
Industrial Marketing in Non-Profit Organizations

Larry C. Giunipero,
William Crittenden, and
Vicky Crittenden

Government figures and various authors have cited our country's movement from a manufacturing to a service economy [1]. One of the sectors often overlooked in this shift is the third sector, which is composed of non-profit associations and non-governmental community service agencies at national, regional, and local levels. The American Red Cross, American Heart Association, The Girl Scouts, and churches of all denominations are all examples of "third sector" or "non-profit" organizations (terms used interchangeably).

Peter Drucker recently termed the third sector "a major American growth sector that is not recorded in the economic figures," [2]. One study estimated that the third sector consists of approximately six million organizations, which spend \$250 billion dollars annually in the form of purchased goods and services [3]. Given such large expenditures, a more focused business marketing approach toward third sector businesses could prove very lucrative. It is apparent that third sector businesses fit the definition of industrial marketing as "human activities directed toward satisfying wants and needs of professional buyers and other individuals influencing purchases in commercial, institutional, and governmental organizations through the exchange process," [4].

Within the third sector, firms are taking a more businesslike approach to their operations and have become more bottom-line oriented. This bottom-line orientation stems from eco-

nomic cutbacks from government agencies and the realization that goals can be better achieved through improved cost management. With this in mind, third sector firms are realizing that more effective purchasing can lower their costs and allow more efficient use of limited resources. Thus, effective marketing to third sector firms requires an understanding of the purchase behavior within this sector.

While much research has been conducted toward understanding buyer behavior in the private sector and certain service sectors (such as health and education), no research has focused on the third sector. This sector also presents a unique situation for the buyer-seller interchange as it is often staffed and managed by volunteers who lack business knowledge, and often depends financially on donations from individuals and organizations who may be potential sellers.

RESEARCH SAMPLE & MODEL

The third sector environment was studied via a survey questionnaire which was mailed to 200 non-profit organizations. The questionnaire mailing resulted in 108 usable responses (see the Appendix for additional details).

The major questions that need to be addressed in the third sector are:

- What selection factors do third sector buyers consider when making purchases?

Address correspondence to Dr. Larry C. Giunipero, College of Business, The Florida State University, Tallahassee, FL 32306.

Non-profits take a more business-like approach

- What role does reciprocity play in source selection and supplier relations?
- Is community responsibility evident through purchases from small and minority owned businesses?
- What purchasing policies and control mechanisms are currently utilized?

Results from the survey, which examined organizational buying variables, were integrated into a model of the buying process to provide a conceptualization of buying priorities. Finally, a categorization scheme was developed to provide marketers with a framework when selling to third sector firms.

The descriptive model is presented in Figure 1. The major variables included in the model are: (1) supplier selection criteria; (2) relational issues; and (3) policies and controls. The model focuses on the purchasing rather than interpersonal variables—that is, on information sources, conflict resolution, specific types of buys, and so on. While these are important, the process of buying is affected most in this study by the above-mentioned criteria and the characteristics of the individual organization.

Selecting the Seller

Previous research has shown that buyers tend to select suppliers on the three major criteria of quality, price, and delivery [5]. A study of educational buyers found that after-sale service, and particularly, emergency service were other important factors [6]. These factors, along with extended payment terms and transportation costs,

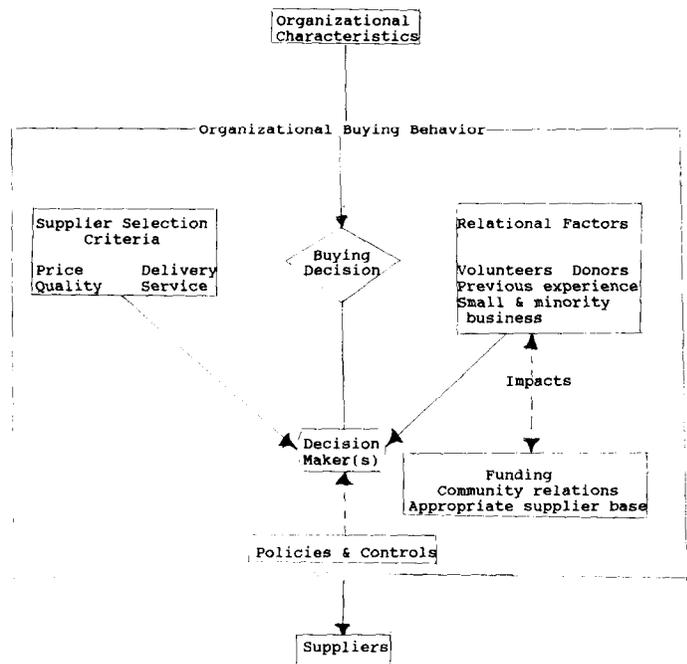


FIGURE 1. An Integrative Model of Organizational Buying Behavior in the Third Sector

