

## HOW TO FIND A MARKET NICHE?

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Submitted: 6 January 2025	Accepted: 15 January 2025	Published: 16 January 2025

### ABSTRACT

In today's competitive business landscape, identifying a market niche has become a critical strategy for companies seeking to differentiate themselves and build a loyal customer base. A market niche refers to a specific segment within a broader market, characterized by distinct needs, preferences, and challenges that remain underrepresented by mainstream competitors. This study provides a comprehensive framework for businesses to systematically identify and capitalize on market niches, ultimately gaining a competitive advantage. The research method used is a literature review, collecting and evaluating credible sources relevant to the topic. The findings reveal that identifying a market niche involves five key steps: identifying market needs and gaps, analyzing competitors, STP, evaluating the uniqueness of products or services, and validating the niche through market testing. The implications of this study provide practical insights for entrepreneurs and marketers in developing effective and sustainable niche marketing strategies while avoiding the risks of over-dependence on a narrow customer base or market saturation.

**Keywords:** Market Niche, Competitive Advantage, Market Segment

### INTRODUCTION

In today's dynamic and competitive business landscape, identifying a market niche is critical for businesses seeking to differentiate themselves and secure a loyal customer base. A niche market represents a specific segment of the broader market with unique needs, preferences, and challenges that remain underserved by mainstream competitors. According to Kotler & Keller in Lestari (2023), understanding and targeting these segments can provide organizations with a competitive advantage, allowing them to focus resources and tailor their offerings to meet the precise demands of their audience. This process not only fosters customer loyalty but also reduces competition by addressing unmet needs in innovative ways.

Despite its importance, identifying a market niche poses significant challenges for many businesses. Common difficulties include accurately assessing consumer behavior, recognizing emerging trends, and differentiating a niche from broader market segments. Additionally, businesses often face the risk of targeting a niche that is too narrow, leading to limited growth potential, or too broad, which dilutes their competitive edge (Jung & Jeong, 2022). These challenges necessitate a systematic approach to market research, enabling businesses to make informed decisions and strategically position themselves to achieve sustainable growth.

The purpose of this study is to provide a systematic guide for identifying and leveraging market niches to gain a competitive advantage. By exploring proven methodologies, such as market segmentation, competitor analysis, consumer profiling, and trend forecasting, this study aims to offer actionable insights that can help businesses strategically position themselves in underserved segments of the market. These insights will be valuable for entrepreneurs, marketers, and business strategists aiming to navigate the complexities of niche marketing in the modern economy (Hunt & Arnett, 2004).

## LITERATURE REVIEW

The concept of market niche has been extensively studied in academic literature, particularly as businesses aim to identify and exploit specific segments of the market that are underserved or overlooked. Niche marketing is recognized as an effective strategy for outperforming competitors by offering innovative features of products that have been ignored by the general market. This approach not only covers more unique products but also details smaller but highly focused market segments (Kumar & Singh, 2015). Through niche marketing, companies can develop more specialized offers and fulfill unmet needs in the larger market. By concentrating their marketing efforts on limited but highly defined market segments, companies can create significant added value and foster strong consumer loyalty (Parrish, 2010).

Kotler and Keller (2016) in Lestari (2023) define a market niche as a narrowly defined customer group seeking a unique mix of benefits, emphasizing that successful niche strategies rely on tailoring offerings to these specialized needs. This is supported by Dalgic and Leeuw, who propose that niche marketing involves both conceptual and practical elements, enabling firms to focus on a small but profitable segment characterized by strong customer loyalty and less price sensitivity (Hennart et al, 2021). Thus, niche marketing is not solely about introducing innovative products but also about deeply understanding the diversity in consumer motivations, forming a robust foundation for effective marketing strategies.

In the context of small and medium-sized enterprises (SMEs), niche marketing has proven to be a viable strategy for achieving sustainable competitive advantage. Chalasani and Shani in Okoli et al. (2024) argue that successful niche marketers excel in relationship-building and customer orientation, which help to foster brand loyalty and long-term customer engagement. Furthermore, the work of Malerba et al. (2007) in (Alwani et al., 2021) highlights the dynamic nature of niche markets, where firms must continuously innovate to adapt to evolving consumer preferences and technological advancements. This adaptability is crucial in industries experiencing rapid change, such as technology and fashion. The work of Malerba et al. in Alwani et al., (2021) underscores the dynamic nature of niche markets, where firms must continually innovate to adapt to evolving consumer preferences and technological advancements.

The rise of digital platforms has further expanded the opportunities for niche marketing. Kundu, S. (2021) discuss how digital marketing strategies, including search engine optimization (SEO) and social media analytics, allow firms to identify and engage with niche audiences more effectively than traditional methods. Similarly, Zheng, et al (2022) demonstrate the use of big data analytics and artificial intelligence (AI) in uncovering latent market opportunities, enabling firms to target specific consumer segments with personalized offerings.

However, niche marketing is not without its challenges. Firms targeting niche markets often face risks related to overdependence on a small customer base and the threat of market saturation. Balabanis et al. (1997) stress the importance of continuous innovation and market adaptation to mitigate these risks and sustain a competitive edge.

