



## **HOW TO PROFIT FROM THE VAST UNTAPPED INSTITUTIONAL MARKET**

**By**

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Revenue growth is job #1 for all business marketers. Whether it's lead generation for the sales organization or direct selling, finding new customers and markets is the primary goal for business marketing and sales organizations. So where are you going to look for those new customers and markets today?

### **The Traditional B2B Market vs. The B2i Market**

If I stopped 10 B2B marketers in the hallway of the Direct Marketing-to-Business (DMB) Conference and asked them where they were targeting for new business, 9 of 10 would likely respond with the traditional descriptions of business firms they know to be in their marketing arena. The descriptions would be by industry, size, geographic location or some other such criteria, and almost all would describe for-profit companies. All well and good, but these 9 business marketers would be missing the large non-profit institutional market or sometimes called the B2i market.

Here are some surprising facts to consider regarding this often over-looked and large market:

- First of all, there are three major market segments that comprise this market.
  - Health Care – the fastest growing market in the US today!
  - Government – Just state and local (not including federal because everybody knows that's a huge chunk) plus related services represent over \$1.3 trillion in buying power.
  - Education – public, private and vocational. Just the college market alone spends \$280 billion and employs 2.7 million people.
- In addition, there are several smaller market segments:
  - Religious organizations/churches – over 289,000 religious locations that spend over \$70 billion and are growing steadily.
  - Museums/Zoos – over 9,200 locations, and many have food services and gift shops
  - Social Services – day care, senior centers, Red Cross – to name a few
- These market segments combined represent 33% of US GDP or in real money terms, \$4.1 trillion in annual spending – yes, that's trillion not billion!

- The size of the organizations are larger than traditional businesses, and average 15.9 people per institution/organization. As a contrast B2B marketers frequently focus on the large SMB market where the vast majority of businesses are under 10 employees. Therefore, one sale to an institution is typically larger than the average B2B sale. Most compiled business databases have approximately 14 million business locations, while the B2i market has only 2.2 million locations. The conclusion is obvious; there is more economic activity per location in the B2i market.
- Institutions are growing faster than the traditional business market. In fact, in the first quarter of 2008 federal, state and local governments added 76,800 jobs while private companies shed 286,000 workers (USA Today April 30, 2008). This job growth is similar in both the educational and health care markets. On average, over the last 45 years the institutional market has an annual growth rate of 4.5% while for profit businesses have grown by only 2.4% per year. Consistent growth leads to stable customers who pay their bills!
- Recession may be on our minds in 2008, but not on the agenda of institutions, as the funding sources are different and the impact of a softening economy is much less. As an example, in a May 4<sup>th</sup> Chicago Tribune article, the economic health of the Raleigh NC area was forecasted to be substantially better than the surrounding communities due to the three major universities – Duke, North Carolina and NC State. These institutions are increasing, not decreasing spending.

Do I have your attention now? I thought so, but the question on your mind might be “so how does this change my marketing campaign?” What follows is some advice and insight on how the differences in the institutional market might well change how you approach direct marketing campaign planning. All you have to ascertain is; “Can my product or service be sold to any or all of these B2i markets?” If so, read on!

### **The Four B2B Direct Marketing Campaign Elements Applied to B2i**

In planning a direct marketing campaign, there are four campaign elements that spell the difference between success and failure. Each one has a weighted impact on results, and experts generally agree on the following percentage of the impact for each of these elements on DM campaign success.

- |   |        |
|---|--------|
| 1. List – a result of profiling, targeting & segmentation | 50-70% |
| 2. Offer Strategy   | 20-30% |
| 3. Sequence & Frequency of Contact                        | 20-30% |
| 4. Creative   | 10-20% |

We will tackle each one of these elements, as they apply to the B2i market place which should enable you to begin to develop an effective campaign directed at these unique

markets. As you will see, many of the same principals for marketing to B2B apply, but there are significant differences to factor into any direct marketing campaign.

