ANDREW HEDLEY, DIRECTOR, HEDLEY CONSULTING

Aim to dominate a market, not the market

Much of modern marketing strategy is based around the principles of an approach based on segmentation, targeting and positioning (STP).

Segmentation is the process by which an apparently heterogeneous market is divided into a series of homogeneous sub-groups or segments, each of which shares a set of distinct characteristics that make the members distinctive in a strategically significant way. Such segment definition may generally be based on specific service or product requirements but will also relate to other issues such as the way in which they go about their purchasing process, geographic, demographic, industry sector or cultural factors.

Apply this principle multiple times and, rather like the interlocking circles of a Venn diagram, the precise make-up of the group which is finally defined at the intersecting core is increasingly unique, since it shares a complex recipe of characteristics.

In this fashion, a firm could segment its client base in ways which allow a very specific client group (or market) to be identified and targeted. By way of illustration and example, the first segmentation might be to consider commercial clients only, then to apply a geographic cut (perhaps looking within a particular country, region or distance from an office), follow this by size (on the basis of, say, a turnover band or number of employees) and then by considering only a particular sector or type of business.

By applying a cascaded approach in this fashion, one creates a highly specific client profile which allows for the strategic positioning of the firm. This positioning exercise aims to make the firm the natural choice for its target segment, allows the firm to develop segment-specific knowledge or skills and facilitates highly targeted tactical marketing and sales activities to be undertaken.

The brand strategy challenge may be twofold – firstly to position the firm to be attractive to its target segments and, secondly, to ensure that these segments are comfortable bed-fellows. It would be difficult, for example, to simultaneously position a business to target lower-value consumer services and also to secure top-tier commercial work; there is a brand dissonance that is difficult to reconcile. Within mainstream commercial markets, such challenges are addressed through the adoption of sub-brands which appeal to different customer groups at different price points and with distinct value propositions and quality standards.

"Will the climb be worth the view?"

There is a further key challenge which needs to be considered in adopting an STP approach to marketing strategy. This is concerned with the pragmatics of resource allocation coupled with longer term segment growth and viability. In short, will the climb be worth the view? By focusing on a limited number of markets to the exclusion of others, the firm builds a strong brand position, creates added value and supports strong pricing in those areas. But, if that target segment is small (and with limited growth potential) or mature (and potentially shrinking), there is a clear risk that projected returns on investment will not be achieved. Crucially, at the same time that it is backing the wrong horses, the firm will lose ground in exploiting more lucrative segments with better long-term prospects.

There are therefore important portfolio considerations in terms of on how many and which segments a firm could (or should) focus. The principles of the BCG growth-share matrix could be used to consider segment lifecycle in the same way as it is conventionally used to map individual products. A firm needs some stable and mature segments, in which it holds a strong position, in order to fund investment in emerging areas of higher growth. The key is always in the balance that is achieved.

Strategic segmentation makes huge sense for firms wishing to escape the race to the bottom of cut-throat fee competition. It provides a basis for differentiation in ways which are meaningful to the client and offer value which can command a price premium or, at least, reduce fee erosion.

A strong segment-based proposition can position the firm as a leading provider within its target areas, which creates a virtuous circle in retaining clients and attracting new opportunities. The ever-rising wave of firms adopting a sector-based approach is an example of how such segmentation philosophies are gaining traction within the legal services industry.

All firms operate in a multi-segmented market; the only difference is that some recognise this and develop deliberate strategies to maximise their opportunities. For others, any success is the result of happenstance or serendipity.

An analysis of any firm's client base, when overlaid with an appropriate segmentation framework, will illustrate where current strengths lie as well as surfacing opportunities for developing latent potential. A view to the future will help to identify those segments which are higher-growth areas and where limited resources may be invested to best effect. The art, of course, lies in recognising the differences between those segments in which the firm can build a sustainable competitive advantage for the longer term and those in which it cannot. mp

Andrew Hedley has been advising law firm leaders on strategy and change management for more than 15 years (www.hedleyconsulting.com)