were examined as major source selection criteria. Almost all of the respondents considered quality, price, and delivery when selecting suppliers. Furthermore, over 80% considered transportation costs and after-sale service in their evaluation, as seen in Table 1.

Business marketers will be pleased to learn that third sector firms judge products in the same manner as do their counterparts in the private and educational areas. In addition, marketers can negotiate harder for quicker payment since payment terms were not perceived as important as were the other selection criteria.

Relational Factors

Marketers, through product characteristics of quality, delivery, and pricing, invoke a degree of control in the supplier selection process. Relational factors are char-

LARRY C. GIUNIPERO is from the College of Business, Florida State University, Tallahassee, Florida.

WILLIAM CRITTENDEN is from Northeastern University, Boston, Massachusetts.

VICKY CRITTENDEN is from Boston College, Boston, Massachusetts.

Previous experience and the duration of time were deemed important

TABLE 1
Traditional Supplier Selection Criteria Used by Third Sector Organizations

Criteria	Percent Rating Important*
Product quality	98.1
Product price	98.1
Timely delivery	97.2
Transportation costs	88.9
After-sale service	84.3
Extended payment terms	47.2

*A scale of 1 to 4 was used: 1 represented "not important," 2 represented "slightly important," 3 represented "fairly important," and 4 represented "very important." Importance percentages were determined by the percentage of respondents responding with 2 or higher.

acteristics of the marketer's company from which the purchasing organization makes a subjective judgement. Relational factors evaluated included: previous experience with the supplier, purchasing from volunteers of time or donors of money, purchasing from minority vendors, and purchasing from small businesses. The first two relational factors were identified by Sheth [7], whereas the last two factors are concerned with the social responsibility often encountered by third sector organizations in their allocation of funds. In the third sector a judgment about the supplier's donation of time or money becomes a relational factor as well as the personal relationship between the individuals. Thus, relational factors tend to be more subjective than the previously mentioned selection criteria.

A large majority (88.9%) used previous experience with suppliers as a factor in awarding future business, as seen in Table 2. From a buyer's perspective, "previous experience" is the total view of a particular relationship. Typically, part is based on actual experiences and part is based on a perception of the supplier. This study indicated that a great deal of the previous experience factor was perceptual or based on the "last recollected event(s)" since only 7% of the sample had a formal method to evaluate suppliers' past performances. Marketers need to

TABLE 2
Relational Selection Supplier Criteria Used by Third Sector Organizations

Criteria	Percent Rating Important*
Previous experience	88.9
Donors of money	50.9
Volunteers of time	49.1
Small businesses	46.3
Minority-owned businesses	44.4

*A scale of 1 to 4 was used: 1 represented "not important," 2 represented "slightly important," 3 represented "fairly important," and 4 represented "very important." Importance percentages were determined by the percentage of respondents responding with 2 or higher.

inquire about how their performance is judged. For, in lieu of formal evaluation, the buyer's criteria may be performance during the last month of the contract.

Reciprocity

The criterion that ranked the next important following previous experience was the donation of time and/or money. The degree to which marketers address this issue will vary, but it appears that one out of two organizations in the study consider it an input when deciding from whom to purchase. Reciprocity is a delicate area, and marketers must take steps to ensure that donations and time are not being given merely in order to "buy" the third sector organization's business. A perception that an "influential member" is shaping the purchase decisions could lead to lost business and poor relations. Third sector marketers must also realize that a reciprocal buying approach may provide very short term benefits since other suppliers who learn of the situation will respond in a negative manner.