### **PROFILING, TARGETING AND SEGMENTATION:**

The process of carefully targeting the market leads directly to sourcing the list or list(s) that best match the result of these processes. Far too often, these three synergistic processes are not done, and someone just orders a list – the first big mistake that will directly affect the results of the direct marketing campaign. This is particularly true in the B2i market, as the traditional list selections of SIC and organizational size do not properly match the market segments.

#### **Profiling:**

The primary reason to profile your customer or prospect database is to identify clusters or micro-segments that are known to be either customers or leads and then find “mirror-image” look-alikes for prospecting. This is where the problem begins, as the B2i market descriptions in the SIC or NAICS codes are not granular enough to properly define the many micro-segments that compose the B2i market.

Here are two examples:

1. In the home health care market, SIC code 8082 does not split out Home Healthcare Providers from Hospice Services – an important difference in mission and funding sources.
2. For Social Services, SIC 8322 describes Individual & Family Social Services in one category. Yet, the following separate and distinct services exist within this SIC:
  - Adult Daycare
  - Community Centers
  - Domestic Violence Programs
  - Red Cross Chapters
  - Runaway & Homeless Youth Shelters
  - Senior Centers

As direct marketers, we know that the message and offer would probably vary depending on these different organizations, and therefore it would be important to understand which of these types of organizations are present in the customer or prospect database. Therefore, it is obvious that the SIC codes do not work well for the institutional market. Another source of data compilation must be found.

#### **Targeting:**

The result of profiling is only one input into targeting audiences/markets for DM campaigns. Three others are:

- New product/service introductions with identified application(s)

- Identification of growing and/or strategic market opportunities
- Competitive openings

The irony is that when B2B marketers think “targeting” they frequently overlook the B2i market. If we just went on the “growing market” targeting criteria, most if not all of the institutional market segments would qualify. While it may be true that your product or service cannot be sold to all of these markets, my guess is that many of them represent golden opportunities for new sales. As B2B marketers, we just don’t think of institutions in the same way we target for profit companies, and are therefore missing potential sales.

### **Segmentation:**

The real secret for successful DM campaigns is to micro-segment for clear and compelling communications. The golden rule of direct marketing is “relevancy of message and offer” as the more we speak clearly to the recipient with our communications, the higher the engagement and response rates.

Micro-segmentation is the process to use that enables us to form a clear picture of whom we are addressing. In this regard, the data attributes that are the basis for micro-segmentation are quite different in the B2i market than in B2B. As an example, the revenue attribute is not easily applied to many B2i organizations, yet in B2B we think company size universally in micro-segmenting.

Here are some examples of data attributes that are present in the B2i market, but not often available from the standard data sources.

- Hospitals by type of service – dialysis centers, hospice care, medical schools, nursing homes, ambulance services, ownership, etc.
- Government – cities by population size, elected vs. appointed officials, county extension programs.
- Education – school districts, public, private, religious, federal funding sources, community wealth score.
- Churches – denominations, size of congregation, Spanish speaking.
- Correctional Institutions – capacity, gender of inmates, juvenile, and presence of educational services.

As in the profiling section, this is the problem and the solution is to find a data compiler who tracks these unique attributes so that not only targeting can improve but the communications will be relevant as well.

### **OFFER STRATEGIES:**

The “offer” is the primary motivator for individuals to respond to our direct marketing communications, and is the second most important element for success. Far too often, we think of our selling process or the interesting and/or unique product/service attributes to

craft an offer. This inwardly focused process can result in “so what” or “who cares” reactions by the targeted audience, and frequently does not engage them and therefore sub-optimizes the response rate.

**Relevancy wins every time:**

We all are bombarded by messages in our daily lives. Ad Age has published two studies that report the number of messages we either see or hear each day is between 3,000 – 5,000. Hard to believe I know, but if you think of all the messages we encounter (even signs on stores are advertising messages), we quickly realize that this clutter is causing us to “tune out”. My new favorite is the ad I saw in the grey TSA bin when I last flew out of Denver – I actually had to laugh out loud, and I’m sure the guy behind me in line had no idea why! Unfortunately, I can not remember the brand or company being advertised which ironically is the problem with advertising clutter – I tuned it out.

