

Beyond B2B— A New View Of The Institutional Market

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Executive Summary

Do you think all of your B2B customers are businesses? Chances are you are wrong! There is a parallel world of non-businesses among your customers that you may not be fully conscious of. Welcome to the world of institutions. Beyond B2B lies the Business-to-Institution (B2i) market, a sector that includes over 2 million institutions. It's an exciting and lucrative segment because it's big and growing.

Institutions are a stealth growth industry. They don't make headlines because entrepreneurs are not making and spending fortunes from institutions. Yet over the last 50 years and for the foreseeable future, they have and will grow faster than for-profit businesses. Since the 1950s, institutions have grown from less than 20% of the economy to 33% today. One-third of the economy means \$4.1 trillion—yes *trillion* dollars. No wonder they show up in your customer file.

On the outside institutions look like businesses, yet they act differently. They don't sell things, they get their money in other ways. They don't try to make a profit, they exist to fulfill a purpose. Their accounting systems are different, so they spend their money differently. Institutions are the foundation of the purpose-driven economy and they are distinct from their profit-driven counterparts—businesses. If you want to maximize your chances in this market, you have to understand institutions thoroughly.

This paper will introduce the market of institutions to you. You will see that institutions are not only a big and fast growing market; they are also recession resistant and creditworthy. The average institution is bigger and more stable than the average business. We will show you how to understand and capitalize on their differences. Instead of letting institutions find their way onto your customer file simply as a by-product of their collective size and growth, you will learn how important it is to develop this wonderful, stable, loyal, and growing market proactively to accelerate the growth of your own business.

Marketers who successfully capitalize on the B2i market will enjoy the benefits of improved response rates, higher return on investment, and increased lifetime value.

What Is An Institution?

What do **you** think of when you think of an institution?

- A mental hospital?
- Correctional facility?
- Dormitory?
- Cafeteria food?
- An elephant in the room?

Institutions today are a lot more exciting than they were decades ago! If you take a close look, you will see just how dramatic the transformation has been.

Healthcare is evolving continuously. Hospitals are no longer cinder blocks, tile floors and pale green paint—they are now on the leading edge in architectural design and the services they provide. Many medical clinics have high-tech systems that enable the staff to share and/or access your medical records from anywhere in the country.

Churches that were previously stern and imposing structures have morphed into neighborhood gathering places where people can enjoy Starbucks or Subway while they visit with fellow parishioners. Organ recitals have been replaced with rock music, steeples can house cell phone towers, and the dividing line between sacred and secular is often blurred.

College students can choose to take classes on-site or online. They have bookstores filled with logo apparel, school supplies, electronic equipment, and gourmet coffee and food offerings. College students 40 years ago had bookstores filled with—books. Dormitories were sparse and primitive compared to residence halls today that provide refrigerators, microwaves, lounges, and private baths.

If you think of an “elephant in the room” when you think of the institutional market, you’re not alone. In many ways, the institutional market is the elephant in the B2B room. Marketers have known for decades that certain service and administration SIC codes produce good results but we are just now learning how big and desirable B2i has become and, more importantly, how to talk about it.

From a B2B marketer’s view, institutions are scattered around the SIC spectrum which makes it difficult to see them as a whole segment. While SIC codes haven’t changed much since they were created in the 1930s, institutions have grown dramatically. When SICs were established, institutions were tiny slivers within the B2B pie. Today, they have grown to the point that they represent mammoth opportunities and deserve your attention.

Once you understand the B2i market, you will probably experience information overload. The elephant becomes visible. You’ll see it in news articles, business reports, CEO interviews, and special interest TV and newspaper segments that are devoted to the significant aspects of the institutional market. The reports, however, rarely identify B2i as a whole or call it by name.

Institutions And Businesses Are Different

Institutions don’t buy like businesses, don’t act like businesses, and can’t be segmented like businesses. You cannot expect to use the same strategies to reach influencers in the institutional market as you have used to reach decision makers in the B2B world. When you get under the surface, you will see the differences and how they should impact your pitch and marketing plans.

The chart below provides a very basic view of the differences between businesses and institutions:

Businesses are PROFIT DRIVEN	Institutions are PURPOSE DRIVEN
Compete	Collaborate
Sell to customers	Serve patrons
Recession prone	Recession resistant
Pay taxes	Spend taxes
Credit risk	Credit worthy
Have competitors	Often monopolies
Financially influenced	Politically influenced

There are three major groups of institutions. While some institutions are clearly members of only one of the major groups, other types of institutions can belong to multiple groups making it even more important to examine the differences.

