

# B2i: Business-to-Institution

## Optimizing the Value of the Purpose-Driven Industry



## Consider the potential.

Today, more than 2 million institutions conduct business in the United States. They represent one-third of the U.S. gross domestic product (GDP) — or \$4.1 trillion a year.<sup>1</sup>

Institutions — aka the .org, .gov and .edu segments — were created to serve the common good. They include healthcare facilities, places of worship, educational organizations, government entities and other nonprofits.<sup>1</sup>

As business prospects, institutions represent enormous potential. The average institution employs nearly twice as many workers as the average for-profit company. Institutions dominate many cities' top 10 lists of employers.

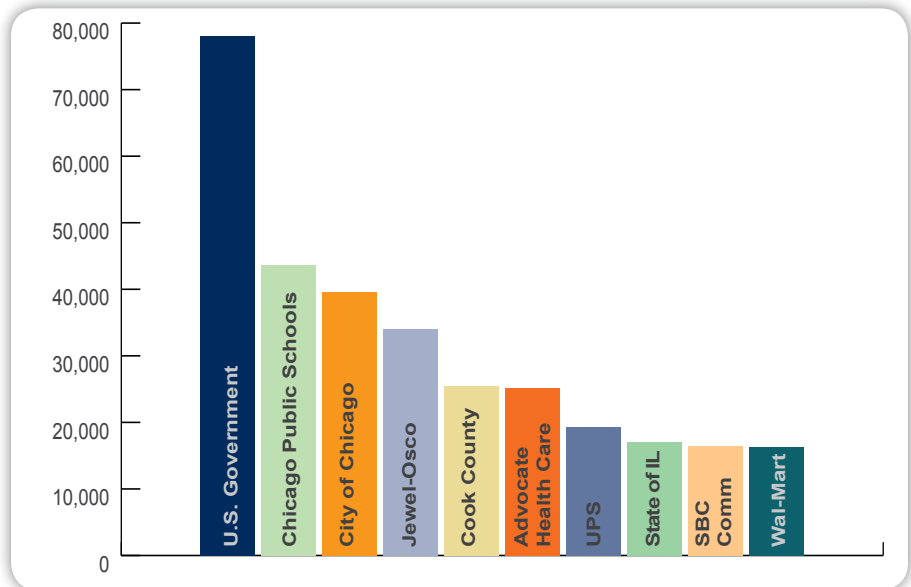
And the institutional market is thriving. Since the 1950s, institutions have grown twice as fast as traditional for-profit businesses — by 4.5 percent vs. 2.4 percent.<sup>2</sup>

No wonder more and more companies are beginning to tap this lucrative market.

But many firms quickly hit roadblocks as they attempt to use their typical business approach with institutional customers. You'll need to adapt your marketing efforts, the way you conduct business and the manner in which you handle billing and payments to work with institutions.

## Where the workers are

Hospitals, schools and government offices rank as the largest employers in many cities. Chicago's top 10 employers, for example, are:



## Divide and conquer.

Use relevant, well-documented lead generation tools when targeting institutional customers. The data you prospect with will depend upon the type of institution you are targeting.



### Churches

Denominations, congregation size, primary language spoken, and buildings of worship.



### Hospitals

Size, geo, hospice care, nursing homes, ambulance services, dialysis centers and so on.



### Education

School districts, public versus private, religious-affiliation, funding, enrollment, community wealth scores, etc.

This paper will discuss some common pitfalls that businesses encounter when entering or expanding their presence in this complex market and some simple ways in which you can make doing business with institutions as profitable as possible.

## Targeting Institutions.

One of the most important things to appreciate about institutions is just how different they can be from one another. Take local and county governments for example. 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. The county universe, on the other hand, is small in relation to the local municipal universe. Counties are also highly stratified by population. You only have to market to the largest counties to reach 50% of the US population.

Clearly you need to market to each of these areas in different ways.

Before you pick up the phone to call a prospective customer, you'll want to do your homework and sharpen your focus.

### Who do you want to do business with – really?

For example, do you want to conduct business with Denver Health or a smaller Douglas County, Colo., hospital? Would your marketing efforts be better served starting with a smaller church, say St. Anthony Shrine, rather than the Archdiocese of Boston?

Specialized data vendors can help you narrow your focus to pinpoint key decision makers and ensure you're making the right contacts.

