

The Local Government Marketplace for Direct Marketers

John F. Hood, President
Kirk Chritton, Director of Marketing & Product Development
Jackie Finnegan, Public Relations Coordinator
MCH, Inc.

Executive Summary

If we can show you a market segment that is on an upward growth trend and generally recession resistant, would you be interested in learning more about it?

Institutional markets, and more specifically local and county governments, are precisely the market segments that fit the growing and recession-resistant categories. Marketing to local and county governments may not seem as exciting as marketing to an emerging and leading-edge segment, but the revenue to be gained is lucrative. It may be a surprise to learn that there are local and county governments that have revenues equal to businesses on the Fortune 1000 list.

This paper is designed to help you learn more about how local and county governments operate, who makes purchasing decisions, what criteria influence buying decisions, and when dollars are being spent. By analyzing funding sources, spending categories, organizational charts, and operating year timelines, you will learn how to improve your direct mail response in the government segment.

For the purposes of this paper, it's important to define what constitutes "county" and "local" governments. The definition of a "county" is consistent in 48 of the 50 states. Only Louisiana and Alaska refer to their "county" governments as parishes or boroughs. Connecticut and Rhode Island are divided into "counties" but do not have functioning county governments. The National Association of Counties' Overview of County Government identifies 3,034 counties and 33 city-county governments.

Local government entities are more difficult to define. Local governments can be identified as municipalities, townships, and special districts. Special districts are separate entities, usually designated to

have a sole purpose such as water supply, housing, community development, etc. Special districts have administrative and financial independence from general purpose governments. In this document, the term “local government” is defined as city and township governments only and does not include special districts.

The Local Government Marketplace for Direct Marketers

If you’re wondering if local and county governments are good marketing targets, consider how they compare to Fortune 1000 companies.

Fortune 1000 Ranking & Revenue			Largest Cities & Counties Revenue in Budgets	
#1	Exxon Mobile	\$339 billion		
#2	Wal-Mart	\$314 billion		
#32	Johnson & Johnson	\$50 billion	New York City (city)	\$50 billion
#111	Sara Lee	\$19 billion	Los Angeles (county)	\$19 billion
#422	Barnes & Noble	\$5 billion	Los Angeles (city)	\$5 billion
#423	Radio Shack	\$5 billion	Chicago (city)	\$5 billion
#626	MasterCard	\$2.9 billion	Cook (county)	\$2.9 billion
#896	Jet Blue	\$1.7 billion	Houston (city)	\$1.7 billion

Lending further support to the concept that doing business with local governments is a good strategy can be found in the FAQ section of www.targetgov.com:

Is there enough business at the county and city levels to make the effort worthwhile?

Absolutely! Local government business might also be less complicated than federal government business. Local government spends billions of dollars every year, why walk away from that possible business?

And even more important to direct marketers:

Direct mail seems to be so old fashioned, is it worthwhile?

Yes, but again, only if it is sent to the correct people. Many government mailrooms have the authority to dispose of bulk mailing of 50 or more pieces to one office in one day. This means if you blanket mail an office in the hope of hitting the correct people, you run the risk of your expensive pieces being thrown in the trash and never getting to anyone.

Institutions such as governments, schools, churches, and healthcare facilities are not businesses and if you don’t understand how they operate, securing the appropriate lists for a direct marketing campaign can be a real gamble—risky with an uncertain outcome.

Analyzing your options to determine the best strategy to use when marketing to city and county governments can be challenging and cumbersome. Achieving success in this market segment is dependent on learning the differences between marketing to businesses (B2B) and marketing to institutions (B2i).

Fundamental differences between governments and businesses are:

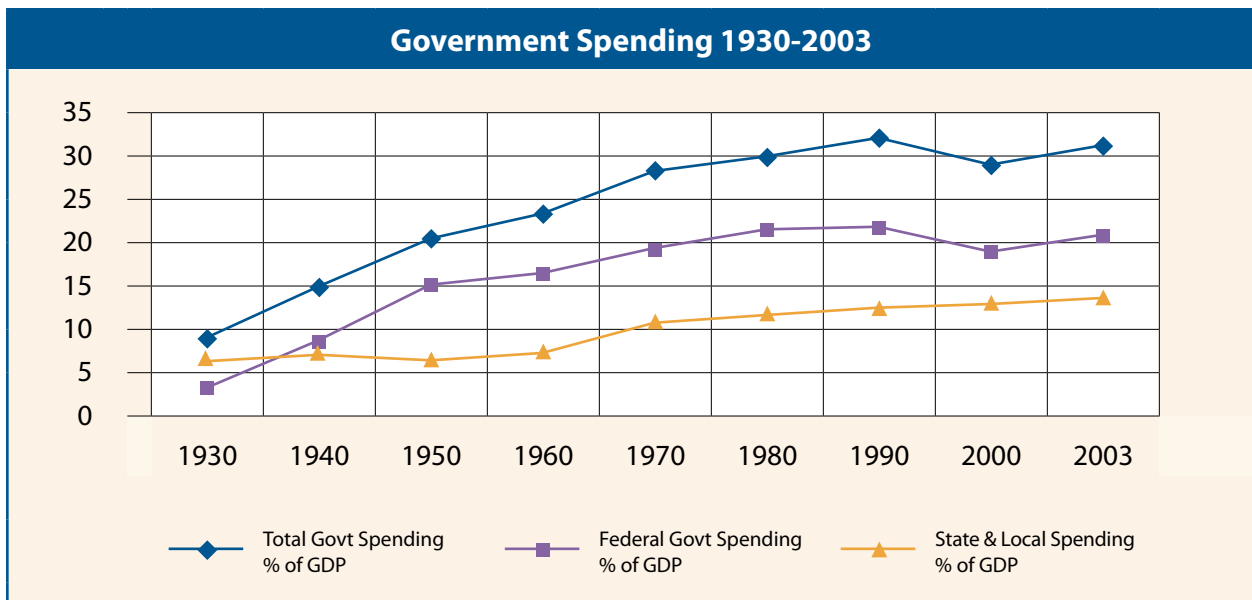
- A. Institutions typically have a different management structures and different titles for those decision makers (mayor vs. CEO);
- B. Institutions often have different purchasing cycles and rules governing purchases; and
- C. Institutions, especially government entities, are recession resistant.

