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BUSINESS VALUATION ALERT

How to Develop and Market a Niche

by Barbara Walters Price, Senior Vice President of Marketing, Mercer Capital Management, Inc.

Why Niching Is Important

The biggest benefits of niching are your growth as a professional and the growth of your practice. In today's crowded BV market, you do not have the luxury of concentrating only on your current engagements: you must be planning for the next engagement that you do not yet have.

As such, you have to know where to spend your time and money. In addition, business valuation is a maturing industry with more sophisticated buyers who have a much better understanding of what they want to purchase and how much they are willing to pay for it. These buyers expect specialization and unique value.

Niching not only allows you to differentiate yourself from your competitors, but a niche also provides a place to focus your marketing efforts (and your budget). As Allan D. Koltin, CPA, president and CEO of PDI Global, Inc. states, "I am a big believer that, while having a BV designation (such as a CVA) is a tremendous plus, there should also be a sub-strategy for pursuing expertise within an industry or functional niche. 'Double-dipping,' as I often refer to it, allows you to distance yourself that much more from the competition and, more times than not, justifies a higher billing rate. Whether it's becoming known as the 'go to' person as it relates to valuing auto dealerships or simply being known as the famous firm in matrimonial accounting, the more specific you can carve your niche, the more profitable your practice niche will become."

Techniques to Identify a Niche

Your firm should annually review its existing client base to determine both industry or service line concentrations. Most firms keep basic information on clients and the projects they perform for them. If your firm does not, it should.

1. Review Your Existing Client Base for Emerging Industry or Service Line Concentrations.

Identify the industry/sector in which your client operates, as well as the service(s) you provide to them. Run a list of client engagements by year to determine if there are any industry or service line concentrations. The data should provide the expected information (i.e., your firm might already market, say, auto dealership industry expertise). However, you are searching for emerging concentrations or concentrations of industries and/or service lines where you can claim experience and build upon it.

For example, for firms that have more than a hundred client engagements each year, it is easy to lose sight of the macro trends while they are immersed in individual projects. Yet, successful firms perform this analysis once a year not only to augment any existing industry and service line expertise, but also to identify industries and service lines that might be profitable to pursue.

If your firm does not review its existing client base at least once a year, take on the task yourself. At the very least, you should keep track of every engagement to which have contributed significantly in order to create your own personal engagement history. Over time, that engagement experience will likely point toward one or several industry or practice niches.

2. Identify Your "Ideal" Client.

Some professionals have found success identifying a niche by first identifying their "ideal" client or the types of clients they want to serve, and then determining what types of services and expertise these clients desire. At many other firms, "ideal" clients are appreciative clients. That is, clients who understand the value of the services we provide, have sophisticated needs, and view us as trusted advisors rather than vendors. They do not complain about fees or have unreasonable expectations.

In our experience, most of our appreciative clients are those with financial sophistication as well as financial resources. Therefore, if your practice has experience in gift and estate tax valuation, begin to focus on serving high net worth individuals. To find these clients, look for the CPAs and attorneys that service them. If an emerging service line is identified to be valuation for financial reporting, focus on auditors who work with sizeable public companies.

3. Create a Niche from Existing Engagements
Another avenue of niche-building is harvesting low-hanging fruit, or creating a niche from your existing base of business. Timothy R. Lee, ASA and a senior vice president of Mercer Capital is particularly good at this. He uses his contact with the firm's valuation clients as a springboard to niche expertise.

For example, he has developed a niche with industrial sealant distributors, which began with a typical ESOP valuation engagement. Lee was the lead analyst in this engagement and invested extra time and energy into really understanding the client's business. This deeper insight impressed the client such that he invited Lee to speak to a consortium of other distributors about valuation issues. This speaking engagement, along with recommendations from the original ESOP client, led to valuation and consulting engagements with other industry players.

Yet another speaking engagement followed where Lee was invited specifically to address the competitive outlook for these distributors given certain prevailing industry trends. Currently, Lee is conducting a proprietary study at the request of it's the distributors, and will present the study's findings in-person. From an ordinary ESOP valuation engagement, an industry niche was created.

4. Research Growing Markets.
You can also look to new and growing markets where you can fill a void of existing expertise. This prospect of researching growing markets may be daunting for many professionals, as you do not want to find yourself in an industry niche that is a mile wide but only an inch deep, or that is broad but limited in potential. However, there are resources at your disposal to help you determine this, if you know where to look.

