



Institutional and government markets: Strategies and initiatives

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Abstract

Institutional and government markets constitute not-for-profit markets. Their orientation is to serve people in their care. These markets have specific characteristics which are different from that of business markets. They are characterized by low budgets and captive patrons. Companies serving institutional markets establish and maintain separate divisions to the specific requirements of institutional buyers. Government organizations are the major and bulk buyers of goods and services in most countries. Government organizations have specified processes to be followed by suppliers. Government buyers require to be aware about their business environment. Doing business with government organizations poses a number of hurdles. Suppliers require to follow formal procedures, the processes may be time-consuming, and face bureaucracy. Governments are trying to streamline the processes by adopting online buying which overcomes a number of hurdles. Companies dealing with institutional and government markets require to be aware about all these aspects to succeed in the long run.

Keywords: institutional market, government market, low budget, bureaucracy, organizational buying

1. Introduction

Institutional and government organizations adopt similar buying practices as business buyers (Myser, 2006) [8]. However, institutional and government organizations are non-business markets. These organizations have additional characteristics and needs which make them different from business buyers. Institutional and government organizations constitute not-for-profit markets. Their orientation is to serve people in their care. Although they are not-for-profit organizations, their specific characteristics are important to those entities who conduct businesses with them (Canaday, 2008) [3]. The paper discusses about the various aspects of institutional and government markets. It also focuses on the strategies taken by institutional and government organizations.

2. Institutional markets

Institutional markets consist of schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care (King, 2003) [5]. These markets have sponsors which depend on the type of market and on their objectives. For example, Tenet Healthcare operates in business market and runs 50 for-profit hospitals in 11 states. It generates \$9.2 billion in annual revenues. However, the Shriners Hospitals for Children is a non-profit organization with 22 hospitals. The hospitals provide free specialized health care for children. Also, there is government-run Veterans Affairs Medical Centers. They are located across the United States of America and provide special services to veterans (Mielach, 2011) [7]. Each institution has different buying needs and resources.

The massive and expanding U.S. prisons economy is an example of an institutional market (Resnick, 2011) [8]. Around 7.4million Americans are in prison, on parole, or on probation. This number is more than the individual populations of 38 of

the 50 states. Government spending for criminal correction surpasses budget growth in education, transportation, and public assistance. For example, during the last two decades, state and federal spending on prisons grew by 127 percent. This is six times the growth rate of spending on higher education. U.S. prisons accommodate 2.3million adults and spend about \$74billion annually to keep those facilities running (Bluestein, 2012) [1]. This amounts on average almost more than \$32000 per year per prisoner. "One year in prison costs more than one year at Princeton", remarks one analyst. The prison market is a captive market. However, it provides enormous opportunities for companies looking to break into the prison market. "Our core business touches so many things - security, medicine, education, food service, maintenance, technology - that it presents a unique opportunity for any number of vendors to do business with us", says an executive at Corrections Corporation of America, the largest private prison operator in the country (Bluestein, 2012) [1].

Institutional markets have characteristics which are specific to them. They are characterized by low budgets and captive patrons (King, 2003) [5]. For example, hospital patients have little choice about whatever food the hospital supplies. The quality of food to be purchased is defined by a hospital purchasing agent. The buying objective is not profit. Food is provided as a part of a total service package. The objective is not to minimize cost. Patients receiving food of poor quality may complain to others. They may also fall sick due to the poor quality of food. This may damage the hospital's reputation. Thus, the hospital purchasing agent must search for institutional food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low (Mielach, 2011) [7].

Companies establish and maintain separate divisions to cater to the specific requirements of institutional buyers (Bluestein,

2012)^[1]. For example, the General Mills Foods service unit produces, packages, prices, and markets its broad assortment of cereals, cookies, snacks, and other products. These products serve the specific requirements of hospitals, hotels, schools, and other institutional markets (Mielach, 2011)^[7]. The Procter & Gamble Professional Division provides special services for professional cleaning and laundry formulations and systems to educational, health care, and other institutional and commercial customers (Mielach, 2011)^[7].