Governments are a good market segment in both strong and weak economic cycles. Even if governments cut programs and services during a soft economic period, they still need to operate on a daily basis (office supplies, computer equipment, etc.) and provide basic services (police and fire protection) to citizens.

Government and the Economy

State and local government spending as a percentage of GDP has doubled in the last 50 years and shows no sign of stopping.

Government spending continues to increase absolutely and as a percent of the economy. The chart below summarizes historical data published by the Bureau of Economic Analysis and reflects government spending as a percent of Gross Domestic Product. There was a slight dip in federal spending from 1990 through 2000; however, there was no slowdown in the upward trend for state and local spending.



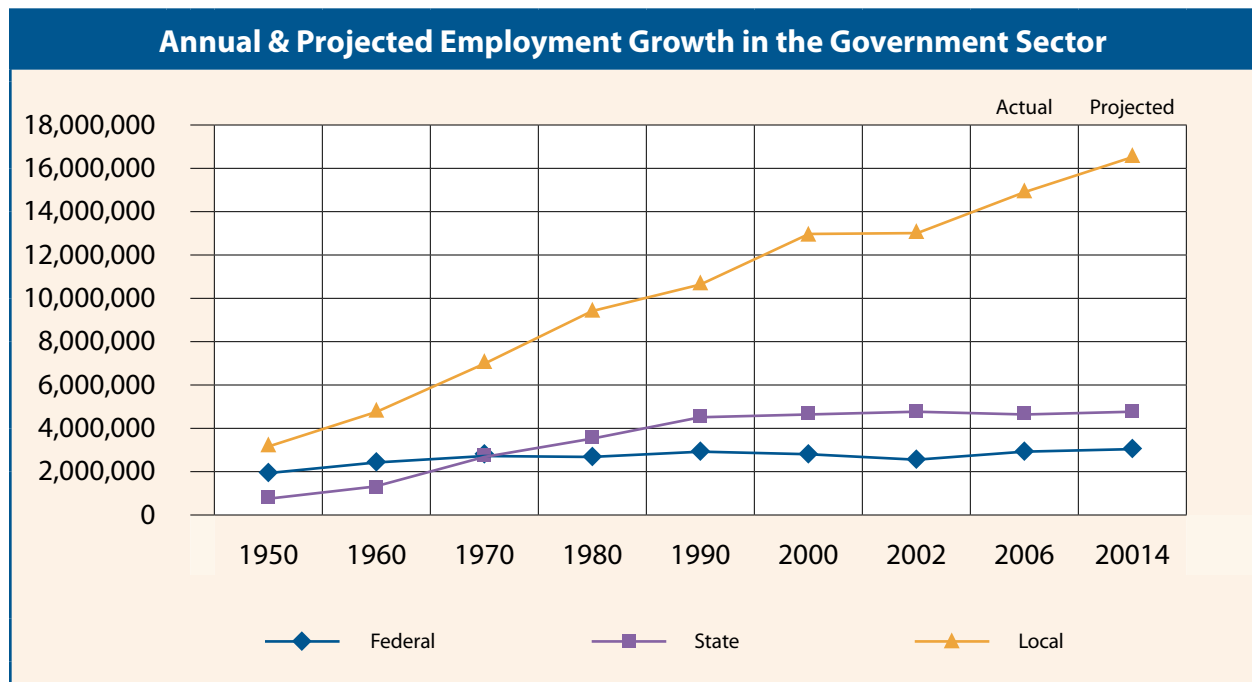
The government is a growing part of the economy and probably should be a bigger part of your marketing program. If you ignore the government market segment, you're ignoring a revenue opportunity.

Government Employment

According to the September 2005 Quarterly Census of Employment and Wages (QCEW) Industry Overview of Government by the Bureau of Labor Statistics, there are 143 million people employed in the U.S. and of that total:

- Federal government represents 2.1% (3,017,448),
- State government represents 3.5% (5,029,080), and
- Local government represents 10.5% (15,087,240).

Government employment grew from 19,539,000 in 1996 to 21,803,000 in 2005. Projections for the 2004–2014 decade are that federal employment will increase 1.6%, while state and local government employment will increase 11.3%.

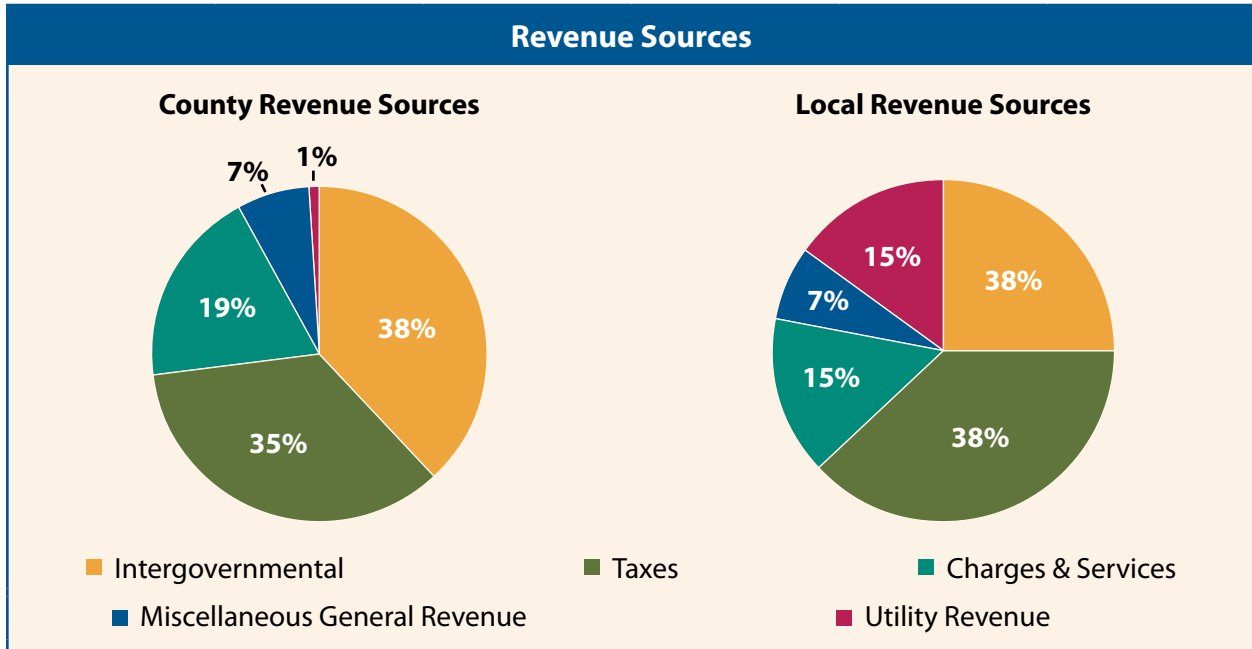


The projected growth in local government employment is most likely the result of states cutting funding to counties, which then means counties cut their funding contributions to the local government. Local governments are and will continue to be forced to operate more programs each year as the upper-level funding sources continue to diminish.