<sup>1</sup>"Beyond B2B — A New View of the Institutional Market," MCH Strategic Data white paper, 2007

<sup>2</sup>"B2i is the B2B market for 2011," MCH Strategic Data

### Understand the chain of command.

Much like commercial businesses, every institution has a unique organizational structure. The person who green-lights purchasing, for instance, isn't likely to be the decision maker you need to target.

Purchasing departments make rules, establish processes, and ensure compliance with mandates but they don't make purchasing decisions. From a marketer's standpoint, this upside-down nature of decision-making at institutions can make life difficult. The decision makers with whom marketers want relationships are hidden behind the formality of institutional finance departments and purchase orders.

Tracking the origin of orders is very difficult. In a business environment, it is often possible to identify a sole decision maker. In an institution, you may have to reach out to many and still also rely on word of mouth among peer groups. Because decision maker names are often not available or not easily identified on purchase orders, many don't appear on response databases. Marketers who primarily rely on response databases are unintentionally doomed to underperform in the institutional market.

### Understand funding issues.

Institutions don't sell products and services like businesses do. Funding sources often include contributions, fees, endowments, taxes, tuition, grants, and bequests – all with strings attached.

Take the Boston Public Library. You could make contact with top administrators who oversee the entire organization, but:

- Each department within the institution — fiction, periodicals, children's literature and so forth — may have its own decision-makers.
- The Library also has more than 100 separate funds, some quite small, and each must be used in accordance with its own restrictions.
- And, the Library has 26 neighborhood branches — each with its own managers.

#### Definitions to note:

**Clean-up spending** - Using left over budgeted funds before the end of a fiscal year to avoid losing them.

**Use It or Lose It** – When allocated funds are not spent by the end of the fiscal year, leftover funds are returned to the general budget and the department's budget for the following year may be reduced.

This complicated structure isn't limited to libraries. You'll find similar divisions within other government entities, educational, faith, nonprofit, and health care segments.

County and local governments rely on taxes for about 40% of their annual revenue. Counties rely on intergovernmental funding, while local governments receive a higher percentage of revenue from utilities and taxes.

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.

Property, general, and selective sales and income taxes represent the top funding sources for local and county governments. 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.

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

### Talk their talk.

You may be used to working with business leaders who have MBAs, are driven by market-based management practices and speak the language of business and management.

But institutional leaders are more likely to have earned their master's degrees in public administration. They understand organizational management, the nuances of working with legislators and nonprofit financial management. They're fluent in the language of public policy.

As a result, you'll likely need to tweak your pitch for the institutional audience. Something as simple as talking about "profits" and "revenues" can make you seem out-of-touch.

Talk their talk, and your message is more likely to get heard.

### What's that you say?

Be sure to use appropriate language and terminology when working with institutional clients. Their business speak differs from your traditional commercial clients.

For example, commercial clients likely use such words and phrases as:

- Revenue
- Process improvement
- Productivity
- Top line
- Profit
- ROI
- Non-compete agreement
- Bottom line

But institutional customers will be more prone to use terms like:

- Purpose
- Oath of office
- Policy
- Encumber
- Sharing
- Endowment
- Stewardship
- Service

### Timing is Everything

Timing is a critical element in B2i campaigns. In fact, it is so important that choosing when to launch your campaign 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. In contrast, businesses where managers are incentivized to reduce costs and maximize profits, managers in public institutions are incentivized to spend their entire budgets.

### Conducting Business with Institutions.

#### Forget business as usual.

Because institutions conduct business using funds provided by taxpayers, donors and grants, they must follow strict purchasing protocols. As a result, you'll need to tweak your own business practices to comply with your institutional clients' purchasing requirements and ensure prompt payment.

In institutions, the number of people involved in the decision to make a purchase is dictated by the amount of money being spent. For example:

- Small purchases (\$1,000 to \$5,000) may be a discretionary decision and could be paid for with a credit card.
- Medium purchases (up to \$25,000) typically require quotes, departmental collaboration and buy-in. The sales cycle may range from several days to months.
- Large purchases (over \$25,000) generally take several months to years to close. These purchases are planned and prioritized and the consensus of leadership is required. In many instances, the purchase may require extra funding, i.e. higher taxes, a bond issue, search for sponsors, or a full-fledged fundraising campaign.