3. Government markets

Government markets include those government units-federal, state, and local-that purchase or rent goods and services for carrying out the main functions of government (Myser, 2006)^[8]. Government markets offer excellent opportunities for both large and small companies. Government organizations are the major and bulk buyers of goods and services in most countries. In the United States alone, federal, state, and local governments contain more than 88000 buying units that purchase more than \$1 trillion in goods and services each year (Gormley, 2009)^[4]. Government buying and business buying have various characteristics in common. However, there are also differences. The differences must be understood by companies that wish to sell products and services to governments. Companies require to understand various aspects of buying. They must locate key decision makers, identify the factors that affect buyer behavior, and understand the buying decision process (Gormley, 2009)^[4].

Government organizations have a specified process to be followed by suppliers. Suppliers require to submit bids. Normally, the supplier with the lowest bid is awarded the contract. Government organizations also make allowances for suppliers offering superior quality or reputation. They also favor those suppliers who promise and are able to complete contracts on time (Warren, 2010)^[12]. Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major research and development costs and risks, and in cases where there is little competition (Gormley, 2009)^[4].

Government organizations prefer domestic suppliers to foreign suppliers. Government organizations sometimes tend to favor domestic suppliers over foreign suppliers even at the cost of low quality (Gormley, 2009)^[4]. A major complaint of multinationals operating in Europe is that each country shows favoritism towards its national suppliers. This happens even when superior offers are made by foreign firms. The European Economic Commission is aiming to gradually reducing this bias (Canaday, 2008)^[3].

Like consumer and business buyers, government buyers require to be aware about their business environment (Myser, 2006)^[8]. Similar to consumer and business buyers, government buyers are also affected by environmental, organizational, interpersonal, and individual factors. Outside publics scrutinize government buying closely. Outside publics ranging from Congress to a variety of other private groups are interested in knowing how the government spends taxpayers' money. For this reason, government organizations require substantial paperwork from suppliers. However, suppliers often complain about excessive paperwork, bureaucracy, regulations, decision-making delays, and frequent shifts in

procurement personnel (Gormley, 2009)^[4].

Doing business with government organizations contains a number of hurdles. However, companies still prefer doing business with the government. There are several reasons for such preferences. For example, the U.S. government is the world's largest buyer of products and services. U.S. government buying amounts to more than \$461 billion each year. Also, checks issued by U.S. government do not bounce (Sahedi, 2012)^[10]. U.S. government buys a range of products from socks to stealth bombers. For example, in 2014, the federal government spent \$80.9 billion on information technology, \$20 billion of which was spent for transitioning to cloud computing systems (Sahedi, 2012)^[10].

Many governments attract potential suppliers by providing them with detailed guides describing the process of selling to the government (Warren, 2010)^[12]. For example, the U.S. Small Business Administration provides on its website detailed advice for small businesses seeking government contracting opportunities (www.sba.gov/category/navigation-structure/contracting/contracting-opportunities). The U.S. Commerce Department's website is also loaded with information and advice on international trade opportunities (www.commerce.gov/about-commerce/grants-contracting-trade-opportunities) (Sahedi, 2012)^[10].

In the United States, several major cities have General Services Administration which operates Business Service Centers. The centers provide information on the way government agencies buy, the steps that suppliers should follow, and the procurement opportunities available. Trade magazines also provide important and urgent information about schools, hospitals, highway departments, and other government agencies. Also, all government organizations and associations maintain websites which provide updated information and service (Warren, 2010)^[12].

