, Vitell, and

Reidenbach 1988). A situational analysis is the first step in building a strategic plan. Its purpose is to identify and analyze the major environmental factors that will influence the future direction of the business. Other elements in the marketing plan include a mission statement, organizational objectives, marketing strategies, and performance controls.

A major benefit from strategic planning is the focus that it provides for an organization. Adherence to a plan provides a guidance system that helps a firm achieve its mission. A firm's mission statement is derived from a situation analysis. A carefully conceived analysis of the environment helps managers correctly identify the market that the firm should pursue. This market identification is specified in the mission statement to establish the direction of the business. Then the other elements of the marketing plan can be developed.

### *Advantages of Niche Marketing*

Effective marketing efforts, greater work-place efficiency, and growth in the number of accountants have spurred increased competition in the accounting industry. The creation of a marketing plan helps a firm in this competition, but it does not necessarily guarantee success in the marketplace. Competitive challenges and inefficient use of resources can restrict a firm's success. In an attempt to lessen competition and focus their resources, some accountants are turning to niche marketing.

An advantage of niche marketing is that it permits an organization that serves one or a limited number of specialized segments in a market to isolate itself from major competitors (Guiltinan and Paul 1988). For example, instead of performing audits for all types of companies, in niche marketing accountants would limit their practice to audits for a very specialized segment of business such as small contractors.

Niching allows a small accounting firm to concentrate on a limited segment of a broader market. This focus often permits a small accounting firm to compete effectively with a much larger one. Research indicates that small businesses, such as machine shops and lumber yards, are mainly concerned with accounting firms' abilities and specializations. In contrast, larger businesses, such as

auto makers and computer manufacturers, consider the size and national prestige of an accounting firm to be particularly important (Lynn 1986).

Niche marketing generates a close relationship between a specialized clientele and the accountants who serve them. These accountants understand the needs of the particular niche better than generalists who deal with it on a periodic basis. This helps the nicher generate added value for its services through efficiency and in turn to obtain a premium for its expertise through reputation. Recognizing the unique knowledge possessed by specialists, most clients of professionals are willing to pay more for a specialist's service. A specialist that has an established reputation in its niche can increase referrals from larger, generalist accounting firms. This is because the larger firms do not view the smaller specialist as a direct competitor.

### ***Risks of Niche Marketing***

Although niching is beneficial for a small firm, there are certain risks associated with it. By allying itself to a particular niche, an accounting firm becomes dependent upon the outlook for the niche. If the niche experiences a business setback, then the accounting firm suffers, too. For example, a downturn in housing sales is going to greatly affect accountants practicing in a real estate niche. This risk can be partially allayed by the initial analysis that ascertains the long-term viability of the niche. Another difficulty facing a nicher is the threat of competition. Other small firms may view the chosen niche as particularly attractive. In some instances, a larger firm noting opportunities for greater growth and earnings may develop an area of specialization in the niche. Finally there is the danger that the niche was too narrowly defined. Lacking an adequate number of clients, a niche may be unprofitable for a firm to serve.

### ***TYPES OF NICHING STRATEGIES***

There are two types of niching strategies that can be pursued. Niching may involve a head-to-head strategy of offering the same

undifferentiated services as other firms, but offering them to a narrow market sector. The previous example of focusing on audits for small contractors illustrates the head-to-head strategy.

The other type of niching strategy is differentiated positioning. This strategy involves offering one or more different benefits to the niche, and avoiding direct competition with other providers. For example, in addition to performing audits for small contractors, accountants could provide management information systems for their clients, too.

Another approach to differentiated positioning is to unbundle the accounting service. Unbundling occurs when a service is divided among its basic activities. With unbundling, clients select and pay for only the activities they want. For example, if corporate and individual tax preparation for small businesses are ordinarily packaged together, they can be divided into separate services.

Differentiated positioning can result when an accounting firm analyzes its clientele base and is able to identify certain services that would benefit the clientele and are not presently being offered. To illustrate, one accounting firm identified its niche as closely held businesses. Firm members realized that as the owners of these businesses grew older, they would be interested in either passing the businesses onto other generations or selling them to outsiders. As a result, the firm developed a niche in estate planning (Freedman 1982).