Government Funding Sources

Benjamin Franklin wrote, “Certainty? In this world nothing is certain but death and taxes.” It’s hard to imagine how much of an impact taxes had on U.S. citizens in the country’s formative years, but they certainly play a major role today. Property, general and selective sales, and income taxes represent the top funding sources for local and county governments. County and local governments rely on taxes for about 40% of their annual revenue.

The differences between revenue sources for local and county governments are shown below. Counties rely on intergovernmental funding which means transfers of revenue from local to county and state to county. Local governments receive a higher percentage of revenue from utilities and taxes.



Utility revenue and charges/services are stable sources of revenue. Variable (meaning less reliable) revenue sources are intergovernmental funds allocated for specific purposes and tax revenue. Taxes are often based on economic performance and can fluctuate from year to year.

A significant amount of money is spent by both county and local governments on the safety and well being of their constituents. Police and fire protection, road and bridge repair, health programs, and other public services are at the top of the list when it comes to what taxpayers expect their dollars to fund.

Government Spending by Category
(in thousands of dollars)

Category	County	Local	Total
Education*	37,000,000	46,000,000	83,000,000
Welfare	30,000,000	10,000,000	40,000,000
Hospitals	24,600,000	10,900,000	35,500,000
Roads & Highways	17,000,000	26,000,000	43,000,000
Public Safety	38,200,000	67,200,000	105,400,000
Parks & Recreation	6,000,000	17,300,000	23,300,000
Administration	30,000,000	26,000,000	56,000,000
Other	71,200,000	219,600,000	290,800,000
Total	254,000,000	423,000,000	677,000,000

*Education expenses shown are for special districts only. Local school district expenditures are not included.

County expenditures on healthcare and criminal justice have increased over the past few years as state funding has been reduced. Many county and local governments have also increased spending on technology and telecommunications equipment for two reasons. The first is simply a matter of efficiency—government entities (like businesses) have been trying to reduce labor costs by doing more with less. State-of-the-art computer software and hardware can play a big role in operational efficiency improvements. The second reason is that emergency preparedness requirements set forth by the federal Department of Homeland Security have caused governments to spend more on telecommunication products and systems.

Government Accounting

Government or public accounting standards are different than private sector accounting. The incentive in the government-operating environment is to spend 100% of the budget. In contrast, businesses provide incentives to management teams and reward them for coming in under budget, helping the companies enjoy higher profits.

Three important differences between government accounting and business accounting are:

1. Governments cannot spend money unless it is appropriated, meaning governments can't spend money they don't have.
2. If a government department doesn't spend all of the money allocated in its budget by the end of the fiscal year, the department doesn't keep it. The money is returned to the government and the department's budget for the next year may be reduced as well.
3. Creditworthiness is not an issue when dealing with governments. Purchase orders cannot be released unless there are funds in the bank. While a government entity may not be the fastest account in your portfolio when it comes to remitting payment, you know that you will eventually get your money.

Spending Categories

Richard White, President and CEO of Woods River Technology, is an expert in sales and marketing to local, state, and federal governments. Mr. White suggests at www.fedmarket.com that governments typically operate under the three spending categories listed below. The definition of spending limits and categories may vary from department to department.

1. MICRO PURCHASE

The most attractive and effective category for direct marketers

Threshold: Under \$2,500

Purchasing procedure: Sole source, may be paid with a government credit card.

Sales cycle: Same day

2. SMALL PURCHASE

Threshold: \$2,500-\$25,000

Purchasing procedure: Three informal quotes (bids) by phone, fax, email or regular mail; purchase order may be required.

Sales cycle: Same day to several days

3. LARGE PURCHASE

Threshold: Over \$25,000

Purchasing procedure: Public advertising and formal bid process; typically require a purchase order.

Sales cycle: Several weeks to a year or more

The Micro Purchase category is more attractive to retailers since there is usually an immediate need for small purchases such as auto parts and office supplies.

The Small Purchase cycle may be “same day” but can also span several days to a few weeks.

Large Purchases can be difficult to define because “large” has a different meaning to a small community when compared to a major metropolitan county government. The critical thing to remember about the “Large Purchase” category is that these purchases are planned, meaning the items have been researched, discussed, and specified in the budget.

Most government entities use a bid process for items in the Large Purchase category. The bid process can be as simple as asking vendors for a bid on a particular item or as comprehensive as a Request for Proposal, multiple hearings, and final awarding of a contract or Purchase Order to a vendor.

The purchase order process can be confusing. It’s important to review both the purchase order date and the delivery date to gain an understanding of buyers and purchasing cycles. If you develop a campaign using only the purchase order date to define the timing of your mailing, an opportunity may be lost. Finding out when an item is placed in the budget is the most important date because that is when the decision to buy is set in stone. A purchase order can be issued at the beginning of the fiscal year (when the money is allocated) to ensure that the item is funded and protected from year-end budget cuts or it may be issued just prior to when the requesting department wants delivery—possibly any time during the fiscal year.

Formal Bid vs. Informal Bid Process

A formal bid process is invoked when government entities want to purchase an item that is over the discretionary limit of the department head or the threshold allowed by the organization’s operating rules. The formal bid process starts with legal notice to the public regarding the purchase. Legal notice is published in a local newspaper and the notice sets forth the department requesting bids, the product desired, where to pick up bid packets, deadline for submitting bids, etc. The bids are opened at a public meeting and the bid is awarded to the vendor. The lowest bid normally is awarded the contract (purchase order) for the product as long as the bid meets the specifications and requirements contained in the original published document.