Suppliers require knowing and understanding the system well. They also require knowing how to deal with large government purchases (King, 2003)^[5]. For example, Envisage Technologies is a small software development company that specializes in internet-based training applications and human resource management platforms. The company deals only in contracts with the government (Gormley, 2009)^[4]. 65 percent of its contracts are with the federal government. Envisage uses the General Services Administration's website to gain access to smaller procurements. Due to its efficiency, Envisage often receives responses within 14 days. Envisage understands the importance of large contracts. It focuses its attention seeking large and highly coveted contracts. A comprehensive bid proposal prepared by Envisage for any of these contracts is in-depth and can easily run from 600 to 700 pages because of federal paperwork requirements (Canaday, 2008)^[3]. The company focuses a lot on preparing a single bid proposal. It has spent as many as 5000 labor-hours over the course of a few years (Canaday, 2008)^[3].

Government buying is also not as rational as it is made out to be. Different non-economic criteria play a major role in government buying (Litvan, 1995). Government buyers may be asked to favor depressed business firms and areas, small businesses firms, minority-owned firms, and business firms that avoid race, gender, and age discrimination (Swibel and Novack, 2003)^[11]. Sellers require keeping these factors in

mind when they consider serving government businesses.

Companies that sell to the government may not always be marketing oriented because of a number of reasons (Sahedi, 2012) ^[10]. One of the main reasons is that total government spending is determined by the elected government officials rather than by any effort to develop the market. Government buying focuses on saving money and emphasizes on price. This forces suppliers to invest in technology for bringing costs down (Sahedi, 2012) ^[10]. Product characteristics are specified carefully in government buying. So, product differentiation is not of prime importance. As a result, advertising or personal selling may not matter much in winning bids on an open-bid basis (Gormley, 2009) ^[4].

Companies sometimes establish separate government marketing departments. Such companies include GE, Boeing, and Goodyear. Other companies sell primarily to government buyers, such as Lockheed Martin, which makes 84 percent of its sales from the U.S. government. Lockheed Martin acts either as a prime contractor or as a sub-contractor (Warren, 2010) ^[12]. These companies anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully, and produce stronger communications to describe and enhance their companies' reputations.

Companies also establish customized marketing programs for government buyers. For example, Dell has separate business units to understand and to meet the requirements of federal as well as state and local government buyers. Dell offers customized services on its official website dell.com that include special pricing, online purchasing, and service and support for each city, state, and federal government entity (Woyke, 2011).

Governments understand the growing importance and necessity of online buying. The Federal Business Opportunities website (FedBizOpps.com at www.fbo.gov) provides a single point of entry through which commercial vendors and government buyers can post, search, monitor, and retrieve opportunities solicited by the entire federal contracting community (Sahedi, 2012) ^[10]. There are federal agencies that act as purchasing agents for the rest of government. These agencies operate official websites supporting online government purchasing activity (Warren, 2010) ^[12]. These include the General Services Administration (GSA), the Defense Logistics Agency, and the Department of Veterans Affairs. The General Services Administration influences more than one quarter of the federal government's total procurement. It operates a GSA Advantage! website (www.gsadvantage.gov). The Defense Logistics Agency offers an Internet Bid Board System (www.dibbs.bsm.dla.mil) for purchases by America's military services. The Department of Veterans Affairs facilitates e-procurement through its VA Advantage! website (<https://VAadvantage.gsa.gov>) (Warren, 2010) ^[12].

The websites allow authorized defense and civilian agencies to procure office supplies, food, information technology equipment, and construction services through online purchasing. The General Services Administration, the Defense Logistics Agency, and the Department of Veterans Affairs not only sell merchandise through their websites but also establish direct links between government buyers and contract suppliers

(Sahedi, 2012) ^[10]. For example, the branch of the Defense Logistics Agency that sells 160000 types of medical supplies to military forces transmits orders directly to vendors such as Bristol-Myers Squibb (Gormley, 2009) ^[4]. Such online purchasing allows to eliminate many of the hassles and delays sometimes found in dealing with government purchasing. K&K (2018) (pp. 225-227)

4. Strategies for institutional markets

Companies involved in food business set up a separate sales division to cater to the requirements of institutional buyers (King, 2003) ^[5]. For example, Heinz produces, packages, and prices its ketchup differently to meet the requirements of hospitals, colleges, and prisons.