Brokerage firms often publish information on industry growth prospects. Databases such as Thomson Research (*http://research.thomsonib.com*) offer investment research for a fee that varies on the type of information downloaded. Look specifically for margin information.

Trade journals can also be a good source of forward looking industry news. Aggregators like Factiva and Dialog provide searchable access to thousands of articles. Factiva (*http://factiva.com*) requires a $69 annual subscriber fee and then charges $2.95 per article downloaded. Dialog offers an open access product (*http://openaccess.dialog.com*) that carries no annual fee and allows article downloads for $4.45 each.

Market research reports will often cover growth prospects by industry. Marketresearch.com brings together reports from dozens of publishers at prices starting at $20 and going up to several thousand dollars. Pursue this after you have identified those emerging industries from your review of existing client engagements discussed previously.

5. Pay Attention
Finally, you should never overlook the importance of providence—a new and lucrative niche might be yours if you only pay attention.

This happened to MPP&W in St. Louis. Adam J. Herman, CPA/ABV, CVA, ASA, director of MPP&W's Business Insights Group/Valuation Services, is one of the drivers of the firm's successful Research and Experimentation Tax Credit niche. "The Research and Experimentation Tax Credit rewards companies who invest resources in innovation and product and process improvements which help to expand our economy. We came upon it somewhat by chance," says Herman.

This successful niche opening came about as one of Herman's partners was attending a conference. One of the conference speakers mentioned the tax credit from the podium and Herman's partner realized the opportunity and acted on it.

Niching Is Not Rocket Science

The bottom line is that identifying a niche is not rocket science. It involves a bit of digging, paying attention to your market and your practice, and being open to new ideas. Many practitioners begin the process of identifying a niche never to finish because they are afraid that they will choose the wrong one. Unless you are leaning towards developing expertise in the buggy whip industry, you will likely make a good decision. Remember, you do not have to be first in a particular niche. You just have to be committed to it.

In developing your niche, you will not get far unless your partners or bosses are on board. The key to winning over the powers-that-be is setting realistic expectations and presenting realistic data.

Mel Abraham, CPA, CVA, ABV, ASA, speaker, coach, and business valuator remembers selling the partners of his former firm on the idea of business valuation. His partners thought it was a great idea but did not understand the investment necessary to build a practice area that "stood out."

Abraham advises, "For that guy or gal who is presenting a potential practice or industry niche idea to the partners—do your homework. Know what is needed and paint a realistic picture of the potential, the investment, and the risk. And, most important, you have to champion the process by communicating a compelling vision of what is possible."

Whether it is an industry niche or a service line niche, "doing your homework" means understanding the target market, the competition, the credentials (if any) required, the time investment in building expertise, and monetary investment in time and marketing dollars.

Once you've convinced your partners or bosses, follow through by being committed to the niche and issuing progress reports constantly. Prepare your partners or bosses for a long-term commitment. You can generally expect to invest in the niche for two to three years before it becomes successful.

Expertise: Don't Have It Yet? Don't Worry!

In Tim Lee's example mentioned previously, he converted general valuation expertise and experience working with other types of distributors into an opportunity to create an industry niche. He didn't wait or worry about not having particular expertise in this industry segment to take advantage of an opening. Yet, once he had the opportunity, he worked diligently to become an expert, and is still adding to his knowledge base.

Whether you are seeking expertise in an industry segment or a practice area, the saying "you have to pay to play" is still true. You have to continuously invest time, energy, and resources to gain the needed expertise in your particular industry or practice niche.

Mel Abraham saw an opportunity in business valuation versus his traditional accounting practice and decided that was what he was going to do. He got the training necessary to, as Abraham states, "move from the masses to a person of distinction."

Sources for this training can come from the valuation professional associations. In addition, BV Resources (*www.bvresources.com*) offers a program of teleseminars that are beneficial, as does Valuation Products & Services.

Look to the industry trade association(s) for industry niches. Go to their conferences and attend their teleseminars or webinars.

Market Your Niche

Moving from a "shotgun marketing strategy" to a "rifle-shot marketing strategy" is disconcerting for some. However, remember that marketing a niche does not preclude you from marketing to your more general target market.

Just like marketing traditional business valuation services, the marketing activities surrounding a niche are often the same—face-to-face meetings, articles, speeches, newsletters (online and printed), a Web site, etc.

You might also consider entering setting up a blog focusing on your niche. For an example, see the blog of Reed Tinsley, CPA, CVA, CFP, (*http://rtacpa.blogs.com*) who is a Houston-based CPA and consultant whose entire practice is concentrated in the healthcare industry.