Reciprocity is not illegal per se unless it is shown to reduce competition. Third sector organizations will evaluate the effectiveness of reciprocity. Where the effect is to reduce or screen out other suppliers from competing, thereby raising effective prices paid for goods, reciprocal dealing would be inefficient. However, if the marginal funding raised is greater than the extra dollars spent on purchases, the organization benefits.

Purchasing is centralized and done by one person

TABLE 3
Selected Purchasing Policies Used

Policies	Percentage Using*
Competitive bidding	54.6
Use of purchase orders	39.8
National purchase agreement	22.2
Joint agreements with other organizations	17.6

*The methods are not mutually exclusive. An organization may have used one or all of the methods.

Social Community Relations

Less than one-half the the sampled organizations considered whether or not the potential supplier was a minority vendor (44.4%) or a small business (46.3%). This is surprising, considering the social purpose of many third sector organizations. Certainly, when sourcing evaluations are equal, these social criteria might aid considerably in projecting a progressive philosophy in the community. However, the percentage recognizing these as important buying variables is sizable, indicating a degree of understanding of the variables and the influence that they have on the sourcing process. Overall, this finding implies that marketers need to stress their product/service qualifications.

POLICIES AND CONTROLS

Purchasing policies are used to insure operational efficiency and fairness in supplier dealings while maintaining appropriate control over purchase expenditures. Purchasing policies examined included: (1) competitive bidding, which insures price competition and protects against favoritism; (2) formal purchase orders or contracts, which provide legal protection, reduce impulse spending, control expenses, and provide historical records; (3) national or group buying agreements, which use buying clout to obtain favorable pricing and terms.

Table 3 shows the percentage of third sector organizations utilizing selected purchasing policies. Only

54.6% used competitive bidding systems to establish prices paid for goods and services. As marketers know, the alternative is to use published list prices or negotiate prices. Negotiation is difficult unless the purchaser is aware of market prices or cost of production.

Forty percent of the sample indicated that they use purchase orders when buying. Of those using purchase orders, 75% made use of the written purchase order, while 18% relied upon verbal orders. Seven percent of the respondents used both written and verbal orders about equally. Lastly, a very small percentage of third sector organizations are attempting to gain purchasing leverage through the use of national agreements (22.2%) or co-operative agreements with other organizations (17.6%).

Purchasing Controls

Centralization of the purchasing function refers to who has the authority to buy. It occurs when all of the purchasing functions are made the responsibility of a single individual or department [8]. Decentralization of the purchasing function occurs when individuals in charge of functional areas are allowed to make purchase decisions. Coordinating source decisions in a centralized fashion improves the organizations' ability to control purchase expenditures, creates efficiencies through specialized buying knowledge, and ensures that all suppliers are treated fairly.

A majority of third sector purchasing organizations in this study were centralized either in one individual or in a committee. Forty-four percent of the responding organizations indicated that the purchase decision was made by one individual, and 21% of the organizations indicated that a committee made such decisions. This compares to 28% of the respondents who indicated that individuals in different areas made their own purchasing decisions. Of the remaining 7% of respondents, the purchasing decisions were made by the board, by all of the members, or by the parent organization.

Interestingly, although purchasing was typically centralized, an organization's small size often precluded the

establishment of a formal purchasing department. Instead, purchasing decisions were likely to be made by a top manager in the organization. Only one organization had an individual with the title of purchasing agent.

Chi-square analyses were conducted to determine if centralized purchasing tends to lead to more formal purchasing policies. The use of formal purchase orders was the only area to test significantly ($P < 0.008$). Analysis indicated that centralized purchasing departments were more likely to use formal purchase orders ($P < 0.008$). In third sector firms that centralize the purchasing process, the person(s) in charge of the process does not necessarily know, understand, or utilize purchasing policies and procedures. This reinforces a major problem of third sector organizations that have administrators well trained in a given professional area, but who lack managerial training [9].

Limits of Authority

Formal limits of authority restricting the dollar value of the purchase allow management to focus control on larger dollar expenditures. Fifty-two percent of the respondents had expenditure limits. However, only 39% were able to provide the specific dollar amount, which was most likely to be either \$50, \$100, or \$500. Purchases in excess of specified limits were most often approved either by the Board of Directors (41%) or the Executive Director (39%).