So how do you break through the clutter and engage our audiences? As Groucho Marx would say, the secret word is “relevancy”. The relevancy of the message and offer is the “clutter-bust” secret. Here are several relevancy building steps:

- First, if you have micro-segmented the market there should be a clearer picture of the target audience. Put yourself in that picture and think of the overall business environment – industry, company and job function – to help put you in their shoes, as that will set the stage for development of the message and offer.
- Second, outline the assumed buying process of the targeted individual(s). To do this, think of the mental and business process steps they need to complete to move from “need awareness” to “purchase decision” for the product/service you are selling. This might also include who will be involved in the purchase decision. I call this the “decision tree”, as there are not only decision makers but influencers, users, specifiers as well.
- Third, determine what likely stage in the buying process the targeted individual is in, and pick an offer and craft a message that would logically move them to the next stage in the buying process.

Frankly, if you actually do the three steps above you will be ahead of 90% of all direct marketers – most messages and offers focus on what we want to say or offer, and not what the “buyer” wants to hear.

This advice will help you no matter what micro-segment is being targeted, but are there any unique differences between for-profit companies and the B2i organizations? You bet there are, and here a several important ones to consider in crafting the message and offer.

- The organizations are not typically driven by profit, but rather purpose. That is not to say, wise economic decisions are not important, but that may be secondary to the value of the product/service in achieving the reason the organization exists. Think doctors, teachers, and police officers. Messages about the “ROI” will not resonate as well as providing superior service delivery to patients, students, and residents, respectively.
- While competition is a way of life for us in B2B market sectors, B2i organizations cooperate and collaborate with other similar organizations in ways for-profit companies do not. Testimonials, successful case studies, reports on effectiveness, that reference other like organizations are very compelling topics for message development and offers.
- The budgeting process is quite different as well. Most organizations are funded by a controlling governing body. Not only is the budgeting, justification and approval process affected, but the way in which money is made available is also different. In fact, many B2i organizations must spend the annual budget or it will be lost. Remember, at the end of the fiscal year, money may remain in the budget and administrators are looking for ways to spend it – a great opportunity for marketers. All you have to know is the fiscal year of each organization.
- In addition, frequently the driving force behind a need for a product/service is compliance to a set of rules, regulations and/or legislation. In the hospital market the Joint Commission on Accreditation of Healthcare Organizations (now rebranded as The Joint Commission) issues guidelines that are taken very seriously, as the hospitals want this certification. If you sell this market, do you know the current guidelines? If they relate to your product/service, then a message and offer tied into certification will resonate – guaranteed.

These three differences are significant to developing messages and offers, and there are other unique characteristics as well. The point is, the B2i market is different and needs to be treated as such when developing any DM campaign.

### **SEQUENCY & FREQUENCY OF CONTACT**

In B2B we have an extra weapon to generate responses (in addition to list, offer and creative), as the value of the sale and customer is higher than on the consumer side. It is not unusual to see B2B sales in the thousands, if not multi-thousands of dollars, and lifetime values accordingly even more. Thus, we can afford multi-touches with the three primary direct marketing media. The three primary DM media are as follows with the average range of cost per contact listed.



- Email \$0.05 – 0.25 (depending on list, transmission and agency cost)
- Mail \$0.50 – 1.25+ (from post card to impact mailing)
- Phone \$5.00 – 25.00 (based on a completed call, not dial)

I'm not saying that response advertising, PR, search (paid or organic) and trade show marketing tactics are not valuable, but when you want to target a specific organization and individual, these three media are it! Further, we know from testing that a multi-media campaign produces synergistic results. In other words, mail and then call, or call and then email. The combination of media will achieve a higher overall response rate than just each media alone.

In B2i this multi-touch approach takes on additional significance, as many times there are more decision makers and influencers than in B2B. Remember, the culture is collaboration and cooperation, and that drives a more team or matrix orientated decision process. The political nature of the organizations also brings more individuals into the decision process than otherwise found in the traditional B2B world.