Target Industry Associations

If you have identified an industry niche to pursue, you need to be aware of the industry or trade associations which service your target market. Gale's Encyclopedia of Associations, available at most libraries, contains contact information on 22,000 nonprofit American membership organizations.

In addition, the National Trade and Professional Associations of the U.S., published by Columbia Books, Inc., contains information on more than 7,600 active national trade associations, professional societies, and technical organizations. It is available by subscription for $299 per year.

When reviewing this information on associations, look for the number of members, a listing of meeting dates, and the availability of publications. Contact the association to determine if you or your firm can join the association or contribute content to its publications.

If you can join as a service provider, always ask if you will be given a list of members. Attempt to secure a speaking engagement at a chapter meeting or, better yet, at the annual convention. Also plan to attend the association's annual meeting either as an exhibitor or as an attendee.

Keep in mind that most industries of size will have several relevant trade associations. Determine which association is the one in which most participants are members, and focus on that one. However, if that association is not open to membership by service providers or will not allow you to contribute to its publications or speak at its annual convention, target those that will so that you can demonstrate industry expertise.

Display Industry Expertise

Produce an "industry snapshot" on a quarterly basis to demonstrate your industry expertise. These snapshots, which should be two to four pages in length, contain a basic guideline group of public companies as well as a few broad market metrics.

You, the analyst, can comment briefly on what is happening in the industry, in the public guideline group, and in the broader market. The structure of the industry overview section of your valuation reports can serve as the basis for the text in the snapshot.

Create a template such that each quarter you can update the public guideline group and the market metrics easily. Then any textual analysis should be simple to update. For an example, visit the website of Stout Risius Ross at *www.srr.com*.

To maximize the impact of an industry snapshot, post it on your Web site, send press releases each time it is published, and always send a complimentary copy to the pertinent trade associations. If you have a list of industry participants, send it to them as well.

Stop Talking About Yourself

To market a service line, focus your efforts on obtaining client testimonials and to developing case studies or a brief outline of an engagement. The basic rule to remember here is not to talk about yourself, but instead to let your specific client experience, as well as your clients, talk for you through these testimonials and case studies.

A helpful resource for business valuators is the book *Marketing a Consulting Niche*, edited by Allan Koltin and published by—and available from—the AICPA for $59 at *www.CPA2biz.com*. The first chapter is an overview of building a consulting niche, and the book goes on to discuss eight specific service niches, including litigation consulting, M&A, and strategic planning. In addition, nine industry niches are highlighted, including auto dealerships, the health care industry, manufacturing, and construction, among others.

Also, the book *Riches in Niches: How to Make It Big in a Small Market* by Susan Friedman (Career Press, May 2007) contains helpful information ($9.94 from *Amazon.com*).

Competitors Can Be Your Friends

Do not overlook former competitors in your marketing activities. Depending upon your niche, they can be important referral sources or alliance partners. In marketing R&E Tax Credits, Adam Herman states that MPP&W works with CPAs and other consultants either by forming an alliance with a CPA firm who introduces the tax credit to the client or by training the professionals of a CPA firm to perform the tax credit studies themselves. "In addition to traditional marketing activities, working with other CPA firms has been very successful for the practice niche, the other CPA firms, and, of course, the clients," comments Herman.

What About the Clients Outside Our Niche?

Some people have the mistaken impression that by focusing on a particular industry or service line niche they will lose existing clients. Not true. Most firms have some type of niche yet serve a broad array of clients.

If you, as a professional, find yourself focusing exclusively on one industry or service line niche (and that won't happen without years of experience), you will transition those clients outside your niche to others in your firm. This is a sometimes delicate process, yet it is a common one.

Do not allow an ordinary, yet ultimately irrational, fear stop you or your firm from identifying and pursuing a niching strategy.

Conclusion

Building industry and/or service line niches is a challenging task with very real benefits. Allan Koltin says it best from his own experience working with those building a BV niche, "I find that the most successful people in the BV niche have, at some point, jumped (or been pushed off) the diving board and have lived to talk about it! More specifically, it's all about a behavioral change where essentially at some point you're willing to bet your future financial livelihood on your success within business valuation. I can't begin to tell you over the past decade how many people have called me with the question of what to say when the attorney asks if they've ever done a valuation (to fast forward, a couple of years later) they are now either turning away business or are adding people and are beginning to truly leverage their practice."

Barbara Walters Price is Senior Vice President of Marketing for Mercer Capital Management, Inc. She can be reached at priceb@mercercapital.com *or (901) 685-2120.* ◆