SELLING INTO NICHE MARKETS

A Technology Monitoring and Information Service (TechMIS)

SPECIAL REPORT

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Over the last three and a half decades, Education TURNKEY Systems has monitored Federally-funded niche markets such as Title I and Special Education, and the E-Rate; TURNKEY has helped officials formulate policies conducive to technology use in such niche markets and have helped more than 200 firms enter -- or expand their penetration into -- these markets. While these markets, such as the rapidly growing special education niche market, offer great promise for some vendors, some pitfalls exist; below are suggestions on how companies can adjust their strategies to minimize pitfalls and effectively sell to these niches.

Develop In-Depth Knowledge about the Niche

Several of the largest niche markets -- such as special education, Title I, and E-Rate -- are complex; serious vendors must develop an in-depth understanding of the legal framework and the principles underlying these programs and how the programs operate. If such knowledge does not exist or cannot be acquired internally, then specialized training may be needed. Marketing and sales groups may have to "acquire the language of the niche," all of which have often used acronyms as well as 'verboten' phrases (e.g., "students with disabilities" rather than "handicapped students").

"Unlearn" Traditional Marketing Advice

Some textbook and reference marketing lessons and strategies do not apply to niche marketing. **For example, rather than targeting sales to high-wealth schools, the opposite should occur in Title I-oriented selling.** In 1999, for every new computer purchased by a high-wealth / low-poverty school, two and a half computers were purchased by schools with 75% or more poverty and almost half the funds used came from Federal sources. **Also, rather than targeting districts with large Title I funding, companies should focus on those districts with recent and unexpected increases in Title I funding.** These districts are much more likely to purchase relevant products and services. This school year, 250 districts nationwide will receive increases in Title I funding. Virtually all Federal education funding targets high-poverty schools and districts; and in most other ESEA programs, a large percent of their formula funds are based upon district Title I allocations. In fact, in 2001 the "digital divide" between high- and low-poverty schools virtually disappeared, if one considers only the ratio of students to computers, although the divide still exists with respect to access to Internet and online services.

Target Similarly Situated Districts/Schools Which are Required to Set Aside Title I and Other Funds for Specific Types of Activities, Products, Staff Development, and Services

In May/June 2006, USED made more NCLB fiscal policy changes through the Non-Regulatory Guidance route than all of the previous changes made since the passage of NCLB. Most of these changes will result in certain groups of districts which are "similarly situated" having to set aside portions of Title I and other Federal funds for certain types of prescriptive mandates. Hence, rather than targeting entire programs such as Title I or IDEA, firms with appropriate products would be well advised to target certain types of districts which will have "pots of money" to be used for very specific purposes and activities. While not exhaustive, below are some illustrative examples:

- Districts which have received preliminary allocation increases of $200,000 or more which also received significant increases this past school year. Many of these almost 300 districts will have unspent, previously-earmarked SES funds which will be reallocated and obligated between June 30 and September 30; the increased funding will not be available until October/November for a mid-year purchasing cycle.
- Districts with five or more schools identified for improvement for two years are supposed to earmark 20 percent for parent choice transportation and supplemental educational services (SES); those districts which have been approved by the SEA to provide their own SES programs provide an excellent opportunity for a firm to partner with a district. Prime candidates who are likely to want to provide their own SES will be the seven LEAs states can nominate for USED approval to provide SES before the parent choice transportation.

- If and when a district is identified for improvement, under the June 2006 USED Non-Regulatory Guidance, it must set aside ten percent of its total Title I allocation to be used for professional development; any unused portion of the ten percent earmark must be carried over to the following year and must be added to the ten percent earmark for that year for professional development. such districts are prime candidates for professional development products and services.

- Districts which have disproportionality, as determined by the SEA (i.e., over-representation of minority students in special education programs), must set aside 15 percent of their IDEA funds (between $1.0 and $1.5 billion) for early intervening services to be provided by Title I or another district office for borderline students in order to minimize the need to place them in costly special education programs. In addition to interventions which are based upon scientific research, certain types of professional development are allowed as an intervening service.