Knowing the needs of clients in a niche allows an accounting firm to provide the services most desired by clients. To maintain its differentiated advantage, a firm should provide services that are needed by niche clients but are not specialties of other providers.

### *Desirable Characteristics of a Niche*

For a particular market niche to be worthwhile to accountants, a niche should possess several important characteristics. An examination of a niche by an accounting firm can determine whether it contains an adequate number of organizations with sufficient earning power to make servicing the niche profitable. A niche should possess growth potential; however, if it grows large rapidly, servicing the niche may be attractive to other firms. A key attribute of a niche is that it has minimal interest to other firms. If a firm's re-

search indicates that a particular niche represents an attractive business opportunity, then the firm must determine whether it has the ability to serve the niche.

### ***USE OF A NICHE OPPORTUNITY ANALYSIS***

To determine whether a firm possesses the resources to service a particular niche, it can conduct a niche opportunity analysis for each element in the marketing mix. This analysis should determine whether the firm's marketing mix is adequate to pursue the desired niche. The marketing mix is the specific way in which the key marketing variables are managed and controlled by a firm to satisfy the needs of its market and the organization. The elements in the marketing mix include the traditional four Ps of the mix which are product/service, price, promotion, and place. Because the product/service of accounting firms is basically intangible, a fifth P, personnel, is added to the marketing mix of accountants. The intangibility of an accounting service creates difficulty in separating the service from the accountants providing it. For this reason the expertise of the accountants in a firm is particularly important to its clients and becomes a significant element in the marketing mix.

To serve the niche successfully, the firm's members' must possess the expertise to address its special requirements. The proper resources, such as computer software and instructional looseleaf services, should be readily available. Within the niche, the accounting firm should be able to establish a reputation that assists in shielding it from the competition of other providers. Without a strong image in its particular niche, long-term success and dominance in the niche are difficult to attain.

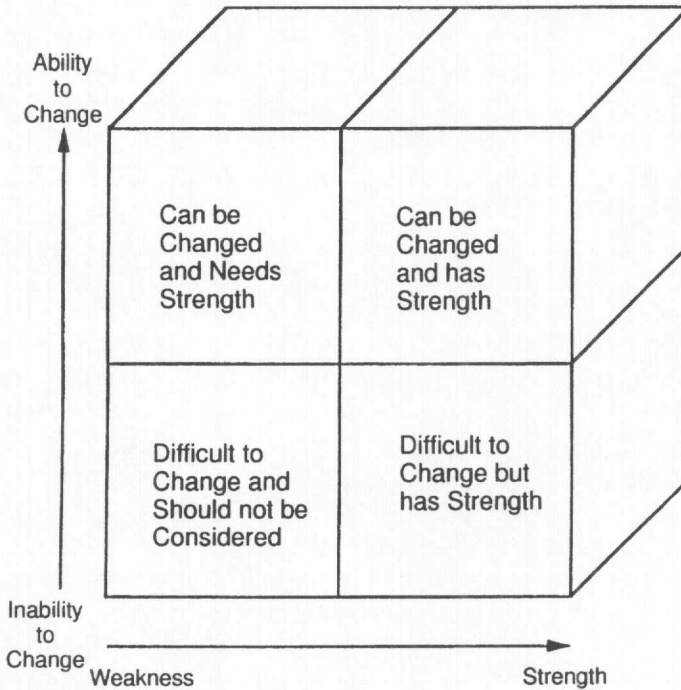
An initial step in the niche opportunity analysis is to develop a model for the type of marketing mix that is needed to service properly the desired market niche. This model will specify the product/service, price, promotion, place, and personnel policies that are necessary to conduct a successful practice in the niche. For example, let us assume that a firm wants to specialize in pension and profit sharing plans. To ensure that the firm offers the correct product/service, it must subscribe and have access to the computer software, reference services and other materials that guide an ac-

countant's decisions in the development of pension and profit sharing plans. The price or fees charged for the service must be competitive and affordable by its clients. Promotional activities that include workshops for prospective clients, advertisements, and publicity about the firm's offerings must be carefully planned and executed on a scheduled basis. The firm's office (place) must be accessible to its clientele and the firm's members must be available to travel to clients' sites. The firm's personnel must be knowledgeable about the complexities of pension and profit sharing accounting, and regularly participate in educational programs designed to maintain their proficiency in the field.