ARAMARK provides food services for stadiums, arenas, campuses, businesses, and schools (King, 2003) ^[5]. It has a competitive advantage in providing food for the nation's prisons. This is a direct result of refining its purchasing practices and supply chain management. Previously, ARAMARK merely used to select products from lists provided by its potential suppliers. At present, ARAMARK realizes that different institutional markets have their own specific requirements. The products need to be customized to meet the requirements of individual segments (Swibel and Novack, 2003) ^[11]. For example, previously, quality was compromised to meet food cost limits. It is difficult for operators outside the market to match the low prices. "When you go after business in the corrections field, you are making bids that are measured in hundredths of a cent", says John Zillmer, president of ARAMARK's Food and Support Services, "so any edge we can gain on the purchasing side is extremely valuable". ARAMARK searched for unique partners who could provide a series of protein products. The partners provided the products at price points ARAMARK never could have imagined before (King, 2003) ^[5]. The partners were knowledgeable about the protein products. They understood the chemistry of proteins and know how to lower the price while still creating a product acceptable to ARAMARK's customers. This allowed ARAMARK to cut down on its costs. ARAMARK replicated this process with 163 different items formulated exclusively for corrections (Swibel and Novack, 2003) ^[11]. Instead of reducing food costs by one cent or so a meal as usual, ARAMARK took five to nine cents off. ARAMARK achieved this while maintaining or improving quality (King, 2003) ^[5].

6. Strategies for government markets

In many countries, government is the major buyer of goods and services. Government requires suppliers to submit bids. Government evaluates the bids and often awards the contract to the lowest bidder. Although price is the major criteria, government sometimes awards the contract to suppliers who provide superior quality or have reputation for completing contracts on time (Warren, 2010) ^[12]. Governments also buy on a negotiated contract basis, primarily in complex projects with major research and development costs and risks and those where there is little competition (Gormley, 2009).

A major issue with multinational companies in Europe is that each country shows favoritism towards its nationals even when superior and better quality is offered by foreign firms

(Burrows, 2010). Such practices have reduced in recent times. Apart from that, the European Union also undertakes initiatives to remove the bias. Another challenge is the fluctuations in spending due to economic cycles and swings. When state governments suddenly cut back their spending, a firm like Cisco is likely to feel the effects. This is because Cisco makes 22 percent of its sales to the public sector (Burrows, 2010). The U.S. Government announced a long-term cut back of hundreds of billions of dollars in defense spending in 2011. More cuts were anticipated in the future. This affected the sales of many defense contractors (Sahedi, 2012) ^[10].

Spending decisions of government and government organizations are subject to public review (Gromley, 2009). For this reason, government organizations require considerable paperwork from suppliers. Suppliers complain about bureaucracy, regulations, decision-making delays, and frequent shift in procurement staff. However, the U.S. government spends a substantial portion (roughly 14 percent) of the federal budget on private-sector contractors. This makes it the largest and potentially the most attractive customer in the world (Woyke, 2011). Motorola Solutions was created when Motorola was split into two companies. It sells wireless communications equipment to public-safety agencies around the world. These agencies need state - of - the - art communications networks for police cars in a multibillion-dollar government market (Woyke, 2011).

The amount of revenue generated is large. Also, the number of individual purchases is also quite high. According to the General Services Administration Procurement Data Center, more than 20 million individual contract actions are processed every year (Sahedi, 2012) ^[10]. The cost of most items purchased range between \$ 2500 and \$ 25000. However, the government also makes purchases in the billions, many in technology (Sahedi, 2012) ^[10].

Government decision makers often complain that suppliers do not do proper homework. Government has varied customers – defense, civilian, and intelligence. Each of these customers have different needs, priorities, purchasing styles, and time constraints. Again, suppliers do not always focus on cost minimization which is an area of concern for government procurement professional (Warren, 2010) ^[12]. Companies who desire to be government contractors require helping government agencies see the bottom-line impact of products. Suppliers require communicating previous experiences and successful past performance. This may be influential when done through case studies, especially with other government organizations.

