CHAPTER 11

Segmentation, Targeting, Differentiation and Positioning: How to Stand Out in the Marketplace

One of the fundamental tenets of marketing is that you cannot be all things to all people. This is particularly true in professional services as firms have certain areas of expertise and client demand cannot be created when there is no perceived need for a service. The idea of segmenting a market and targeting only those groups of clients who are likely to find value in your service and that you are able to serve profitably is something that lies at the heart of a marketing strategy. In many instances, a PSF is measured by the calibre of clients that it serves and the nature of the work taken on. Additionally, having a good mix of work is also essential to maintain the different levels of the firm (from junior to senior). Professional service firm excellence cannot be measured by volume alone, as David Maister points out, marketing is about getting better business, not just more business. Both anecdotal evidence and empirical research demonstrate the benefit of segment marketing in terms of improved business performance and PSFs should be no different.

I Segmenting and Targeting the Market

A market can be defined as 'a group of individuals and organizations that have a need or potential need in common that can be satisfied through a specific service offering and have the ability to pay for it.'

According to Bruce Marcus and August Aquila in their book, *Client at the Core*, a PSF market consists of:

- A group with a common need for a specific service
- A group that is accessible
- A group that you can serve profitably

The segmentation process is flexible and indeed can be highly creative if a firm puts considerable effort into the process. It is feasible for a firm to focus on quite a broad market or a narrow one offering a few core services or the firm can target a number of segments with an attempt to offer a differentiated service for each which would entail developing a separate marketing mix for each segment. These decisions will depend upon the objectives of the firm and its overall strategy as well as the requirement to balance the needs of clients with those of the firm and its professionals.

Case In Point

Recently, there have been many articles written about the proliferation of private banking. Plans to open or expand new private banking units are frequently being announced by community banks, foreign banks, investment banks, brokerage firms as well as large regional and money centre banks. Some private banks set hefty minimum hurdle levels for access to their services with the hurdles being in the form of net worth, size of credit extended, size of trust account, size of investment account or a combination of all of the above. Other private banks require only a $10,000 deposit account to gain access. The notion of a private bank also can change depending on what part of the country you are in, whether it is the East versus the Midwest or whether it is a large urban area or a more rural setting. The risk to all the participants in the private banking arena is that this is beginning to confuse the client or prospective client because the notion of private banking has become almost diluted. It is losing its brand name significance and as such, many are wondering just how private is private banking?

Many of the banks, et al have long been aware of the issues inherent with the fading brand name recognition and have taken steps to distinguish themselves. A number of years ago at Harris Bank, we segmented our private banking units into three basic markets — High Net-Worth, Professional and Investor. Prior to this segmentation, our private banking group comprised of five separate banking units offering basically just loan and deposit services to the 1) medical; 2) attorney and CPA; 3) executive and other professionals; 4) special investor; and 5) the entrepreneurial markets. That original structure now seems archaic and perhaps limited but at the time it worked as it created an entity that was neither retail nor corporate. We made some aspects of banking more private. (Most notably missing from the original set–up, however, was a separate high net-worth unit.) Historically at Harris, private banking was part of the 'banking department' (that is, separate from the 'trust department', or from the 'investment department'), offering just banking products, and referred trust and investment services to other areas of the bank. To address this, we incorporated the trust and investment arms with the banking function under one organisational body with common management.

At the time, this was a radical move both from our competitors' viewpoint as well as from our clients' perspective. In conjunction with this, the market segmentation was further refined to the existing Wealth Management (High Net-Worth), Professional & Entrepreneurial, and investor markets.