1. **Government offices and government-funded entities** include parks and recreation departments, police and fire departments, and public schools.
2. **Private, not-for-profit organizations that are purpose driven** include hospitals, nursing homes, churches, and private schools among others.
3. **For-profit organizations that are purpose driven** include doctors, dentists, and the 16% of U.S. hospitals that are for-profit.

When you pay attention to the fundamental differences between businesses and institutions, you can modify your marketing plans and optimize your success in the B2i space.

The Institutional Market Is Big And Growing

If institutions could be placed in a single SIC category, you would see that in 2005 spending in the B2i segment was \$4.1 trillion—approximately one-third of GDP. Given the incredible size of the segment, you're probably wondering why you haven't read or heard about it. The fact of the matter is that the purpose-driven economy is invisible or obscured in government data; non-profit organizations don't pay taxes and many of them aren't required to file forms with the IRS.

Look at the following examples of institutional growth and think about the bottom-line benefit of focusing on the institutional market.

- Healthcare has grown from 5% of GDP in the 1950s to 16% today.

The title of the September 25, 2006 *BusinessWeek* cover story drives home the point that the healthcare segment is exploding: "What's Really Propping Up the Economy—Health care has added 1.7 million jobs since 2001. The rest of the private sector? None."

- City and County Government budgets can be equivalent to Fortune 1000 companies.

Johnson & Johnson (#32) and the City of New York each control \$50 billion budgets. Master Card (#626) and Cook County, IL are each responsible for \$2.9 billion annually.

- Total education funding has increased substantially in recent years at all levels of government, even when accounting for enrollment increases and inflation.

By the end of the 2004-05 school year, national K-12 education spending had increased an estimated 105% since 1991-92. On a per-pupil basis and adjusted for inflation, public school funding increased 24% from 1991-92 through 2001-02.

- The total revenue of religious organizations in 1996 was \$81.2 billion.

While it's difficult to find solid revenue data regarding religious organizations, growth of mega-churches and faith-based initiatives over the past decade has certainly contributed to making religion a multibillion-dollar market.

When you consider the fact that institutions have grown twice as fast as businesses over the past 50 years, the B2i segment becomes very attractive. The pay-offs to investing more of your attention to capturing B2i customers are increased profit and improved lifetime value.

Institutions Are Bigger Than Businesses

It can be difficult for marketers to grasp the size advantage that institutions have over businesses. One reason is that most B2B marketers view their customers through the lens of SIC (Standard Industrial Classification) codes, which are used to segment B2B marketing databases.

The SIC system was developed by the federal government in the 1930s to organize and report on economic data. While the SIC system was modified slightly over time (and has since been replaced by NAICS codes for government use), it is still strongly skewed toward describing the business environment as it existed 70 years ago. The bulk of the SIC codes describe manufacturing activities, while the institutional sector is given short shrift because it wasn't prominent in the 1930s.

As an example, there are four separate codes to differentiate the producers of electronic capacitors, electronic resistors, electronic coils, and electronic connectors. Meanwhile, every specialty outpatient facility—alcohol treatment, family planning, mental health, physical rehabilitation, and more—is shoved into a single SIC category.

To really view the scope of the B2i economy, it's necessary to reconfigure the institutional SIC codes, which we have done in the table below. In this arrangement, you can compare the size and economic power of purpose-driven institutions compared to traditional profit-driven businesses.

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SIC Division	4-Digit SIC Codes		Locations		Employees		
	Number of SIC Codes	Percent of Total	Number of Locations	Percent of Total	Number of Employees	Percent of Total	Employees per Location
Combined Total	1,005	100.0%	13,407,520	100.0%	132,285,179	100.0%	9.9
Institutions							
B2i - Services	42	4.2%	1,869,120	13.9%	27,836,704	21.0%	14.9
B2i - Public Admin.	27	2.7%	213,111	1.6%	8,416,700	6.4%	39.5
B2i - Other	5	.05%	162,378	1.2%	1,131,292	0.9%	7.0
Institutions Subtotal	74	7.4%	2,244,609	16.7%	37,384,696	28.3%	16.7
Businesses							
Agriculture	56	5.6%	553,797	4.1%	2,002,701	1.5%	3.6
Mining	31	3.1%	34,346	0.3%	570,985	0.4%	16.6
Construction	26	2.6%	1,150,392	8.6%	7,077,243	5.3%	6.2
Manufacturing	459	45.7%	661,178	4.9%	17,004,113	12.9%	25.7
Transportation	65	6.5%	508,233	3.8%	7,083,039	5.4%	13.9
Wholesale Trade	69	6.9%	658,320	4.9%	6,234,371	4.7%	9.5
Retail Trade	64	6.4%	2,283,071	17.0%	21,913,460	16.6%	9.6
Finance	52	5.2%	1,073,311	8.0%	8,791,980	6.6%	8.2
Services (non-B2i)	108	10.7%	3,607,749	26.9%	24,102,754	18.2%	6.7
NEC	1	0.1%	632,514	4.7%	119,837	0.1%	0.2
Businesses Subtotal	931	92.6%	11,162,911	83.3%	94,900,483	71.7%	8.5

Source: D&B

When arranged properly, the numbers clearly show that the distribution of SIC codes has not kept pace with the rapid growth of the B2i market. Note that institutions employ 28.3% of the workforce, but have only been allotted 7.4% of the total number of SIC codes!