The problem is that in B2i it is more difficult to predict just who will be involved in the decision than in B2B. Frequently the title and/or function of the individual are not aligned with the decision process. As an example, in the hospital arena, a doctor might sit on a committee but his/her title and specialty will not indicate that role. Further, users of the product/service may influence the decision far more than in B2B. Just visualize the decision to use the Taser in police departments and how many officers were involved in the decision process, not to mention the Chief, Mayor and of course lawyers.

While it is important to start with a specific individual, use the collaboration environment to your advantage, and encourage the individual contacted to pass it along to other interested parties (this may require you send more than one brochure, sell sheet, or catalogue). That's why a phone call might be just the approach to determine who else might be involved. In my experience, the B2i organizations are more open and helpful in guiding you to the right department and individual(s) than for-profit businesses.

The important issue here is to carefully calculate how valuable the sale and/or customer is, and align the money spent on sequence and frequency of contact in accordance with the value. Far too often marketers take one swipe at the target and then give up – remember, these organizations are larger and should represent a higher value as a result.

## **CREATIVE**

When I write or speak about the leverage of elements and mention that creative is only worth 10-20% of success, I quickly look around for agency people, and if see them, duck for cover. I quickly add that great creative is needed (similarly I do not tolerate bad creative), but it's just that other elements have more impact.

As we all know, direct marketing is copy led, as the words we use are what drive our message and motivate the buyers to respond. Much was covered in the preceding Offer section, and I will just add some additional thoughts to consider.

When writing copy, the best results are obtained by speaking to an individual, and to do that we have to know exactly whom we are talking to (micro-segmentation helps), and what are their needs and working environment. Since we all have for-profit business experience, we understand that environment, but not the one of the B2i organization. Remember these aspects of the B2i environment when directing, writing or approving copy:

- Purpose or mission driven
- Not profit orientated but rather quality or success of service driven
- Make decisions that are within budget and not ROI based
- They service, not sell people
- Frequently the decisions need to be politically and/or socially acceptable
- Do not think about competition, but rather collaboration
- Are concerned about how colleagues view them

As a marketing guy, not only do conversations help our understanding but focus groups might be more important in the B2i market to understand the mind of the buyer.

Another creative tactic that should always be considered is the “pass-along” or “re-direct” modified Johnson box on brochures, catalogues and even letter packages. This simple device will not only encourage pass-along but make it easier as well.

There are many other creative tips and techniques, but the critical issue is that no matter who does the creative, they need to understand that the people in the B2i market will react and respond from a different perspective than B2B people. Factoring these differences into the creative process will improve response rates.

## **SUMMARY**

By now, you’ve got the message – the B2i market is very large and is waiting for you! To get your “unfair” share of this market, you have to approach it differently than the traditional B2B market.

Back in the 1980s when I entered the direct marketing business, Bob Stone, one of the legendary direct marketing lions, said to me – learn all the rules first, and then try to break them! We know the “rules” in B2B, and they need to be bent for B2i and then broken!



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John is President and Founder of the Sales & Marketing Institute. His background includes experience on both the sales and marketing side. On the sales side, John was a field sales person, national sales manager and executive in charge of both sales and marketing for two firms including the Quaker Oats Chemical Division. On the marketing side, he ran a B2B direct marketing agency for 10 years, was National Campaign Manager at IBM and Sr. VP of B2B at Rapp Collins Worldwide. He speaks internationally and had written a book published by McGraw-Hill titled, *The Fundamentals of Business-to-Business Sales & Marketing*. He can be reached at by calling 602-402-6588 or by email at [john.coe@b2bmarketing.com](mailto:john.coe@b2bmarketing.com)

**The Sales & Marketing Institute**

SMI is a consulting, publication and training firm based in Scottsdale, AZ. The firm specializes in the integration of sales and marketing to create a “new sales coverage model” that is directed at dramatically improving sales and marketing productivity. In addition, the firm focuses on the B2B lead process and the integration of sales and marketing that this demands. SMI offers consulting services, public seminars and internal training on a wide array of topics. Later in 2008 SMI will *The Fundamentals of B2B Database & Direct Marketing* online training program. To obtain a brochure on the training or download other white papers, visit [www.b2bmarketing.com](http://www.b2bmarketing.com).