The significance of these moves is quite dramatic in that the client is now serviced by members of the entire market rather than separate product specialists, or in worst case scenarios, silos. Professionals within the market (banking, trust, and investments) have common management, attend market meetings and educational courses and now are expected to know what each of the three market disciplines bring to the client. Prior to this, products were presented and sold on 'an ad hoc' basis and were often priced from the scheduled price list. From the new business person's perspective, they did not differentiate between a client sale and an external sale because many of the clients of one area of the bank had never been introduced to the other areas of the bank. Since the market approach has been in effect, individuals (representing banking, trust and investments) assigned to the client work in tandem with that client. As a result, a systematic marketing approach, along with relationship pricing and decision making, has been deployed. Clients who were primarily trust client could call up a banker who knew of them and understood the extent of their entire relationship with the bank. This now sounds academic, but for years important clients were often cloistered in certain business units and never knew the full extent of the bank's capabilities. Related to this is our current belief that private banking is no longer limited to loan and deposit services. Trust, investment advisory, custody, mutual funds, financial planning, risk management as well as deposit and loan availability should all be key product and services of any private banking organisation. This is true for the private banks serving only the highest net-worth families as well as to the private bank seeking executives with account balances of $10,000. Still another aspect is that each market can begin to specialise and thus begin to serve its client base more efficiently and uniquely. The professionals in the market act as advisors to the client as opposed to order-takers, with the implication that the professionals provide an added value in addition to the product or service already provided. Again, this is true for the professional servicing the highest net-worth family to the mid-level executive opening an account with a balance of $10,000.

Just how private a private bank should be is quite a complex question. Can a bank or any other institution purport to be or have a private bank, even if it has all the prerequisite deliverables like trust, investments, custody, risk management, etc when access to the bank itself is fairly unlimited and there is no further segmentation? There are a number of private banks in the marketplace and all are not set up the same. Without segmentation, and if hurdles to gain access are not properly set, the risk is that not all clients will be properly serviced. Any client who is not being serviced in accordance with their expectation will not feel they are in private banking. At the retail level, this may not be an issue. However, it is a real issue in a private banking unit. At Harris, we believe some segmentation is necessary. As stated earlier, we currently have three broad market definitions, High Net-Worth, Professional & Entrepreneurial, and Investor. Specialisation within these markets can conjure up the notion of private banking, actually, three private banks. Though the nomenclature can be argued, clients within each of the markets should feel special in that the professionals know them and are familiar with their needs. And once you add to the equation products and services that fulfill those needs—you have private banking.

Segmentation is used to define the market and thus the basis on how we staff and manage particular needs. We have a different type of banker serving the investor market than we do serving the professional market. In the investor market, the bankers are most informed on investment, trust and estate product while the bankers in the professional market are most informed about credit, estate and financial planning products. At the risk of stating the obvious, this is because that is what the client mostly needs. In both cases, the client could be very wealthy and eligible for many private banks who look only at net worth, but we feel it is necessary to specialise in order to become better advisors. In the high net-worth market, an even different type of banker is needed. Again, this is because of the needs of the clients assigned to the market. From the client's perspective or from the prospect's perspective, it should never be felt that one market is better than the other. If the bank does a good job staffing the markets with personnel having the right client and product knowledge, the market the client is in should always be the right market.

In closing, segmentation makes the market and market segmentation provides a focus—but individuals and deliverables make a private bank. So too, it should be noted that none of the above is meant to convey an image that we, as bankers, covertly assign the client to any of the markets. Quite the contrary is true. The client's voice dictates all decisions so it is not merely the banker's evaluation of one's net worth or one's product usage level that determines the market—it is the client!

(Source: Lawley, Thomas P. "How private is private banking?: arguments for market segmentation." Trusts & Estates 136 n5 (April 1997): 10(2)).

A segment comprises a group of current and potential customers that share common characteristics such as industry or firm size as well as those clients with similar needs or consumption behaviour. The key stages in the segmentation process for the PSF are:

1. Identify key client groupings based on existing clients—existing clients are a good place to start in the segmentation process as you will easily be able to identify which clients are good to work with and which are not. This will be based on a number of factors such as:
   - The fit between your capabilities and the client's needs
   - The fit between the client's needs and your strategic direction and vision for the future
   - The profitability and revenues of the client
   - Access to other valuable work
   - The significance of the client projects and the degree to which it raises the firm profile
   - Lifetime value of client in terms of work and referrals
   - Ease to work with and compatibility
   - Growth potential and access to other attractive markets

Starting with existing clients and thinking about them in a strategic manner will give you the opportunity to do some in-depth analysis of your existing client base and may help you to refine the portfolio of clients you have and cull those that are less valuable in order to free up resources to target new, strategically important clients.