Strategically, niche marketing aligns closely with Porter's (1980) in Dathe, et al (2024) framework of generic competitive strategies, which includes cost leadership, differentiation, and focus. Porter emphasizes that niche strategies often leverage differentiation within a specific market segment to achieve competitive advantage Porter, 1980 in (Arnett, 2024). Complementing this view, Tolossa, et al (2025) underscores the importance of leveraging firm-specific resources and capabilities to create sustainable competitive advantages in niche markets.

Sustainability in niche marketing has also garnered significant attention. Sheth and Sisodia 2002 in Firasta & Sheth, (2024) advocate for aligning niche strategies with broader

societal and environmental objectives, which can enhance brand reputation and customer loyalty. Bocken in Ademi, B. (2024) further argues that sustainable business models, which integrate ethical and ecological considerations, can strengthen the value proposition of niche products and services.

## METHODS

This study adopts a literature review approach as the primary method to examine concepts, theories, and previous research findings relevant to the topic. The research was conducted through the collection and critical evaluation of credible sources, including academic journals, books, research reports, and other authoritative documents. The aim of this approach is to provide a systematic guide for identifying and leveraging market niches to gain a competitive advantage. Data analysis was conducted in a structured and comprehensive manner to ensure the accuracy and relevance of each referenced source (Neuman, 2014).

## RESULTS AND DISCUSSION

### Practical Framework for Finding a Market Niche

The systematic approach proposed for identifying a market niche includes five primary steps: identifying market needs and gaps, analyzing competitors, STP, evaluating the uniqueness of products or services, and validating the niche through market testing. This framework is a practical guide for businesses aiming to strategically position themselves in underserved segments of the market. Each step is discussed below with supporting insights from the literature.

#### 1. Identifying Market Needs and Gaps

Recognizing unmet needs and gaps in the market is the foundation of niche marketing. Kotler and Keller's (2016) definition emphasizes the importance of tailoring offerings to address specific needs, as seen in Lestari (2023). Businesses must conduct extensive market research, employing tools such as segmentation analysis and trend forecasting to uncover latent opportunities. For instance, digital platforms and big data analytics, as discussed by Zheng et al. (2022), enable firms to analyze consumer behavior patterns and identify underserved market segments effectively.

#### 2. Analyzing Competitors

Competitor analysis involves understanding the strengths, weaknesses, and positioning of existing players within the market. By benchmarking against competitors, firms can identify areas where they can differentiate themselves. This aligns with Balabanis et al. (1997), who highlight the necessity of innovation and adaptation to maintain a competitive edge in niche markets. According to Porter (1980), understanding competitors' strengths and weaknesses within a niche can help businesses create differentiation strategies. This includes identifying areas of oversaturation and leveraging insights to innovate and carve out a unique space in the market. Tools like SWOT analysis and competitive mapping can be employed to ensure a comprehensive understanding of market dynamics.

#### 3. STP (Segmentation, Targeting, Positioning)

STP is crucial for companies to identify the right consumers and specific targets, enabling them to understand their position in the competition with competitors (Khandelwal et al., 2020). It also helps in determining effective and adaptive marketing activities, ensuring that consumers are aware of the products or services offered to them (Agustim, 2015). Specifically, segmentation enhances a company's efforts, while accurate targeting and positioning increase competitive value in the competition with competitors (Yusuf et al., 2022). Ultimately, the company's ability to meet consumers'

needs and desires will determine its success in achieving its goals (Amira & Fitriasari, 2021).

#### 4. **Evaluating the Uniqueness of Products or Services**

Differentiation is critical in niche marketing, as reiterated by Porter's (1980) framework, which advocates for leveraging unique value propositions to achieve competitive advantage. Firms must assess their core competencies and resources, as suggested by Tolossa et al. (2025), to create offerings that resonate with the targeted niche. A compelling example is how sustainable business practices, as discussed by Bocken (2024), can enhance the appeal of niche products by aligning with consumer values.

#### 5. **Validating the Niche through Market Testing**

Before fully committing to a niche, businesses must validate their assumptions through market testing. This step minimizes the risk of over-reliance on a small customer base or targeting an overly narrow segment, as warned by Jung and Jeong (2022). Techniques such as pilot projects, focus groups, and feedback loops can provide critical insights into the viability of the niche.

### **CONCLUSION**

Identifying a market niche is a critical strategy in competitive business environments to achieve a competitive advantage and build customer loyalty. This research outlines four key steps in the process: identifying market needs and gaps, analyzing competitors, evaluating the uniqueness of products or services, and validating the niche through market testing. Practically, businesses are advised to leverage technologies such as big data analytics and AI to uncover latent market opportunities and conduct testing to ensure the viability of selected segments. Theoretically, the study reinforces the importance of continuous innovation and value-based differentiation in niche strategies. For further application, the study encourages integrating sustainability goals into niche marketing strategies to create broader positive impacts while strengthening connections with consumers who value social and environmental responsibility.

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