

NOTES AND ISSUES

Market Segmentation for Appraisal Firms

John A. Simpson

Why are some appraisal firms better than others? Why do some firms get the highest fees, obtain the best jobs, have excellent reputations, and never run short of work? The answer is simply that they have the ability to satisfy chosen market segments. For appraisal firms with high aspirations, an understanding of market segmentation and how to benefit from its use is essential.

While many elements contribute to the success of an appraisal firm, the most pertinent to a firm's ability to obtain work and clients is successful market segmentation. Market segmentation can be defined as "the process of dividing a market into two or more parts, each having unique needs, and then developing products and related marketing programs to meet the needs of one or more of these segments."¹

A client who employs a particular appraisal firm perceives that firm as providing a service that is superior to the market. There must be compelling reasons within the client's mind for hiring the services of that firm. Here lies the key to market segmentation—a client believes a particular appraisal firm possesses some quality or combi-

nation of qualities that compel him or her to hire that firm. Rather than a tangible market division, market segmentation is a buyer's perception of appraisal firms and their services.

For a firm to apply market segmentation, several steps must be taken.

1. The market must first be clearly divided into various segments.
2. A "market package" must be defined for each segment or targeted client.
3. If lacking within a firm, any skills necessary to market to this desired segment must be acquired.
4. A firm's ability to satisfy the market package of a client must be communicated properly.

SEGMENTING THE MARKET

Appraisers market their intangible skills through tangible appraisal reports. While there are many types of segmentation, the intangible quality of appraisal service directly

1. Fred C. Allvine, *Marketing Principles and Practices*, 1st ed. (Orlando, Florida: Harcourt Brace Jovanovich, 1987), 153.

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lends itself to benefit segmentation. Benefit segmentation "is an approach that divides the market into segments based upon the benefits sought by different consumer groups."² Essentially, a client buys the skill of an appraisal firm.

The process of segmenting the market can be as simple as determining what type of appraisal assignments the firm is not receiving or as complicated as developing expertise in a new area of appraising. Somewhere along the line, the members of a firm may decide that a change should be made. Whether the change involves entering new markets or further developing existing client relations, the first step is to isolate the area that requires attention. An appraisal manager must set goals and question why the firm has not already reached those objectives, or what client needs are not being addressed. This is a relatively straightforward step based on the appraisal manager's interactions with various clients and other competing appraisal firms as well as on an analysis of the perceived competitive strengths and weaknesses of the appraisal organization. In essence, this defines the problem. In addition, a key component is to define the market package, which often also identifies the market segments.

DEFINING THE MARKET PACKAGE

Each client has some combination of criteria to determine which firm to hire to accomplish an appraisal assignment. This combination of variables is the market package and is based on the client's perceived needs. The following major concerns or needs are interrelated.

- Quality and level of analysis leading to the definitiveness of a value estimate

- Amount and nature of a lead appraiser's experience, such as teaching or court testimony
- Fee structure
- Degree of comfort with an appraisal firm and its track record
- Reputation of a firm
- Time frame for delivery

For firms that have dealt with a particular client before, the various elements in the client's market package may already have been identified, or an idea of what motivates that client may already have been obtained. To firms looking to expand their horizons by entering new areas, however, prospective clients' market packages are unknown. A firm that does not have a good perception of a client's particular market package should examine its competition in that area. What skills do its competitors offer that a particular client may perceive as desirable? What weaknesses do its competitors have that might be exploited as strengths of the appraisal manager's firm? By examining enough competitors, an appraisal manager can usually isolate the important elements of a client's market package.

AN INVENTORY OF SKILLS

After defining the market package necessary to obtain a certain client or type of client, the members of a firm must engage in some self-examination. What client motivators does the firm lack? If the firm is looking to acquire tax appeal clients and there is no one in the firm with experience in testifying, the firm must hire someone for this purpose, or else take lower tax appeal fees until the lead appraiser acquires the necessary background. If a firm consistently delivers late appraisal reports and this

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2. Ibid., 170.

is causing a loss of credibility and work, more appraisers must be hired to ease the workload. Whatever the case, it is important for a firm to examine itself to determine how the various components of a client's market package can be satisfied. Weak areas must be improved by hiring new personnel with the required experience, training existing staff appraisers or lead appraisers, changing the style of appraisal reports, or upgrading report quality. When these weaknesses have been improved to meet the needs of a client or segment, the attributes of a firm must then be marketed to obtain work in the segmented market or indicate to the client which market-package needs the firm can better fulfill.

SELLING THE MARKET PACKAGE

Too often appraisal companies do not effectively market the various components that clients emphasize when selecting a firm. Some firms simply send a resume of the lead appraiser, a cover letter, and a brief description of the appraisal operation and employees. This is not really selling—it is telling. They are telling a client what kind of background they have but they are not showing how they are going to satisfy the client's needs.

Why would a client who already has developed a relationship with other appraisal firms hire your firm? If you do not give clients something they cannot get from other firms, they have no incentive to hire you. If anything, there is less incentive because you do not have an established track record and this is enough of a disadvantage to keep you from getting their work.

You must be able to sell your services. It is vitally important that you tell potential clients what sets your firm apart. For instance, if a potential client's market package

involves a deep analysis of the market to develop assumptions and assure the validity of a value conclusion, it is necessary to explain what you will provide in your market study. It should be explained that you will provide an analysis of a particular property's market, projections for the future based on such factors as the market, various appraisal indicators for that type of property (e.g., overall capitalization rates or yield rates obtained from surveys in *Appraiser News* or other sources), and an analysis of the subject property's degree of competitiveness within the marketplace. If a client's market package centers on the lead appraiser's ability to testify, the client should be told in which courts the lead appraiser has testified and what types of properties that testimony concerned. In addition, a list of names and telephone numbers of clients for whom you have testified (after obtaining their permission) should be provided. If a client is concerned about the fee, describe what you will provide for the fee. If your firm's fees must increase to meet the greater degree of analysis that would be required in a particular assignment, explain what you will do to warrant the high fee. For example, you may tell a client that you will do a market study with complete documentation for all assumptions and conclusions and provide the names of any major projects the firm has performed for this type of real estate. These are ways to sell your ability to satisfy the key market-packaging elements a client considers most significant.

CONCLUSION

By determining the market segments to which a firm can appeal and delineating the elements of a particular client's market, an appraisal firm can more precisely sat-

isfy existing clients as well as acquire additional accounts. The market segmentation process can expand potential markets, better meet client needs, isolate and tap unserved markets, and create greater flexibility of response to the

changing appraisal environment. Clearly, appraisal firms that are able to satisfy client needs and adapt to changing priorities will increase their earning power. Market segmentation is one way to accomplish this goal.