2. Identify key potential clients—using the segmentation bases described in Table 11.1, identify new clients based on your overall strategy using the segmentation variables that are of most use to your situation. The steps taken in stage 1 should help this process.
3. Group potential and existing clients into different segments based on their buying characteristics and needs. This may lead to a number of segments being identified, as clients in each segment should be as similar as possible whilst those in different segments should differ somehow in buying behavior and needs.

4. Develop clear segment profiles and consider the attractiveness of each segment based on:
   - The size and growth of the market
   - Potential profitability
   - Competitive nature and intensity
   - Firm capabilities in segment
   - Fit with strategic direction
   - Knowledge of market and competitive advantage
   - Client perceptions of our firm
5. Target the chosen segments—based on the prior analyses, a firm may come up with only one attractive segment or a number of segments that it wishes to pursue. There are a number of choices when it comes to the target market strategy:
   - Target a number of segments with essentially the same marketing mix
   - Target one segment with a focused marketing mix (niche market)
   - Target more than one segment with a separate marketing mix for each

A marketing mix consists of the specific services offered, pricing, promotional activities, the way services are distributed as well as the people who serve clients and the operations/processes that support the way services are delivered. For example, if a law firm wishes to target large multinational firms engaged in growth through acquisitions, then it can focus on offering M&A services specifically targeted at this segment using a fairly fixed marketing mix. However, if the same law firm wishes to offer a variety of service groupings that are targeted at different segments, then it would be wise for the firm to create separate marketing mixes for each. The extent to which the marketing mix would differ will depend on the needs of that target market and the degree of marketing customisation required to effectively meet those needs. To some extent, these differences may be delineated by the practice groups of the firm and hence validates the need of different practice groups to create their own marketing programmes that are however, still consistent with the overall marketing and branding strategy of the firm.

Table 11.1 Segmentation for the PSF

Individual Consumers:
Geographic—based on location. A PSF may decide to target markets based on their geographic position. For example, as China develops a more stable legal

framework and people's need awareness of professional services rises, professionals are now tapping this growing market.

Demographic—factors such as income, wealth, occupation, and marital status. Doctors may target high income earners with families for services such as health screening and planning because such markets are able to pay and should be more concerned about their health needs due to their family status and position as bread winner.

Psychographic—divide prospects based on social class, lifestyle, or personality characteristics. US$100 wills or divorce packages are targeted at those in the lower social classes. A CPA firm may wish to create an image of a friendly approachable firm and attract people with similar characteristics.

Behavioural—here, we are concerned with customer's response to a service as opposed to their characteristics. Factors such as benefits sought and purchase occasion are relevant segmentation variables. For instance, a dentist may offer differing service features for heavy and light users of dental services, as research shows they value different features.

Organisational Clients:

Industry—firms may target clients in certain industries due to the needs of clients within those industries and the ability of the firm to fulfill those needs. For example, a law firm may specialise in the real estate market.

Buying process and organisational size—larger firms tend to have more formal buying processes that involve more people whereas smaller firms may spend less but have less formalised procedures and can be effectively reached through the two or three most senior managers.

Potential profitability and revenue—some organisations may require a wide variety of services or may need to use the firms' services more frequently and hence are potentially quite profitable for a firm to target.

Nature of relationship—some organisations may be very price driven and only look to the lowest priced supplier whereas others may wish to develop a long term relationship and are more concerned about value.

Benefits—some organisations seek external advice for critical business issues whereas others may prefer only to outsource more routine issues. The PSF can consider how best it could serve these different types of clients and which type it should target.