Those relatively few SIC categories, however, add up to a very large marketplace. The B2i sector includes 2.2 million locations that employ 37 million people. The true size advantage of institutions is shown in the number of employees per location. The average institution has 16.7 employees, nearly double the amount of the average business (8.5). Organizations with more employees have greater purchasing needs to support the activities of their staff, so the typical institution customer is twice as desirable as its business counterpart. Institutions are indeed good, large potential customers, and there are lots of them.

Many people are surprised that institutions such as hospitals, schools, and government offices are now the biggest employers in most cities and towns across the U.S. The continuing shift in the U.S. economy, which is often reported as a shift to “service-based” or “information-based” businesses, could arguably be better stated as a shift toward an “institution-based” economy.

For example, manufacturing jobs in Chicago dropped 26.3% from 1995 to 2005 while employment in the advanced services sector grew rapidly. Crain's *Chicago Business* ranked the largest employers in the city for 2005. Six of the top ten employers are institutions and even more interesting is the fact that those six institutions employed 73% of the total employees in the top-ten list.

What are the implications of the institutional size advantage? Take an institutional SIC like 8062, general medical and surgical hospitals. According to D&B there are 13,468 locations with an average of 297 employees per location. This compares to just 10 employees on average for all organizations in the B2B database. When reviewing your customer file through the SIC lens, you might see that 8062 is a strong performer. But is it 30 times stronger? If not, one conclusion might be that 8062 is under-marketed in your current strategy.

You should review your customer file to make sure you're capitalizing on the largest organizations with the largest budgets. If institutional customers aren't buying more than your business customers, you may need to shift your focus toward the B2i employers.

Top 10 Chicago Employers			
Rank	Employer	Employees	Type
1	U.S. Government	78,000	i
2	Chicago Public Schools	43,783	i
3	City of Chicago	39,675	i
4	Jewel-Osco	34,037	B
5	Cook County	25,482	i
6	Advocate Health Care	25,279	i
7	United Parcel Service	19,346	B
8	State of Illinois	17,056	i
9	SBC Communications	16,500	B
10	Wal-Mart	16,350	B

Institutions Are More Stable Than Businesses

One of the key reasons stability is important is that acquisition costs are lower when you don't have a customer file prone to constant churn. It is much more economical to mail to the same customer year after year than it is to try and find new customers to replace customers who have ceased doing business. An interesting way to examine the stability/volatility contrast between businesses and institutions is to think about the number of Fortune 500 businesses over the past 50 years that are no longer in existence today. For instance:

Businesses:

- Bethlehem Steel was #12 on the Fortune 500 list in 1955 but no longer exists today.
- Enron first appeared on the Fortune 500 list in 1995 with revenues of \$8.9 billion and filed for bankruptcy just 6 years later.

Institutions:

- Harvard University was established in 1636 and now has a \$29 billion endowment.
- New York Hospital was founded in 1771 and now has a multibillion-dollar budget.

According to the Bureau of Labor Statistics, mass layoffs impacted 3.6 million workers from 1999 through 2001. The industry breakdown shows that 80% of the layoffs occurred in the business sector:

Layoffs 1999-2001			
Number of Employees Affected	Percent of Total	Industry	Type
1.5 million	42%	Private Businesses	Business
1.3 million	38%	Manufacturing	Business
72,818	2%	Healthcare	Institution
3,072	0.01%	Educational Services	Institution

Institutions Are Recession Resistant

Institutions are funded through taxes and other revenue sources that are not impacted by dramatic short-term fluctuations in the economy. If your customer file contains a high number of institutions, your revenue gains and losses will be similarly stable. If your customer file contains a high number of businesses, the peaks and valleys will be much steeper. Think about the dotcom era and how businesses spent exorbitant sums of money to acquire talent, decorate offices, and pay bonuses. When the bubble burst, the economic valley was the equivalent of the Grand Canyon. A good way to contrast businesses and institutions during that time period is to think of the tortoise and the hare—institutions grew, but at a steady and almost predictable rate, and in the long run, won the race.