SEGMENTING THE THIRD SECTOR

Given the great variation in the third sector buying practices, a matrix was developed to provide a categorization of third sector responses to marketers. This matrix simplifies the range of situations that marketers will encounter, allowing them to approach each segment differently, as seen in Table 4. The two major criteria presented in the matrix are: (1) formalization of the purchasing function; and (2) buyer evaluation of the seller. Formalization of the purchasing function can be understood by analyzing the policies and procedures in place as well as the person(s) designated to make the actual purchase commitment. Buyer evaluation of the seller can range from being very subjective to objective depending on the selection factors used in evaluation and subsequent measurement of actual performance.

Quadrant 1 indicates subjective evaluation and a very low degree of formalized purchasing. These types

TABLE 4
Formalization of Purchasing Function (Policies and Controls)

Buyer Evaluation of Seller	Low	High
Objective	No controls. Evaluation based on price (3)	Formal evaluation of marketer. Prices either bid or negotiated. Have a buyer or designated individual (4)
Subjective	Perceptual evaluation. No controls. User buys (1)	Formal controls. Buying by committee or a designated agent. Reciprocity common (2)

of organizations most likely do not have a formal purchasing department, and users are permitted to buy. This situation will be encountered at smaller organizations where size and resources preclude formalization. In this situation sellers need to convince users of their product's merits.

As a firm grows in size or resources, it moves to quadrant 2. The realization that efficient spending can provide benefits creates impetus for a more formal approach to buying. These firms typically have someone assigned to the purchasing function—i.e., a controller, a managing director, or a committee. Controls over spending through dollar limits may be in place. However, the final source decision tends to be subjective and may be made largely based on relational factors. For example, there may be a strong obligation to do business with donors in spite of formal purchasing controls. Marketers need to be “insiders” or have established a good social relation with quadrant-2-type firms. Selling the user may not be enough, as the buyer or buying committee may override user decisions. Many third sector firms that are highly dependent on business donations fall into this category. Depending on the buying formalization and expertise, they will expect donors to fall into a competitive price range.

Quadrant 3 firms want to be objective in their buying decisions but lack the necessary expertise. These firms will tend to be price buyers. They will focus their objectivity on low price and make some perceptual guesses on quality and delivery in an informal manner. In these situations marketers need to focus their selling efforts on price, yet still discuss their product's quality and the firm's reliable delivery schedule. Firms in this

category will tend to move into either quadrant 1 or quadrant 4 over time, depending on their perceived level of success.

Lastly, quadrant 4 firms are the most advanced in their purchasing practice. They evaluate suppliers formally and use negotiations or competitive bidding to establish price. They have good knowledge of their product requirements and of the suppliers in the market. These third sector firms compare favorably in buying practices with their counterparts in well-managed private sector firms. Currently, they represent a small proportion of the third sector firms as is witnessed by the small percentage having formal supplier evaluation programs. Marketers need to perform on the three criteria of quality, delivery, and price to obtain business from these firms.

Implications for Practice

Supplier selection criteria are similar to those in the public and private sectors. Thus, marketers need to focus on price, quality, and delivery in product offerings. These product characteristics may be clouded by the seller's involvement in the third sector organization. Clearly, there is a split whereby some strongly consider buying from donors of time or money while others do not. Respondents in the latter group feel that only if price, quality, and delivery are comparable will it be of benefit to use donors.

Once selected, the decision of repeat buying is likely to be made on a perception of previous experience and not on a formal rating. This perception may be a very subjective one. While over 88% of the organizations surveyed indicated that they considered previous experience with the supplier in the selection process, only 7% formally evaluate their suppliers. Neither the size of the business nor the type of business (small or minority) is considered as a major factor in selection. Overall, marketers will be selling to a market that has great variations in buying practices and, although it tends to lag behind the public and private concerns in the area of controls and policies, it does value the correct mix when selling products. Meanwhile, relational factors will be very subjective and could involve participation in the form of monetary or time donations.

Given these data, marketers must be careful not to devote all of their time to selling the user. Such action may not result in a sale at centralized firms. While the user is important, it is imperative to interface with the buyer/selection committee. Secondly, marketers can ex-

pect to find a wide degree of latitude within centralized buying environments. For the most part, this study indicated source decisions are made by purchasing administrators without good purchasing controls. While expenditure limits are in place, those approving such expenditures (in most cases) lack strong purchasing expertise. Marketers should ascertain the approval limits and understand how final decisions are made prior to starting work on a purchase order.