Some 80 percent of government contracts are never put up for bid.<sup>3</sup> This happens for a couple of reasons:

**Budgeting.** If a project falls below a certain dollar threshold, an agency may not be obligated to issue a bid notice or RFP. Instead, they'll tap vendors they already know.

**Preferred vendors.** Many state, local and federal agencies work only with vendors they've established relationships with for these micro-purchases.

#### **Registration required.**

Before you even start doing business with the federal government, you'll need to:

- **Register with the Central Contractor Registration (CCR).** Government entities use this vendor database to award contracts and process procurement and financial transactions. Update or renew your CCR registration annually to remain active in the system.
- **Obtain a Commercial and Government Entity (CAGE) code.** Once you've registered with the CCR, you'll receive this five-character identification number. (Your subcontractors may also need a CAGE code.) The government uses this code to grant vendors security clearance, pre-award surveys, automate bidders lists, pay processes and supply sources.
- **Use the Online Representations and Certifications Applications (ORCA).** As part of CCR registration, you'll also need to sign up for the government vendor's ORCA database. This web-based tool replaces the paper-based "Reps and Certs" applications that businesses previously had to include with their proposals for government contracts.

Unfortunately, the requirements to qualify as a supplier to local and county government entities are as varied and numerous as your target market.

Some will utilize CCR as a starting point – syncing their own payables system with the contractor database, but individual billing and payment requirements will vary from there. It's much easier to get on a list to do business with the government than it is to get paid. Some require voucher returns, some require tax validation or any number of registration processes.

That said, don't wait until you haven't received payment to find out what you need to adjust. Get your hands on the original PO for the sale. This is what we like to call the "Golden Bread Crumb" of government payments. Usually, your instructions for payment are included within this document. If you don't find the information you need on the PO, check the local or county contractor website. Most will include basic vendor information or a liaison for contractor affairs there.

**Bottom line:** You may need to jump through some hoops with institutions before you can start cashing in on this profitable business opportunity.

#### **Accept their method of payment.**

Despite what you might have heard, institutions aren't entirely price-driven. An institution may have incentive to pay more upfront for long-term cost-savings, assuming their budget and spending regulations allow for the upfront expenditure.

Sometimes capabilities as basic as card acceptance and billing flexibility can mean the difference between no business and becoming a preferred vendor.

Many government agencies and funded institutions have widely adopted purchasing cards or specialized purchasing accounts as a preferred method of payment with specific vendors. These purchasing accounts help institutions save money — and internal headaches — by eliminating the paper-based P.O. process. They also give institutions more control during the buying process by instituting "purchase controls."

These controls were designed to reduce fraud and help organizations track spending. For instance, many agency employees must follow strict guidelines to make purchases. Your clients may be limited by the:

- Number and frequency of transactions they can make
- Amount they can spend per transaction
- Types of transactions they can make (These may be restricted by purchase order or product code.)

<sup>3</sup>"5 Tips for CEOs New to the B2G Market," Onvia.com

Specialized purchasing accounts also give institutions insight into purchasing trends by allowing them to collect Level III data on transactions.

As a vendor, you'll need to be able to accept your institutional clients' payment method of choice and work with the designated acquirer who will capture this data.

### **Contract compliance.**

If you sell a product that requires multiple purchases against a single pre-negotiated contract, you'll need to make sure that you can invoice according to those terms.

You may need to verify discounts at the point-of-sale, for instance — and certainly before billing. Otherwise, you'll spend your time and money managing invoice disputes.

And a government client may want its various branches or departments to be able to make purchases against a single contract that it has negotiated with you. Are you capable of handling hierarchical billing structures? Split, centralized or decentralized invoicing? Can you comply with your customers' standard billing requirements?

The 2001 National Defense Authorization Act, for instance, requires Department of Defense (DoD) contractors to submit payment requests electronically. In 2008, the DoD took this requirement a step further by mandating that contractors submit invoices using Wide Area Workflow.

**Bottom line:** If you want to do business with institutions, be ready to adhere to specific billing requirements.

### **Invoice compliance.**

Did you know: Some U.S. Government agencies will pay an "invoice" but not a "billing statement." So don't just submit your standard paper invoice to your institutional client and expect to get paid.

For example, your government client may also require additional data to verify and validate your invoice. Among the requirements:

- The assigned **merchant number and customer card number** must match an existing account within the accounting database.
- The **contract number** must comply with a valid contract number.
- The **product description** must match a product description on the contract.