An informal bid process may be used by government entities to purchase items that fall below the discretionary or threshold dollar amounts. The informal bids can be requested by fax, e-mail, phone, etc. and do not require vendors to go through the public bid process.

Many local and county governments have established processes to designate sellers as preferred vendors. When preferred vendors are approved by a government entity, they are sometimes allowed to be exempt from the requirements of a public bid process. In addition, government entities require that

vendors deliver the correct product, on time, and within budget. What that means to marketers is that working to establish a relationship with local and county governments can be an important element in a successful marketing campaign.

A recent development in government purchasing is government-issued credit cards. Credit cards typically have a credit limit of \$2,500. Purchases in the Micro category have a higher probability of being paid for with a government-issued credit card. At this time, the vast majority of government-issued credit card holders are federal government employees.

Purchase Influencers

American City & County conducted a survey of city and county governments in 2001. One of the questions in the survey focused on what criteria was used by city and county decision makers in making a purchasing decision. The top responses were:

Meeting Bid Specifications	78%
Lowest Bid	76%
Compatibility of Product	66%
Quality or Product or Service	64%

In addition, 69% of the respondents relied on input from colleagues when making a purchasing decision while 65% indicated contact with a sales representative was important.

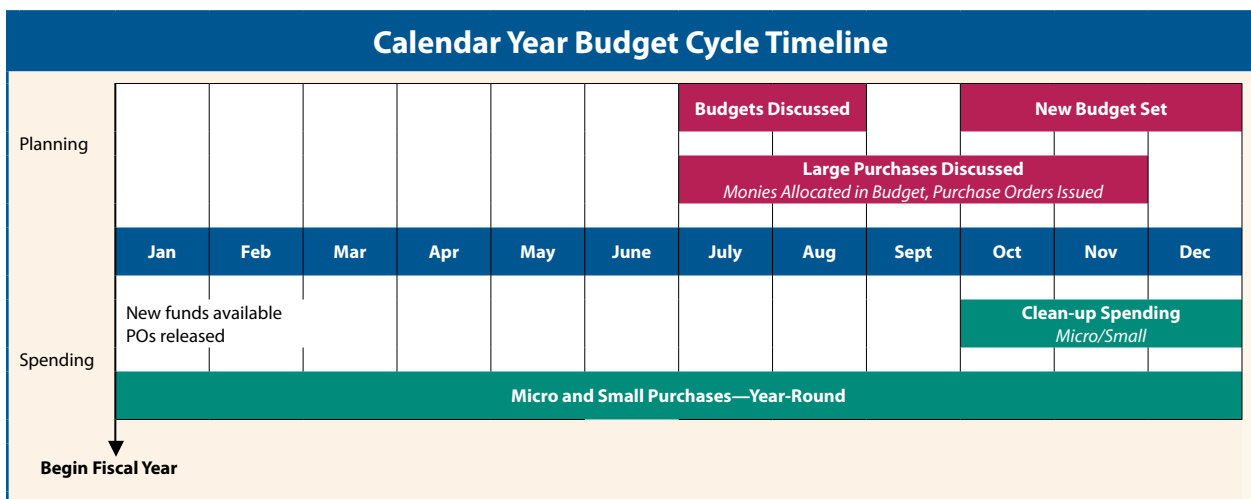
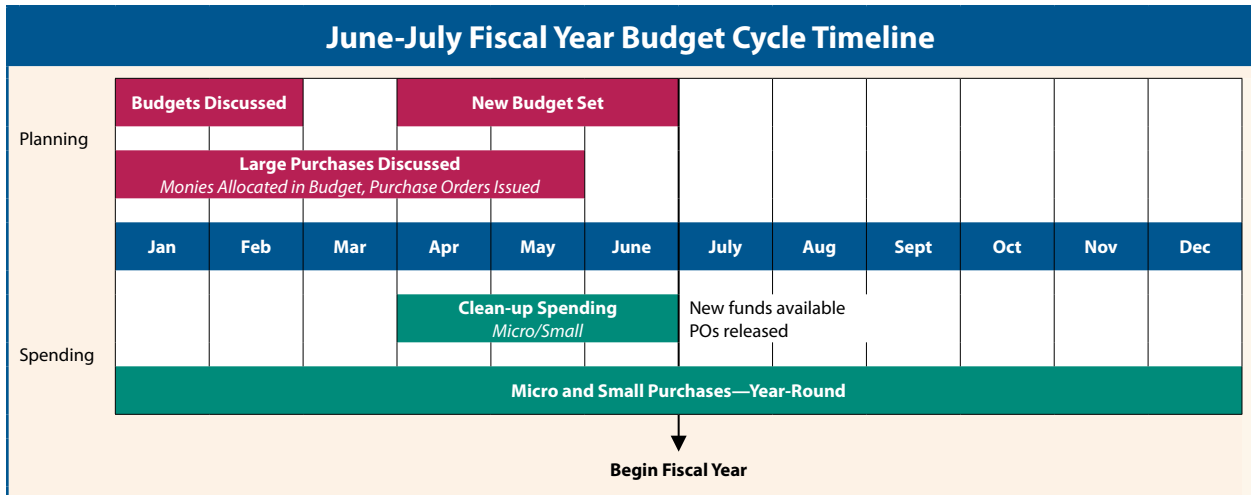
Important news for direct marketing representatives is that 53% utilized product catalogs to make their decisions. When a bid is not involved and when the purchase amount is within the limits of discretionary spending, direct mail/catalog marketers can be as effective in the government market as in other sectors of the business world.

The study also asked a question about the dollar amount representing the upper limits of purchases the respondents could authorize. The responses ranged from zero at small municipal government entities to \$50,000 or more at larger county governments.

Timing

Timing is as important in marketing to the government as it is in the business segment. Many businesses operate on a calendar year, while a large majority of government entities operate on a fiscal year basis. The beginning of an operating year is important when marketing to both businesses and institutions because the new year “start date” is the trigger for calculating when to mail.

Government entities discuss budgets, conduct hearings, and set spending limits for every department months before the start of a new fiscal year. Although some governments have fiscal years starting every month, budgeting cycles for the most common fiscal years, July to June, and calendar years are represented on the next page.