For additional examples, contact Charles Blaschke directly.

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<u>Position Products and Services to Increase Buyer "Comfort Level"</u>

Most of the key decision-makers in niche markets are administrators, such as special education district coordinators, principals, and technology coordinators. While instructional products should be positioned as proven, "research-based approaches to increasing student performance," positioning should also increase the "comfort level" of these administrators in several areas. For example, pricing options should accommodate niche funding and budgeting policies and processes such as the following:

- under certain conditions, a district can purchase a "high-ticket" instructional configuration using one or more ESEA funding sources under a lease/purchase arrangement; in this circumstance, new policies allow Federal funds to be used to pay for, not only the principal, but also the interest;

- if a principal is offered the option of a school-wide license for an instructional configuration where the price is the same regardless of the number of teachers or students who use the system, then he or she may be able to use IDEA / Special Education funds to purchase the program and allow the products to be used by non-special education students under the "incidental use" provisions. <u>Principals can mention this point in responding to disgruntled parents of non-special</u>

education students who feel that Federal funds are not being used to help their child.

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Although many district Federal programs are operated separately from district regular operations, these program administrators often want to be assured that the instructional configuration "fits within the district's overall curriculum and meets district / state standards."

Don't Assume District Officials and Principals are Aware of New Flexibility on Allowable Uses of Federal Funds

During the first 25 years of ESEA, Federal categorical programs such as Title I and Special Education/PL 94-142 (and now IDEA) were rather inflexible regarding use of funds. As a result, many state and local officials were guided in their decisions by an "audit mentality." Since the ESEA reauthorization in 1994, however, legislative amendments and a general "loosening" of strict interpretations have provided a much more flexible legal framework for, not only Title I, but also IDEA (the 1997 "incidental use" provision mentioned above is one very significant flexibility provision). Although Federal officials and Congressional leadership have strongly encouraged districts to take advantage of new flexibility provisions, many superintendents and even coordinators of Federal programs are not aware of these flexibility provisions and, in some cases where they are aware, they are not taking full advantage of them. A 1999 GAO report found that a major barrier to increased flexibility at the local level were State Departments of Education which in 25 states actually discouraged districts from taking advantage of new flexibility provisions such as commingling of funds in school wide programs, and from transferring "unneeded" Federal funds from one program to another.

Consequently, in approaching these individuals, vendors should not assume that basic policy and procedural awareness exists. Indeed, one of the most effective means of getting through to such coordinators (as noted below) is to make them aware of flexibility changes in Federal programs. For example, in a recent letter developed for a firm's direct marketing campaign, the opening sentence informed the reader that now he or she *"as a principal in a school-wide program can commingle Title I and IDEA funds for purchasing a student information system which will make life easier."* The letter drew an unusually high response rate. Opportunities for educating buyers about program opportunities abound. For another example, during Year 1 and Year 2 of the E-Rate, the majority of school technology officials responsible for E-Rate were not aware that they could use the so-called BEAR process (initiated in August 1998) to request refunds for purchases of eligible products made before discounts were applied. The majority were furthermore unaware that these refunds could then actually be used to purchase E-Rate ineligible products such as software, staff development, and hardware for student and teacher use. Vendors who can supply this kind of information to school officials will have an enormous advantage.

Use Consultative Selling to Reach Niche Market Decision Makers

<u>A key to successful selling is providing fresh and useful information to district administrators of Federal programs. Many vendors complain that it takes ten to twelve phone calls to get through to a large urban district's Title I coordinator.</u> One sure way to get immediate attention is to tell whoever answers the phone that you would like to make the Title I coordinator aware that they will be receiving an increase in Federal funding next year of approximately x amount. This type of information is usually posted on USED's website, but it can be two to three months before final funding allocations are sent to the states and then, to the districts.