Risk—organisations with different risk profiles may differ in their characteristics and attitudes towards professional services and hence will require different service efforts and marketing mixes to satisfy them.

Technology—different clients have different attitudes towards the use of technology and this can be a useful dimension to target different segments.

When looking at the different bases for segmenting markets, it is important to note that a firm should make use of multiple bases for developing an effective segment profile. Arguably, whether targeting consumers or industrial markets, the PSF is best off considering the needs and benefits that target clients seek in particular areas and then use other factors such as demographics or organisation size in order to better understand that segment by understanding what kind of characteristics clients have when they seek certain benefits. This will allow a firm to create a segment profile which is measurable and identifiable rather than just saying we wish to target clients who have a low risk attitude towards professional services without knowing who those clients are! This may require some research but it is worthwhile in the long term.

An Example

A small Hong Kong based CPA firm wished to expand its offerings in terms of secretarial services, auditing, and tax advice to the growing number of SMEs who were looking to expand their business overseas and set up new subsidiary firms both in Hong Kong and elsewhere. The partners identified the fact that there are around 300,000 SMEs in Hong Kong, yet many of these are shelf companies and of course, many would not be viable targets. After some basic research, the firm decided to create a package of services for small firms opening new subsidiaries that would range from company formation to ongoing tax advice and auditing. They also teamed up with a local consultancy firm which specialised in providing management advice for growing SMEs and entered into alliances with regionally located firms who could help its clients set up overseas subsidiaries. The key benefit they believed that clients would seek was a low hassle fixed fee arrangement that would minimise the SME's risk to purchasing professional services whilst helping the firm to grow. Based on secondary evidence that such firms are more likely to be members of relevant trade associations and seek advice from quasi-government bodies such as the HK Trade Development Council and the HK Productivity Council, the CPA firm partners developed a one year plan to attend, present seminars, and provide free advice through such associations whilst writing articles for media that reached this segment. The partners also joined new entrepreneur clubs and sat on committees that offered free advice to members. Additionally, the firm created specific brochures and a web site that explained the service benefits specifically for this market. By the end of the year, the firm's revenues from this venture grew to 20% of the firm's overall revenue and it is steadily being recognised as an expert in the SME market.

The above example shows the benefits of using a target market strategy. The niche strategy used by the CPA firm allowed it to stand out from its competitors whilst at the same time remaining small enough not to invoke the interest of larger firms who may wish to tap a new attractive market. This is one of the keys when using a niche strategy as larger firms with more resources can quickly take away share from the firm that developed the niche.

II Differentiation and Positioning

Differentiation and positioning are related but distinct concepts. Differentiation is essentially an extension of the firm's strategy and basis for competitive advantage discussed in previous chapters. Differentiation can be defined as'the set of meaningful differences that define and set apart a PSF from its competitors which are recognised and valued by their target markets'.

This definition highlights a few key issues when it comes to deciding a differentiation strategy. The differences that a firm chooses should be valued and meaningful to the market place and allow it stand out from competitors. Moreover, these differences should be recognised by clients and not easily imitated by other firms or they cease to provide a competitive advantage. In other words, differentiation is strongly related to how clients buy and the attributes they value from providers. For example, firms such as KPMG have differentiated themselves by offering a variety of services on a worldwide basis through a global network that provides them unmatched access to local knowledge and expertise that few firms could hope to achieve. Differentiation is a more complex issue than positioning in that it may involve a number of organisational processes and systems that cannot all be communicated effectively to clients and potential clients through the traditional communication channels that firms use. Positioning can be defined as 'the set of meaningful differences that a PSF chooses to communicate to internal and external parties that to a large extent decide the image of the firm in the market place'.