To improve marketers' strategies in this diverse third sector, the matrix classification provides approaches that tailor specific market segments. Thinking of the third sector in this manner should enhance marketing effectiveness.

This research has highlighted a variety of third sector buying organizations and presented a descriptive model of the purchase process as well as a segmentation matrix for marketers. The third sector is so large that business marketers must not overlook it in their selling efforts. As purchasing expertise grows, the use of national contracting and formalized selection procedures will take on increasing importance, and the sophistication of marketers' selling efforts will need to increase. Currently, major moves in this direction appear to be several years in the coming.

APPENDIX

Research Sample and Characteristics

A mail questionnaire was developed to gather information. The questionnaire was submitted to two different types of pre-tests. First, it was critiqued by a peer group. Then, it was sent to third-sector managers who completed it and commented on the questions.

A directory of the approximately 700 third-sector organizations, in a county of a southeastern state, was used to solicit a random sample of 200 organizations for study.

The targeted county contained the state capitol and was, therefore, the location of most third sector organizations' major state offices. In addition, the overall demographics of the county suggested the existence of a good cross-section of autonomous third sector organizations. Overall, the working population compared favorably to that used in a previous study of strategic planning in third sector organizations in the southwest [10].

Preliminary telephone calls were made to each of the organizations approximately one week before the first

mailing was sent. This procedure provided advance notice and allowed for address and respondent corrections to be made. The questionnaire was addressed to the organizations' top administrators.

Questionnaire mailings resulted in a 54.8% usable response rate. This was considered satisfactory in light of previous results of mail surveys. Responses were received from the following major types of organizations:

Arts and Culture	(33.3%)
Education	(54.1%)
Environment	(85.7%)
Health Services	(47.1%)
Political	(66.1%)
Religious	(57.1%)
Service (Rotary, Lions)	(100.0%)
Social Services (child care, etc.)	(47.5%)
Sports/Recreation	(66.7%)
Other (employment assistance, legal aid, etc.)	(50.0%)

The response rate (in parentheses) for all organizations, except for Arts and Culture (33.3%), was greater than 47%.

Percentage of purchases to total revenue ranged from 14% to 22% over a 3-year period. Additionally, the total amount of purchase expenditures during this 3-year period almost doubled for the average third sector firm studied. The total percentage of purchases was far below two other studies, which reported purchases at 65% to 70% of total expenditures. The trend toward higher amounts and percentages of purchases indicates that purchasing can play an important part in the overall revenue

control plan. Additionally, the low percentages for purchases were possibly the result of the sample composition. About one-half of the responding organizations came from two groups—education and social services, which use more salaried employees, resulting in a lower percentage of purchases to revenue.

REFERENCES

1. Naisbett, John, *Megatrends*. Warner Books, New York, 1982.
2. Drucker, Peter F., The Non-Profits Quiet Revolution, *The Wall Street Journal* (September 8) (1988).
3. Hodgkinson, V. A., and Weitgman, N., *Dimensions of the Independent Sector: A Statistical Profile*. Independent Sector, Washington, D.C., 1986.
4. Haas, Robert W., *Industrial Marketing Management*. Kent Publishing Company, Boston, 1982.
5. Dobler, D., Lee, L. Jr., and Burt, D., *Purchasing and Materials Management: Text and Cases*. McGraw-Hill, New York, 1984.
6. Rao, C. P., and Kiser, G. E., Educational Buyers' Perceptions of Vendor Attributes, *Journal of Purchasing and Materials Management* (winter), 25-30 (1980).
7. Sheth, J. N., A Model of Industrial Buyer Behavior, *Journal of Marketing* (October), 5056 (1973).
8. Nielson, W. A., *The Endangered Sector*. Volunteer, Washington, D.C., 1979.
9. Independent Sector, Analysis of the Economic Recovery Program's Direct Significance for Philanthropic and Voluntary Organizations and the People They Serve, Report to the Board of Directors and Membership of Independent Sector.
10. Crittenden, William F., "An Investigation of Strategic Planning in Voluntary, Nonprofit Organization," dissertation, University of Arkansas, 1982.