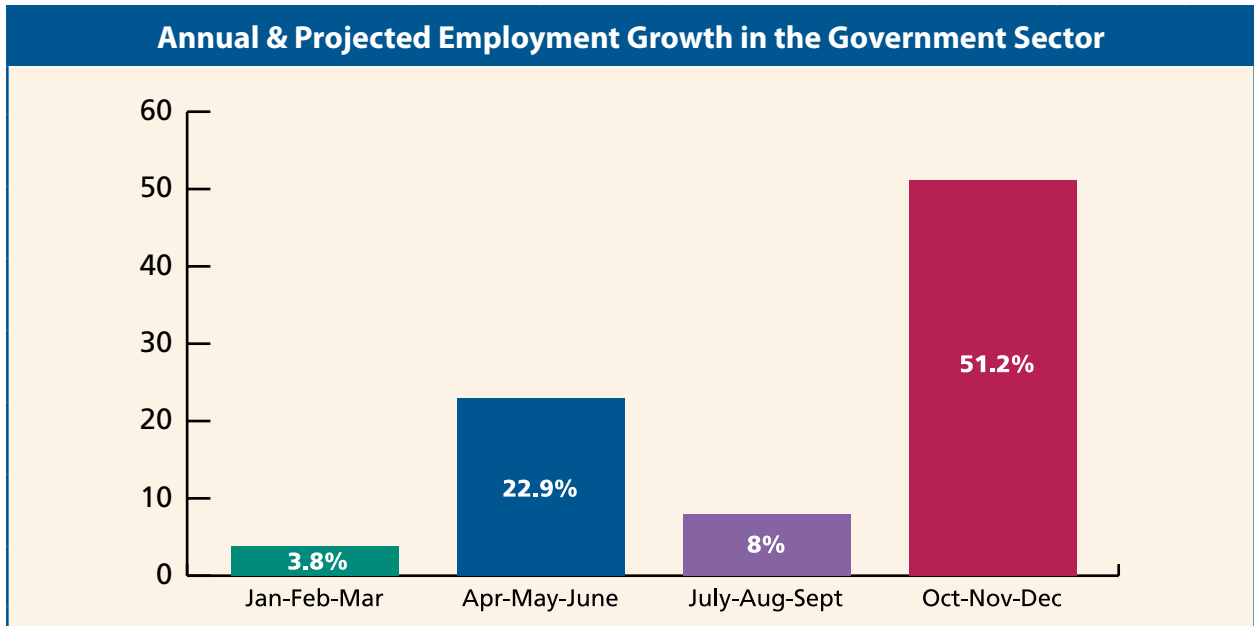
Ensuring that your catalog or product information is in the hands of department heads when they are discussing and preparing the budget is a proactive marketing strategy, especially for higher dollar (Large Purchase) products. The Micro Purchase category is the most attractive category for direct mail marketers because the category is not typically governed by limits on discretionary spending or bids. Small Purchases may be similarly attractive to direct mail marketers; however, purchases in the Small category are often governed by at least an informal bid process.

Clean-up spending is a phrase that means using budgeted money before the end of a fiscal year in order not to lose it. Clean-up spending can occur in almost any month and timing is dependent on the government entity's operating year. Targeting clean-up spending times is an ideal strategy for marketers whose products fall in the Micro and Small Purchase categories. In addition, discretionary spending occurs year round so marketers promoting Micro and Small products can productively mail throughout the year to capitalize on every purchasing opportunity.

Fiscal years end throughout the year and there is a large variance between government entities. Marketers need to select drop dates based on the month(s) when the largest number of governments have spending power and funds available. The 2002 Census of Local Governments contains a wealth of information about local and county governments.

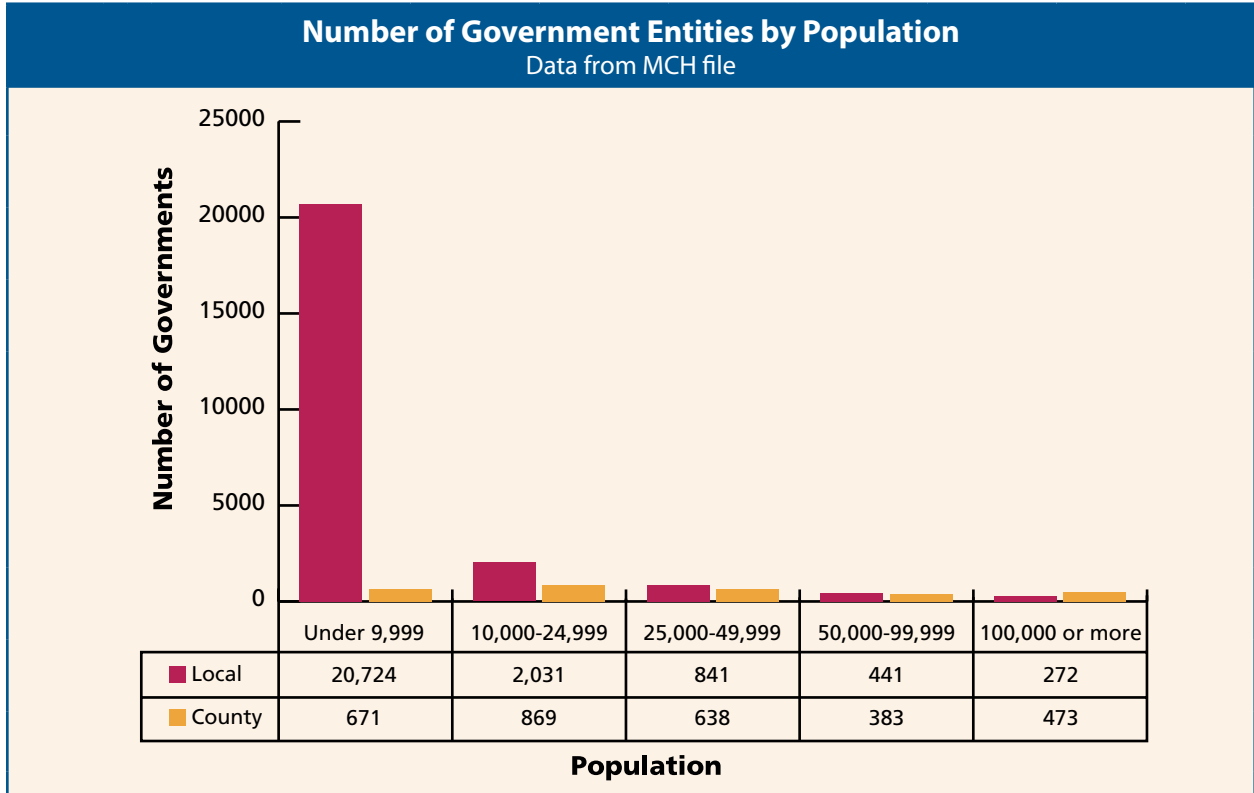
Fiscal Year Ending Month		
Fiscal Year End	Number of Governments	Percentage of Governments
January.....	184.....	0.5%
February.....	1,473.....	3.8%
March.....	3,018.....	7.7%
April.....	1,231.....	3.2%
May.....	576.....	1.5%
June.....	8,921.....	22.9%
July.....	251.....	0.6%
August.....	74.....	0.2%
September.....	3,107.....	8.0%
October.....	70.....	0.2%
November.....	117.....	0.3%
December.....	19,933.....	51.2%
Total.....	38,955.....	100.0%