Companies provide government agencies with detailed guidelines for purchasing products. Similarly, governments also provide would-be suppliers with detailed guidelines describing how to sell to the government. Failure to follow the guidelines strictly may result in termination of contracts and also in legal battles (Gromley, 2009).

The federal government aims at streamlining the buying process from suppliers. It focuses on simplifying the contracting procedure and making bidding more attractive. Improvements include emphasizing on buying off-the-shelf items instead of customizing. The government communicates with vendors online to eliminate paperwork. The government

also debriefs losing vendors to improve their chances of winning in future (Sahedi, 2012) ^[10]. More purchasing is being done online via web-based forms, digital signatures, and electronic procurement cards (P-cards) (Sahedi, 2012) ^[10].

Federal agencies who act as purchasing agents on behalf of the government maintain their own websites. Authorized defense and civilian agencies can buy everything from medical and office supplies to clothing through the catalogs maintained on the websites (Warren, 2010) ^[12]. For example, the General Services Administration sells stocked merchandise through its website. It also creates direct contacts between buyers and contract suppliers. Any company which desires to do business with the U.S. government should ensure that it is in the Central Contractor Registration (CCR) database (www.ccr.gov). The database collects, validates, stores, and disseminates data in support of agency acquisitions (Sahedi, 2012) ^[10].

Many of the companies which do businesses with the government do not have a marketing orientation (Sahedi, 2012) ^[10]. However, some of the companies understand the importance of marketing and have established separate government marketing departments. Companies like Gateway, Rockwell, Kodak, and Goodyear anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully, and produce strong communications to describe and enhance their companies' reputations (Sahedi, 2012) ^[10].

6. Discussions

The institutional market consists of hospitals, schools, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Government organizations have bureaucracy which forces buyers to undergo a great deal of paperwork from their vendors. Government organizations also tend to favor open bidding and domestic companies. Suppliers must be prepared to adapt their offerings to the special needs and procedures found in institutional and government markets. Government markets are characterized by low budgets and captive patrons. The government market is vast and consists of government units – federal, state, and local.

The government units purchase or rent goods and services for carrying out the main functions of government. Government buyers purchase products and services for defense, education, public welfare, and other public needs. Government buying practices are highly specialized and specified. The process includes open bidding or negotiated contracts. Government buyers in the U.S.A. operates under the watchful eye of the U.S. Congress and many private watchdog groups. Consequently, they tend to be more formal and require many forms and signatures. They also respond more slowly and deliberately when placing orders.

7. Conclusions

The paper discussed about the various aspects of institutional and government markets. It discussed about the strategies and initiatives adopted by them to attract vendors. Institutional markets focus on providing goods and services to people in their care. Different institutions have different buying needs and resources. Serving people rather than making profit is the

objective of such institutions. Such markets are characterized by low budgets and captive patrons.

Government organizations are the major and bulk buyers of goods and services in most countries. They have a specified process to be followed by suppliers. Suppliers are required to submit bids. Normally, the supplier with the lowest bid without compromising on quality is awarded the contract. The process is more formal and may pose hurdles for suppliers. Government organizations tend to prefer domestic suppliers to foreign suppliers. Like consumer and business buyers, government organizations also require to be aware about the business environment. Companies serving government organizations sometimes establish marketing departments to cater to the business requirements. Now-a-days, to make the process faster and streamlined, government organizations encourage online transactions.

The discussions have both theoretical and practical implications. Based on the discussions presented, academicians may understand institutional and government markets better, conduct a further review of the different strategies, and suggest improved strategies for institutional and government markets. The discussions will sensitize the concerned people to understand the processes for institutional and government markets. Efforts were made to include the latest and relevant literature for understanding institutional and government markets. Future researchers and practicing may utilize the discussions done in the paper to delve deeper into understanding the changing requirements and develop strategies accordingly. They require keeping themselves updated about the latest trends and developments taking place in institutional and government markets.

8. References

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