### **Can you comply?**

Institutional clients may ask you to provide:

#### **Centralized billing**

Issue an invoice to a main location

#### **Decentralized billing**

Send separate invoices to individual locations

#### **Split billing**

Assign more than one cost center to a transaction

To complicate matters, these billing and payment processes vary greatly from institution to institution, from agency to agency, and from the federal to state to local level.

Consider the latest data on days sales outstanding (DSO) trends. The national average DSO is 40.4 days, according to the 4Q 2010 Credit Research Foundation Report. But vendors who used Wide Area Workflow cut this to 10 to 15 days. And other organizations conducting business with government agencies through e-procurement solutions achieved a 47-day average improvement in payment processing time.

Adapt to meet your institutional clients' needs, and you'll be more profitable in the B2i market.

**Bottom line:** If you can't customize invoices for government clients, you may wait a long time to get paid.

## Collecting from Institutions.

An institution might be an enormous, tax-funded entity and still not be credit worthy. Do your due diligence in the institutional segment just as you do with your business clients to ensure prompt payment.

### Credit-worthiness.

If you're invoicing on 30-, 60- or 90-day terms, you're inherently issuing a line of credit to an institutional client. To protect yourself, you need to make sure:

1. **The institution has adequate unobligated funds.** If an institution is seeking a line of credit for ongoing purchases, they should be able to provide financial statements indicating access to unobligated funding.
2. **The appropriate funds are unencumbered.** For a large, one-time purchase, make sure that appropriate cash is available to "encumber." This means your client's cash is moved from an "available to be spent" to a "reserved for a purchase" category. If not, can the institution pre-pay for the product or service prior to delivery?
3. **The institution adheres to grant restrictions.** If the institution is making a purchase with grant money, it may need to provide a qualified grant letter or other documentation to support the purchase. Otherwise, the grantor may not pay, which means you don't get paid.

When you're doing business with institutional clients against a line of credit, don't take credit worthiness for granted.

### Bankruptcy and late payments.

You've read the headlines: Some states and cities are facing bankruptcy. Know your rights as a vendor to government entities.

Under federal bankruptcy law, federal and state governments can't declare **bankruptcy**. But Chapter 9 of the bankruptcy code carves out an exception for municipalities, making it difficult for creditors to get paid. The good news is, these cases are rare. In fact, in the more than 60 years since Congress established this law, fewer than 500 municipalities have filed bankruptcy petitions.<sup>4</sup>

When it comes to **tardy payments**, you're protected by the Prompt Payment Act. This law allows you to charge government entities interest for late payments.

But the U.S. Treasury establishes the interest rate, which has declined from 5.75 percent in 2006 to 2.625 percent in the Q1 2011.<sup>5</sup> And the agency you're trying to collect from actually determines whether you qualify for the funding.

**Learn more** about protecting yourself and collecting outstanding payments at [USCourts.gov](http://USCourts.gov) and [Orrick.com](http://Orrick.com).<sup>6</sup>

<sup>4</sup>United States Courts, Chapter 9 — Municipal Bankruptcy, [www.uscourts.gov](http://www.uscourts.gov)

<sup>5</sup>Prompt Payment Act Interest Rate, Treasury Direct, [www.treasurydirect.gov](http://www.treasurydirect.gov)