The nature of communication, information processing, and promotion messages dictates that a firm can only focus on a limited number of differences (attributes, benefits) and these should be carefully developed in order to create a competitive position and image that is readily understood by the market place and is not a generic me too position that is adopted by most other firms. Bruce Marcus says this about positioning (from the Marcus Letter, www.marcusletter.com):

- *The position must stem from the best possible understanding of the needs, aspirations, and expectations of the prospective clientele. There should be a perception of what your market most wants of a firm like yours—and that perception comes* *ideally from research. Many firms have spent several million dollars each on just this kind of research. If you don't have that kind of money—or commitment—do your own survey. Ask your existing customers, your friends, their friends—anybody. But don't guess. Know.*

- *The position must be based on reality. You may take the position—and advertise—that you offer better service. But if you can't prove it, or it just isn't so, you're ultimately going to lose more than you gain. Don't promise what you can't deliver. The acoustics of the marketplace are magnificent, and if your promise is not deliverable, you'll get caught and hung.*
- *The position you choose must spring from—and be driven by—your own business strategy. You've got to look at your firm ... see who you are and what you want to be ... consider partner aspirations ... weigh skills, strengths and weaknesses. If you ignore this step, you stand in danger of not only selling a mythical firm, but of being unable to deliver what you sell.*
- *There are at least two ways in which a position can be determined. The first is a perception of the market needs, however that perception is arrived at. The second is to choose market opportunity. The first is a careful analysis of what the market wants and needs, and that you can supply. The second sees an opportunity that may not have existed before. Either way, the position must be reinforced in a proper marketing campaign.*
- *Either work with available skills, or develop new skills before the positioning program begins. It's one thing to recognize the opportunities for your company for helping your community, and to choose a position based upon the needs of the community. It's another thing to have a real ability to serve those needs.*
- *Choose a single position point. Diverse positions are impossible to sell effectively, and each position, instead of reinforcing the others, dilutes them all. One point, one thrust. Examples cited by one expert, Paul Cole of Decision Research, are based on the observation that a customer's overall impression of a company is one-dimensional. "Pepsi, for example, is associated with youth. Volvo with safety, Burger King with flame-broiled food," he says. Most recently, TWA is stressing comfort and leg room in its planes. "Only when a market has fully accepted the unique position," says Cole, "should a company attempt to build positioning extensions. Now that BMW is fully associated with full performance, it can begin to extend its positioning to luxury as well."*

- *Reis and Trout (from the book, Positioning) point out that the only company with a predefined position is the market leader—the number one company in the field. It tells the market that the market itself prefers that company. It also defines the market from which competitors must capture a share, if possible.*
- *Emphasis, in positioning, must always be on how the public will perceive the company, and not on how the company perceives itself, or would like to be perceived. The position must stem from the reality of the company and the market, and not from an arbitrary notion of what will sell, regardless of the reality of what the company is. Reality counts, not image. The danger in the concept of image is that it implies that symbols can be manipulated to control any image—even one that's not rooted in reality. It simply isn't true. If you don't like the perception that the public has of your reality, change your company, not the symbols. As the old man said, what you are speaks so loud I can't hear what you say you are.*
- *When the position is determined, it must be communicated internally, even before it's communicated externally. Simply, if you're going to tell the world who you are, don't you think you should tell your own staff and colleagues first? After all, they're the ones who have to breath life into the position, aren't they?*

Differentiation and positioning are interdependent because your positioning strategy is based upon the differentiation strategy your firm pursues. Positioning is really about the few key differentiating features that the firm wishes to be known for and the image that is created and perceived by the market place. Deciding on a positioning strategy and then trying to communicate that image to the market is not as easy as it sounds. Client's perception of your firm may be quite different from your own perceptions, and, often times, research will be necessary to have a clear idea of how the market place perceives your firm and if that fits with what you are trying to accomplish. If the image you have does not fit with your firm's strategy, it is crucial to find out why. Changing your image is not as simple as producing a catchy new advertisement or brochure, as in the mind of the client, perception is reality. Your firm will need to address that reality in order to ascertain what things must be changed in order to produce the value that the client is looking for, and that is also in line with what your firm is trying to achieve. You cannot claim to be a leader in civil litigation or cosmetic surgery if your actual firm's abilities do not live up to the scrutiny that will be passed by actual clients.