Based on the results reflected in the fiscal year end table above, clean-up spending occurs in the months indicated in the chart below.

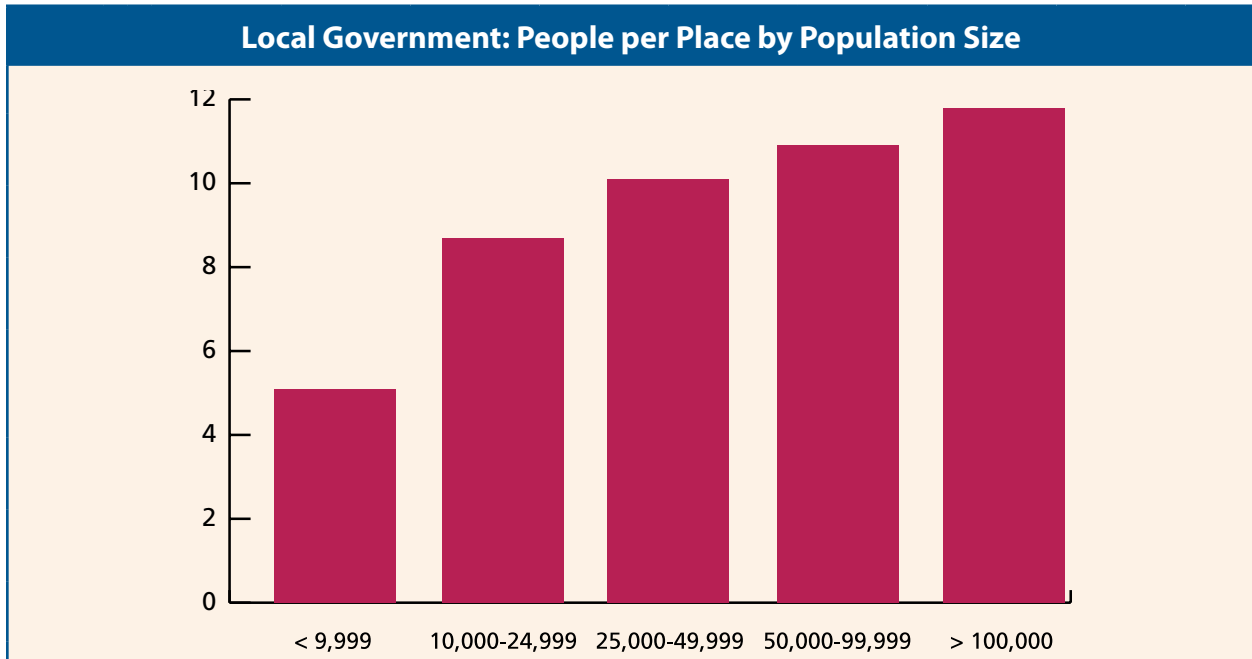
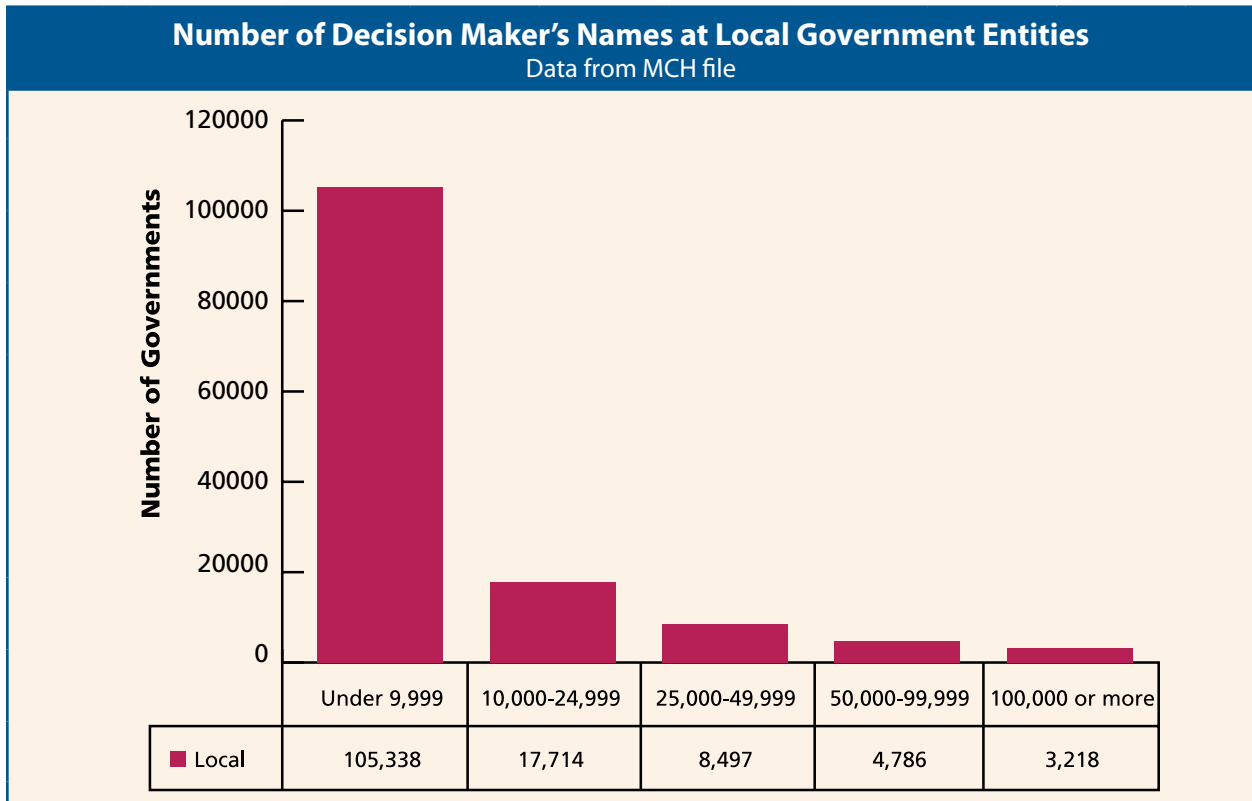