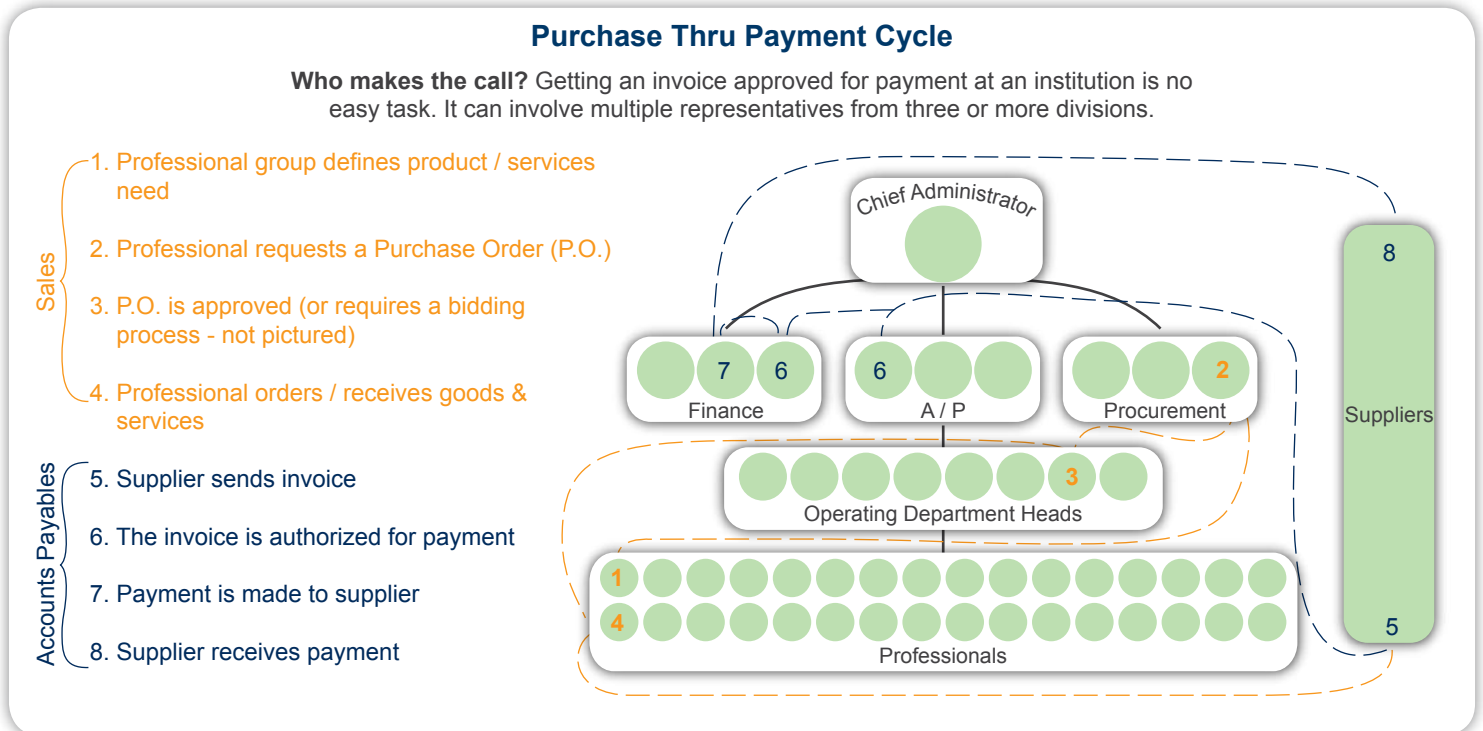
<sup>6</sup>"Municipal Bankruptcy: Avoiding and Using Chapter 9 in Times of Financial Stress," Orrick, [www.orrick.com/fileupload/1736.pdf](http://www.orrick.com/fileupload/1736.pdf)

## Purchase to Pay Process.

Don't expect your institutional client to adopt your billing and payment standards — at least not if you want to be reimbursed quickly. It can take longer to receive payment when working with government entities — sometimes up to 30 to 45 days after the work is completed.<sup>7</sup>

To reduce the chances of fraud, institutions often separate purchasing and payment. So the decision maker you targeted at the beginning of your sales cycle likely won't be the person providing payment authorization.

Make sure you understand the payables process so that you can help expedite payment and avoid collection costs.



## Profiting from Institutions.

Don't let the nuances scare you off. Too many firms are quick to throw in the towel when faced with the complications of conducting business with institutions. But savvy businesspeople know how to adapt to changing markets, business trends and client needs.

If you do your homework upfront and understand the unique business requirements and restrictions you'll need to follow, you can succeed with any institutional client. Remember, these requirements vary from institution to institution — and even within their segments.

Be flexible and adapt your marketing efforts, your account management approach and the way you handle billing and payments. By doing so, you'll easily navigate the profitable, yet complex, B2i market. And you'll set yourself on the right path to cash in on this profitable market segment.

<sup>7</sup>"5 Tips for CEOs New to the B2G Market," Onvio.com



**Multi Service. Innovation Where it Matters.**

Multi Service is a global transaction management company specializing in billing and payment systems. Founded in 1978, the company provides specialized credit card services to fleet, commercial and government clientele, including the United States Government. The company has offices in the United States, Mexico, the Netherlands and Australia. For more information, visit [www.multiservice.com](http://www.multiservice.com).



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