How to Weather the Recession as a Membership Organization

Meeting Your Challenges Head On

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Association leaders are weary of waking up every morning braced for what the day will bring. Membership and conference revenues will be different in three or six months than it is today. How big will the change be, and which of *your* programs will it affect? Support will change as corporations adjust to their own dramatic changes in business conditions. Investment earnings used to subsidize operations will shrink as investment values and returns plunge. What will the impact be on *your* organization?

While you may not yet know the answers to these questions, by now it's no doubt clear that:

- Business as usual won't do anymore. It's time to adapt and transform.

- Active engagement with today's challenges increases your likelihood of emerging from the recession with important services in place.

- Going it alone won't work. It is in working with others that leaders find the best ways to generate solutions and hope for the future.

It's time to adopt new tools and approaches for responding proactively and nimbly to changes in income. Such tools will be critical to your ability to continue delivering as much mission-related benefit as possible within available resources, and adapt to the future as it unfolds.

Make the most of what you have

You may already have organizational assets (financial and non-financial) that you can make more productive. Use this approach as you look for ways to increase income and decrease expenses.

1. **Examine the balance sheet**. What assets might produce income if better activated or directed to a different purpose?

- Are you wringing every possible cent out of excess cash and collecting receivables as quickly as possible in order to avoid short-term borrowing?

  Redirecting part of its accounting staff time to streamlining billing and collections processes and staying on top of overdue receivables can result in improved cash flow, allowing the organization to pay off its line of credit.

- Are existing assets appropriately protected? Are your investments appropriately diversified and insured? Are other assets appropriately insured?

  Reexamination of insurance coverage limits and terms can allow you to reduce premiums by increasing deductibles in low-risk areas. Implementation of a new loss prevention program can allow insurance agents to advocate for better pricing in workers compensation and professional liability.

- Are you making the best possible use of physical space and equipment? Is there a way to make this fixed investment available to others and earn some income or expense relief from it? Is occupancy expense an appropriate share of the budget you expect to be able to fund in the next few years?

  When your office space lease came up for renewal, take advantage of soft conditions in the local real estate market and negotiate a reduced rate for a two-year extension. Work with an architect to redesign office layouts so that a partner agency can move in and sublease a portion of the existing square footage.

2. **Move to your activities.** What is the bigger story told by the statement of income and expense?

- Does your membership dues structure reflect the cost of providing valuable member benefits?

  Evaluating individual member benefits and the costs related to each one can lead to challenging the status quo membership model. Modeling alternatives can help you identify a valuable member benefit currently bundled with all other benefits which could become a profit center of its own.

- Do association leaders know which programs operate at a surplus, which operate near breakeven, and which require varying levels of subsidy? How recently has the board discussed the implications of this "portfolio" of activities, and whether the mix of subsidies appropriately reflects and carries out the organization's mission?

  A clear process for comparing each program's benefit to mission against the resources required to produce that benefit, facilitated by a third party, can help you gracefully exit a "legacy" service that had long used a disproportionate share of its general operating funds.

3. **Don't forget your non-financial assets.** Are the right people doing the right things? Talented, motivated, productive staff and volunteers are the most essential asset of all. Without them it is not possible to do good work. Are you applying the best human capital to all aspects of your mission?

   A young entry-level manager at a membership organization spoke up with new insights about operations during the annual budget process. When income began to decline in the new fiscal year, she agreed to help design and lead a contingency planning process. Her innovative ideas and fresh voice helped motivate broad staff participation and energy for proactive change.

Contingency plans

Prepare or revise your operating budget in a way that acknowledges uncertainty in revenues and builds in processes that will allow you to respond quickly and wisely through the year.

1. **Identify trigger points.** Develop a contingency planning tool that allows each program to envision and model multiple income scenarios and adjust spending to live within the income projected in each scenario. Then articulate the "trigger points" or conditions under which the organization must implement one or more programs' contingency plans.

   If participation in a mature program drops to 80 percent of planned outcomes on a year-to-date basis, and pricing as been inelastic due to economic pressures, then the manager implements agreed-upon expense reductions or program restructuring.

   It can be helpful to define in objective terms, what a financial crisis would look like for the organization, in order to come up with these conditions.

2. **Cautiously consider an intentional deficit**. Determine whether the association has sufficient net assets and cash that you can afford to incur as an intentional deficit.

   One association that relies heavily on surpluses generated from a trade show that has now lost attendance has developed a two-year plan for spending down a portion of its healthy net asset balance. Action plans specify the types of decisions and choices that will have to be made at the end of the two years if funding has not been restored and budgets have not been balanced in other ways.

   This is a risky departure from good financial management practice and should only be considered by organizations that a) have strong cash and net assets positions and b) have committed to making whatever fundamental changes they must in order to get back to balanced budgets in subsequent years. It is an interim strategy that buys the organization and its members some time, and it must never be used to deny the reality of a need to adapt to the external environment.

Put smart, clear boundaries around the amount of deficit to be budgeted, and monitor actual financial results against the detailed budget even more carefully than in balanced-budget times.

Restructure, reorganize, engage

Many associations have already spent several years cutting expenses in response to funding cuts. For these organizations it will be impossible to continue producing the current level of services in the same way for less income. In these settings, leaders need to find new ways of operating; waiting it out until things get back to normal is not an option. Consider the full continuum of options, including:

1. **Restructure.** Consider spinning off activities that don't truly fit the mission or that require a level of subsidy your organization can no longer afford. This could start out as a "foster care" arrangement of sorts with the other organization picking up the program for a period of time before final arrangements are agreed upon.

2. **Reorganize.** Merge with an organization that has a vision, mission, and values similar to yours. Often seen as the very last resort, this strategy must be viewed through your members' eyes. Merger may be the best way to keep vital services in place for your membership—to maintain your mission.

3. **Engage with Others.** Identify peer associations that are more efficient than your organization in certain aspects of service delivery; explore how to restructure and combine forces so that clients get the best of all efforts within the resources available. This might mean combining forces with another provider to accomplish portions of the administrative work load.

   Carefully analyze and compare the costs and benefits of all of these options before proceeding.

Communicate, communicate

Develop an active "intelligence" function to keep leaders informed about internal and external changes.

1. **Members.** Keep your members informed about the impact and quality of your organization's programs; justify your value proposition particularly to employer supported members looking to cut expense. The education and networking your organization provides can be even more valuable in uncertain times.

2. **Staff.** Keep employees informed about the organization's economic realities and what you as leaders are doing about it. Fear can be your worst enemy in difficult times. It saps the energy of even the most talented staff and diverts their time and talent into unproductive speculation. Share good news and even small successes with staff; find ways to help them remain hopeful about the future.

3. **Board of directors.** Keep the board informed, engage members wherever possible in contingency and communications plans, and be specific with them about what you need them to do. Tap board members' financial savvy and their ability to think strategically about your organization's short- and long-term success. A board that actively partners with staff leaders is an important asset when the organization must make difficult choices.

   One organization, rapidly approaching the moment when it would no longer be able to meet payroll or pay rent, was in denial. They were wishing that all would be well and did not bring the board in on the details. After an intervention, the CEO went to her board with the hard details. Once they had good information, their response was to kick into high gear. They began meeting weekly and *planning for new revenue raising measures with the board of directors as an active partner, the CEO moved quickly to make change.*

4. **Others in the sector.** Learn about strategies that do and don't work from the leaders of associations similar to yours, as well as from other parts of the sector.