Size of Governments

The size of county and local governments is an important factor to consider when developing a marketing campaign. Large metropolitan areas will most likely have many people with the same job function while smaller rural areas may have a single administrator with multiple job functions. The National Association of Counties reports that counties with population under 50,000 account for almost 75% of all county governments.



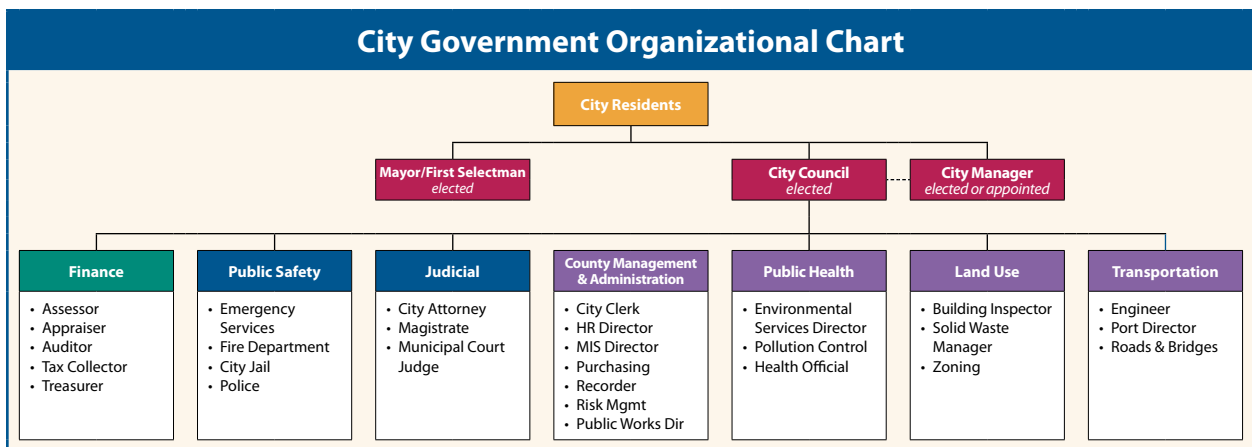
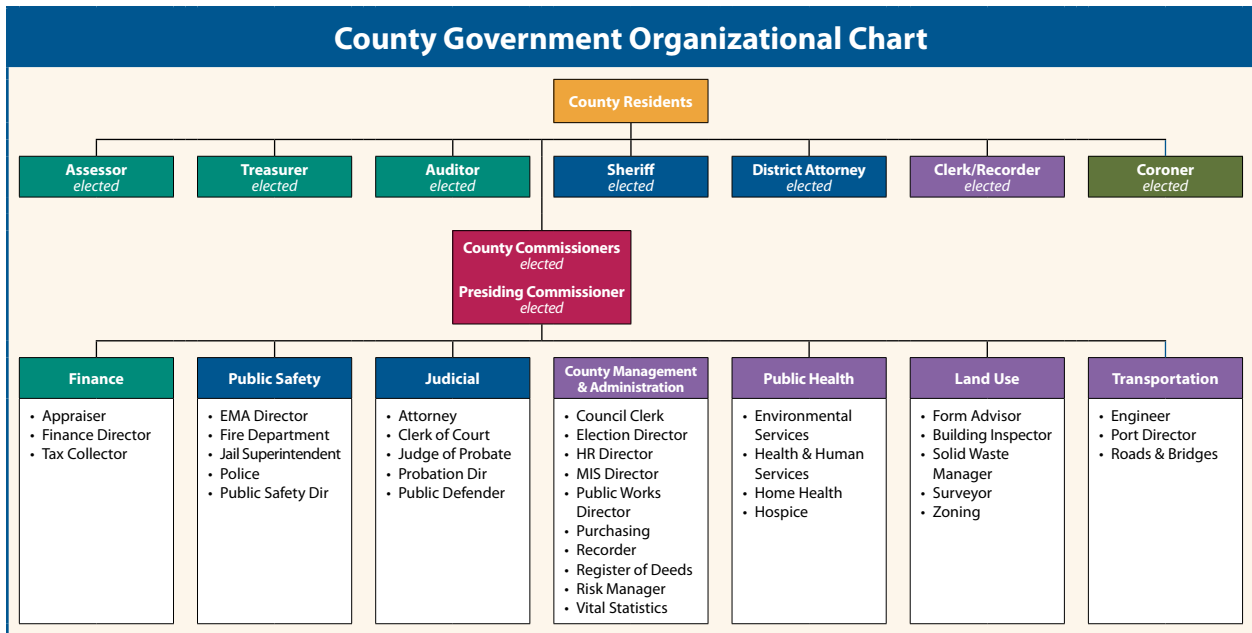
The following two charts highlight the government decision makers at the local level.



The charts above once again support the concept that in small local governments, one person may have multiple job functions while in larger government units, there may be multiple people with the same title. Further discussion regarding promotional mail distribution is contained in the Marketing Tips and Mailing Strategies.