The institutional market is a good sector during both strong and soft economic cycles. People need the services provided by government offices, hospitals, and schools regardless of the economic climate. Even if institutions have to cut programs and services during a soft economic period, they still need to function on a daily basis, i.e., they still need office supplies, computer equipment, janitorial supplies, and they still need to provide basic services like police and fire protection to the public.

Institutions Are Creditworthy

When was the last time you turned an institution over to a collection agency? Creditworthiness is not an issue when dealing with most institutions because:

- Institutions cannot spend money unless it is appropriated. In other words, they can't spend money they don't have.
- Purchase orders cannot be released unless there are funds in the bank.

Businesses can often be a credit risk because revenue disbursements are made at the discretion of the business owner or manager. In the institutional space, the money can't be spent if it hasn't been appropriated. The minute a purchase order is issued, the funds are encumbered so they can't be used for a different purpose. Although many marketers say the purchase order process is time-consuming and laden with details, the benefit of *knowing* you will be paid for a product or service is well worth the effort. In addition, the financial stability and lower acquisition costs make B2i customers a very attractive segment.

When Should You Mail To Institutions?

Timing is a critical element in B2i campaigns. In fact, it is so important that choosing when to mail will directly impact how successful you will be.

Most of us would enjoy having the resources to conduct year-round campaigns. While it's true that some level of discretionary purchasing occurs on a year-round basis in institutions, there are also extremely time-sensitive opportunities. For example, in non-profit and government-funded organizations, fiscal year-end dates and budgets have a significant impact on purchasing decisions.

For most non-profit organizations, the months near the end of one fiscal year and beginning of the next are the critical budgeting and purchasing period. Your product and service offerings need to be in the hands of purchasing influencers at the time they are discussing budgets for the upcoming year. Likewise, capitalizing on "clean-up" spending prior to the end of a fiscal year is equally beneficial. Clean-up spending means using left over budgeted funds before the end of a fiscal year to avoid losing them.

A key contrast between institutions and businesses is the difference between public and private accounting standards:

- In businesses (private institutions), managers are incentivized to reduce costs to maximize profits.
- In public institutions, managers are incentivized to spend their entire budgets.

If a department doesn't spend all of the money allocated to it by the end of the fiscal year, the money is returned to the general budget and the department's budget for the next year may be reduced. Selecting drop dates that correspond with your customers' discretionary and clean-up spending timeframes will help you maximize profitability and increase response rates.

Finding The Decision Maker In Institutions

Identifying the decision maker at an institution can be a difficult task because in many institutional settings, the decision maker collaborates with others prior to making the commitment to buy. A sole decision maker is more likely to exist in the business arena and it's much easier to identify that person and/or their title. This is one area where you need to think about your audience and be especially careful about business title addressing. Sometimes job titles don't accurately describe the job function. For example, the Materials Manager at a hospital who has more influence than the Purchasing Director. The Materials Manager is responsible for deciding what to buy while the Purchasing Director is responsible for monitoring the actual transaction, i.e. purchasing process. Likewise, an Acquisition Librarian doesn't actually "acquire" anything—that person is responsible for making sure the orders are processed correctly. In the institution market, you need to know whom you are targeting. If you approach the institution file with the strategies you use in reaching traditional B2B decision makers, you may miss some terrific candidates.

Businesses and institutions also have significantly different operating infrastructures and the organizational chart can be an important tool in helping you understand reporting structures and identifying key decision makers. It's interesting to note that even the training for leadership positions is different between businesses and institutions. The vast majority of college graduates who are interested in a "business" career will pursue a Masters of Business Administration degree. Students interested in an institutional leadership position will enroll in programs such as Master of Public Administration, Master of Theology, Master of Education, or Medical Doctor.

Businesses have CEOs, Presidents, and COOs while institutions' leaders may be called Mayor, Governor, Superintendent, Principal, Director, Manager, City Administrator, or Pastor. The ability to select the appropriate decision maker by job title can have a huge impact on response rates and the success of a mailing campaign. In some cases, mailing to multiple job titles may help your message reach the right person at the right time in the budgeting and allocation cycle.

Conclusion

Think about the traits you would like your ideal customer to have:

- larger than average
- unlikely to go out of business
- always pays its bills
- buys more each year
- not subject to big economic swings.

When you combine these traits, you have essentially defined an institution.

While B2i is certainly the elephant in the B2B room, this stealth growth market now spends \$4.1 trillion annually making it a very, very lucrative market. The purpose-driven economy of institutions has evolved from small slivers of the SIC world into much larger pieces of the pie. It is worth the time and effort to learn about both the subtle and dramatic differences between businesses and institutions. By developing marketing plans strategically focused on the institution market, you can improve your profits, response rates, and the lifetime value of your customers.