A study conducted by *Expertise Marketing* on Differentiation Strategies in 2000 identified a number of differentiation strategies adopted by professional service firms:

Common approaches included:

1. *Improved or evolved current services*
2. *Reorganised practices or lines of business*
3. *Entered into strategic alliances*
4. *Hired specialised individuals*
5. *Developed new positioning*

Less common approaches included:

1. *Decreased prices*
2. *Merged*
3. *Developed new risk sharing arrangements with clients*
4. *Developed new to the world services*
5. *Sold parts of the firm*

In the common approaches used, Items 1–4 seem reasonable as these items have real substance. That is, hiring new professionals with particular expertise or evolving current services can allow a firm to create an advantage that is both meaningful to clients and not easily copied by competitors. They key thing is to focus on client needs and develop a differentiation strategy that leverages the capabilities of the firm. Item 5 highlights the misconceptions that professionals have when it comes to marketing. Developing a new positioning is not in itself a sustainable differentiation strategy. Image differentiation (which is what positioning is) does not work in isolation like it can for consumer products. For instance, perfumes and fragrances are essentially differentiated by their image (think Chanel No 5) and most consumers would not be able to tell the difference between different products without the brand names. The same clearly cannot be said for the PSF. Creating a new positioning strategy devoid of changes within the firm upon which the positioning should be based can be an expensive path to frustration and more importantly, client disillusionment. When looking at the less common approaches, Item 1 stands out. Low prices are not a differentiation strategy that the majority of professional firms can use. Unless you are able to generate cost economies that others cannot match, either through volume or technology (such as H&R Block), then cutting your price does not give you any advantage over your competitors since they can cut their price just as easily. Additionally, focusing on price is not an image most PSFs would want to be associated with.

The research also found that respondents would expect to have the greatest increase in the following differentiation approaches in the next year:

1. *Use new techniques and tools to deliver services*
2. *Train professionals to follow proprietary methodologies*
3. *Implement a formal relationship management program to strengthen bonds with clients*
4. *Embark on a public relations campaign*
5. *Increase the speed of service delivery*
6. *Embark on an ad campaign*

Item 3 stands out as a factor with real potential. Implementing a comprehensive relationship management program will allow a firm to identify its strengths and weaknesses and focus on the clients it should be serving with the right service levels. This is truly substantive. Again, Items 4 and 6 highlight the superficial way that professionals often view marketing. A PR or ad campaign can certainly be supportive of a differentiation strategy but in the PSF context, it absolutely cannot be considered an approach by itself.

It is crucial for any PSF to realise that creating a differentiation strategy that is likely to be successful requires an interrelated set of activities to occur, from the planning of the strategy, the choices made, all the way to the implementation and running of the strategy. Positioning is something that comes out of your differentiation strategy and should be chosen based on the competitive advantages the firm has and how it can sustain those in the competitive environment. Unlike consumer products and traditional services, positioning is highly reliant on the individual professionals within the firm, and hence the image created for the firm cannot be separated from what is being communicated on a day to day basis by the professionals who serve your clients.

III Conclusion

Targeting the right clients with the right services is a prerequisite to marketing success. It is better to specifically fulfill the needs of a small group of people than try to be all things to all people and hence not be able to focus organisational resources on the most attractive segments. In order to sustain a successful segmentation and targeting effort, the PSF should first identify the capabilities that the firm has and how those can be best utilised to serve an attractive set of clients that will value what the firm does. Segmenting existing clients and even culling the least attractive is a good place to start the differentiation process and identify what type of segments the firm should be targeting. Differentiating the firm relies on a set of interrelated activities that takes into account the capabilities of the firm as well as its overall strategy and the value it can offer to clients. Positioning is based on the differentiation strategy and is borne out of the key benefits the firm wishes to communicate to external and internal parties. A PR or advertising campaign cannot be used to differentiate a PSF although promotional activities, in particular PR, can be very effective in helping to communicate differences to the market place and supporting the overall positioning strategy.