Beware of hidden politics when calling on district administrators, however. "Dropping the name" of the district superintendent or the name of the Director of Special Education Programs may actually backfire since in many districts such niches represent "encampments" of an overall feudal system in which bureaucratic turf battles with Title I often occur. If a vendor is seeking districts that are likely to receive E-Rate refunds, it is much safer and effective to have a principal or other decision maker who wishes to purchase its product but doesn't have the money, to contact the E-Rate office to determine whether any E-Rate refunds are available for purchasing. <u>**A vendor who "calls cold" directly to an E-Rate office, is walking through a "political minefield."**</u>

If a vendor provides new information about funding increases or other items noted above, the likelihood is high that these individuals will call back later about updates, etc., which can lead to a long-term professional relationship.

<u>Vendors Have to Be Prepared to Move Quickly to Take Advantage of Targets of Opportunity</u>

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Vendors have to be flexible in several respects to take advantage of opportunities. One such opportunity occurred early in January 2001 when USED announced that 380 school districts and others, who had applied 14 months earlier but had been denied funding, were being allocated approximately $220 million under the 21st Century Community Learning Center grant program. Concerned that the new Administration might attempt to reduce the almost 100% increase in funding for FY 2001 when it took office, the Clinton Administration decided to fund these highly-rated proposals that had been turned down for funding in May 2000. **Several firms that had the flexibility to deviate from their overall sales plan were able to take advantage of this situation and many of the districts receiving "unexpected funding" decided to resurrect their after school proposals with products and services from these vendors.**

Successful selling also requires good timing in these niche markets. For example, the funds allocation process, and hence the purchasing cycle, have changed dramatically over the last few years in Title I and Special Education as the result of increased Congressional use of "advanced funding." In 2005, districts received 40% of their Title I funds in July or August with the remainder sent out a week before Thanksgiving. For this coming school year, only 30% will be allocated this summer with the remaining withheld until after October 1, 2006. Many firms which have marketing and sales plans based upon traditional K-12 purchasing cycles and who are not able to reschedule and reallocate budgets to accommodate the change in the major purchasing cycles will miss this year's cycles which are likely to be October / November 2006 through February / March 2007, and then May-June through September 2007.

Take Advantage of "Funding Uncertainties" That Can Generate Sales

In most Federal programs, there has always been a funds allocation dilemma between "things" and "people." For vendors of "things," the major competitor for the Federal dollar is teacher salaries. During the last two decades, Federal budget uncertainties have arisen and have influenced purchasing patterns. For example, in the mid-1990s, then-Speaker Gingrich led the newly elected Republican Congress to rescind about 30% to 40% of Federal education funding mid-year; many districts were "burned" when they found out there weren't enough Title I funds, for example, to cover the last three months of Title I teachers' salaries. Several positive opportunities created by funding uncertainty exist for school year 2006-2007. For example, for the 2006-07 school year, we have identified approximately 160 districts which are scheduled to receive a 20 percent increase in Title I funding which is at least $50,000. While these increases are justified in most cases, the preliminary allocations could also represent mistakes. For example, Plano (Texas) Independent School District, is scheduled to receive an 84 percent increase which Plano officials don't believe. None of the actual increases will be distributed to these districts receiving large percentage increases until November which may be too late to start new Title I programs mid-year; hence, many of these districts will be purchasing products and staff development as “investments.” Similarly, many districts will comply with USED guidance issued in late August to earmark up to 20 percent of Title I funds for potential choice transportation and supplemental education service costs if districts have one or more schools identified for improvement. Most of these districts will not incur such costs; beginning next May, many will be expending those unspent funds before September 30, 2007.

Creative Financing Assistance is Critical to Closing Large Sales

A central aspect of consultative selling is the ability to assist potential customers or clients in financing their purchases from multiple Federal funding sources and in justifying the use of various funding sources for certain components of an overall instructional solution. Many of the above tips on selling come together at this phase building upon the knowledge about funding flexibility and what is now justifiable and allowable. While Federal funding for programs such as Title I and IDEA for the 2006-07 school year have plateaued, there do exist certain types of districts and schools faced with sanctions under NCLB that are required to set aside funds for specific purposes (SES, professional development, curriculum replacement, etc.). Firms with appropriate products should target these groups of districts. Through a joint venture with MCH, a CD-ROM will be available this summer with suggestions as to what district mail lists firms should select depending upon the type of product or service they provide.

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