



BEST PRACTICES

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Success is in the market mix

The current economic downturn has focused attention once again on the importance of market mix. For example, the public works sector has been hit particularly hard by price erosion. Many companies have had to cut prices dramatically to even be close on re-bid situations. Thus, it is not a good time to have public work as a significant part of your business mix. Other segments have also been hit to different degrees.

When selling new work, contractors tend to take whatever they can get — and all too often, they do not examine their market mix. This should be looked at annually, and a study should be done by segment as to the profitability of each segment to determine whether you have a healthy balance.

For example, many companies believe homeowners associations (HOAs) are not profitable, yet I work with many companies that do nothing *but* HOA work and have made top-tier profits. Some companies say the best market segment is comprised of high-end offices. My belief is a diversified client portfolio is best.

There are several reasons for this. If you concentrate most of your business in a single segment, you sooner or later will feel the brunt of hard

times for that segment. There have been several times in my career when the high-end office market became overbuilt, for example. When the recession hit, maintenance prices in that segment took a big hit. Apartments have gone through their cycles as well. Public work goes through outsourcing and self-performing cycles.

Another, less obvious problem with concentrating too much work in a single segment is that a company may inadvertently become too dependent on a single customer. I have seen this happen to companies when two or more property management companies that they had business with merged. Suddenly, they had 50% of their business with one customer. It's not a good feeling.

Mix and match

To me, a good market mix is to be in multiple market segments. There are some challenges in that their needs vary slightly, but not enough to be a barrier in my mind. I would prefer that no one segment be more than 50% of my entire portfolio of business.

It becomes somewhat of a challenge to get into some segments because clients want references of similar accounts. My experience is if you have good references overall, your price is competitive and you sell yourself well, you can overcome that rather easily with most prospective customers.

When looking at new segments of the market, consider the pros and cons of each type of work:

- ▶ Is there high or low potential for enhancement work?
- ▶ Does the customer — as in the case of public work — look primarily at low bids?
- ▶ How easy will it be to maintain long-term business relationships?
- ▶ How do the customer's needs line up with your own company culture, in terms of being able to meet the customer's expectations?

These are important questions to consider as you plan to diversify.

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