After establishing a model mix for the niche, a second step is to determine whether the firm's present mix can be altered to match the model. To assist in making this decision, a niche opportunity analysis can be prepared for each element, e.g., personnel, in the mix. This analysis will take the form of a matrix with four cells, each showing the degree to which the particular element can be changed to match the attributes of the model element (See Figure 1). The horizontal axis of the matrix is a continuum that moves from weakness to strength, identifying the firm's strength in the element. The vertical axis is a continuum that shows the ability of a firm to change the element to more closely match the model. The interaction of the two continuums produces four cells in the grid that are identified as follows: Difficult to Change and Should not be Considered; Difficult to Change but has Strength; Can be Changed and Needs Strength; and Can be Changed and has Strength.

After completing a matrix for each element in the marketing mix, the final step is to assess the firm's ability to serve the market niche. In an accounting firm, personnel and product/service are the most important elements in the marketing mix and should be weighted more than the other elements. In order to market to a niche successfully, these two elements should fall into either the "Can be Changed and Needs Strength" or the "Can be Changed and has Strength" cell. Placement of personnel and product/service in the "Can be Changed and Needs Strength" cell means that the firm has the ability to add new accountants and procure additional software and reference services, allowing it to serve the niche. Placement in the "Can be Changed and has Strength" cell indicates that the

FIGURE 1. Niche Opportunity Analysis



present staff can be readily retrained and most of the necessary software and reference materials are already in-house for serving the niche.

When the personnel and product/service elements are shown in the “Difficult to Change but has Strength” cell, the firm should continue its present operation and abandon for now the idea of niche marketing. This is because the firm probably is composed of experienced personnel who have forged a satisfactory practice and fail to see any need to change it. In the future, however, retirements and other personnel turnover may permit these practices to employ accountants with the skills to serve a niche. For this reason, the possibility of developing a practice focusing on a niche should be periodically revisited.

If a firm’s practice has been in a specialty distant from the niche



under consideration, an attempt to serve the niche may be futile. The firm probably has only a modest reputation in the area and any attempt to serve the new niche would require great effort. Thus, when the personnel and product/service elements fall into the "Difficult to Change and Should not be Considered" cell, any thought of niche marketing should be discarded.

The promotion and price (fee) elements can be more easily altered to conform to the requirements of the niches. In a relatively short period of time, a firm's advertising can be redirected to a niche, and its fee structure can be changed.

Because of the general need for accounting services, accountants can establish a practice nearly any place. For accountants seeking to serve a particular niche, however, competition from other firms in the same niche may be a deterrent. The number of prospective clients in a market is important for the place element, too. For example, Atlanta, GA, which is the home to many businesses, offers more opportunities for niche accounting in pensions and profit sharing than Fort Myers, FL, which is a retirement and resort area. Because some niches, such as physicians and automobile dealers, represent small groups of widely dispersed clients, a major metropolitan location may be best suited for accountants serving them.

In addition to the controllable variables of the marketing mix, there are several uncontrollable environmental variables over which accounting firms exert little or no control. What they can control is how they respond to these variables in their planning process. These uncontrollable environmental variables include the strength of competition, client behavior and actions, impact of technology, political and legal decisions, seasonal influences on business, and economic conditions. Although many of these uncontrollable variables are relatively stable in the short run, they frequently change in the long run. To assess the opportunities and hazards of marketing to a particular niche, a firm must make a careful examination of these variables to determine their effect on the decision. Also, even the most effective marketing strategy must be reviewed periodically, as a response to changing environmental factors.

## CONCLUSION

As a result of the niche opportunity analysis, a decision can be made whether to pursue the prospective niche. If the decision is no, and niching is still desired, then another niche that is more compatible with the resources of the firm should be considered. A "yes" decision allows the firm to proceed with the remaining steps of a strategic marketing plan for the niche. These steps which involve a mission statement, organizational objectives, marketing strategies, and performance control provide a pathway for a successful accounting practice in the niche.

## NOTES

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