Organizational Structure

The organizational chart is an important tool in understanding the reporting structure and determining who the key decision makers are. The following charts are meant to be average representations of county and local government reporting structures and have notations included regarding whether a position is typically an elected or appointed position. Although the authority (final decision) for a specific purchase may rest in the hands of elected officials, it is common that appointed and/or hired employees may have more experience and tenure and be purchase influencers. Mailing to multiple job titles may help your message reach the right person at the right time in the budgeting and allocation cycle.



By comparing the organizational structures of cities and counties, marketers can see the similarity of job functions between the two entities, as well as the titles that occur at only one level of government. Level designations such as Director, Chairman, Superintendent, Coordinator, Supervisor, and Manager are frequently used interchangeably.

An important consideration is that social service initiatives typically fall within the county's responsibility. Social services is a very broad category and can include a diverse array of services such as substance abuse counseling and other behavioral care programs, senior citizen housing initiatives, vital statistics, victim's services, etc. Spending more of your marketing budget at the county level for items needed by social services programs will mean a higher return on your investment. In addition, counties may be more inclined to fund big-ticket items that serve geographically dispersed constituents – sports stadiums and large entertainment facilities like zoos, museums, airports, etc.

Below are common job functions and equivalent titles in county and local governments. Testing can be an important way to determine who has the decision-making authority. At the county level, elected positions can have more discretionary authority, which means there are more "politics" involved between individual job titles and the county commission. At the local level, there are fewer layers of government to go through to reach the decision makers.

Administrative Personnel		
Position	City	County
County Commission Chair		X
Clerk	X	X
City/County Manager	X	X
Coroner		X
County Commissioner		X
Elections Director		X
Human Resources Director	X	X
Information Technology Dir	X	X
First Selectman	X	
Mayor	X	X
Public Information Officer	X	X
Risk Manager	X	X
Veterans Affairs Director		X

Community Development Personnel		
Position	City	County
Ag Commissioner		X
Building Official	X	X
Community Development Dir	X	X
Development Services Director		X
Economic Development Director		X
Engineer	X	X
Housing Director	X	X
Industrial Authority Director		X
Land Commissioner		X
Planning Director	X	X
Recorder		X
Registrar of Deeds		X
Zoning Administrator	X	X

Finance Personnel		
Position	City	County
Assessor	X	X
Auditor	X	X
Budget Director	X	X
Finance Director	X	X
Grants Coordinator		X
Purchasing Agent	X	X
Tax Collector	X	X
Treasurer	X	X

Judicial Personnel		
Position	City	County
Attorney	X	X
Court Clerk	X	X
District Attorney		X
Magistrate	X	X
Presiding Judge	X	X
Probate Judge		X
Probation Director		X
Prosecuting Attorney		X
Public Defender		X

Public Service Personnel		
Position	City	County
Director of Aging		X
Animal Control Officer	X	X
Emergency Services Director	X	X
Family Services Director		X
Health Official	X	X
Parks and Recreation Director	X	X
Public Safety Coordinator		X
Welfare Director	X	X

Community Development Personnel		
Position	City	County
Aviation Director	X	X
GIS Coordinator		X
Pollution Control Director	X	X
Public Works Director	X	
Roads & Bridges Director		X
Street Superintendent	X	X
Surveyor		X
Transportation Director	X	X
Utilities Director	X	X
Water Director	X	X
Weed Superintendent		X

MCH Marketing Tips

One of the most important things to appreciate about local and county governments is just how different they can be from one another. Obviously metropolitan areas like New York and Los Angeles have large populations while municipalities with population under 10,000 account for almost 75% of all local governments. Clearly you need to market to these areas in different ways.

The county universe is small in relation to the local municipal universe. Counties are also highly stratified by population. You only have to mail to the largest counties to reach 50% of the US population.

Spending at the county level can be impacted by state mandates and spending at the local level can be impacted by both state and county mandates.

Counties with large populations have more specialized administrators handling the business transactions of the county, meaning there are more people to mail to within those counties. While there are fewer counties that are large, there are more mailing opportunities because there are more people employed in county management functions.

MCH recommends that marketers mail where the money is. By targeting larger populations in wealthier areas, you are likely to see better results. MCH recommends testing various population sizes or key coding by population size segments to identify the most responsive segments.

Don't make the mistake of missing good prospects simply because a personal name isn't on the database. Default to an appropriate title on those entities where no personal name is available. For example, every municipality has an individual responsible for public works even if no personal name is available on the database.

Local governments don't necessarily operate from a single facility and different offices may have different mailing offices. There are 24,000 city halls in the MCH city file but there are an additional 12,000 city office locations. Some offices are commonly at other addresses, i.e. fire, police, utilities, and city attorney.

Depending on the geographic region of the country, school districts and public libraries are sometimes a part of city or county government organizations. In the MCH marketing world, they are treated as separate entities because they are specialist direct mail markets.

Government orders may come through a purchasing department representing the department that requested the item in the budget. As a result, tracking response rates may be difficult. A potential benefit would be that some purchases might be applied to more than one department when the requesting department has initiated something new with funding.

About MCH

MCH is the leading compiler of business-to-institution (B2i) databases and mailing lists. The company's database features information on more than 1.3 million institutions and the names of more than 8.2 million decision makers at those institutions. Schools, school districts, churches, medical practices, hospitals, nursing homes, and city governments are among the largest institutional markets.

MCH's city government file features decision makers for more than 24,400 municipalities of every size. It includes the addresses of the central city hall and other related locations. Using the database, MCH's clients can target their catalogs to 18,113 mayors, 7,261 city managers, 18,053 city clerks, and 17,232 city attorneys. Other job functions available include municipal judges, parks and recreation directors, public works directors, city treasurers, and planning and zoning administrators. MCH has extended its GetThere™ Guarantee of 100% deliverability to the city government file.

MCH also compiles files of many institutions that are often controlled by city governments, including police and fire departments, public libraries, and ambulance services.

County government information will be compiled and available for sale in the fall of 2006.

In addition to many direct mailers, MCH's clients include the National Geospatial-Intelligence Agency, which maps the locations of emergency services and evacuation sites on satellite mapping systems for emergency preparedness and response. MCH also provides custom telephone research and data processing services. The 78-year old company is located in Sweet Springs, MO. For further information about MCH and the services offered, visit the company's Web site at www.mailings.com.