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# Shaky economy propels outsourcing

*Groups turn to outside firms for savings, expertise or complete management of some member services*

**By Joseph Enoch**

In a precarious economy, a growing number of associations of all sizes that are trying to keep paying rent and their full-time employees are following the path of for-profit companies who have for years used outsourcing as a means to save money.

The idea that a nonprofit organization would outsource any of its operations to a for-profit association management company (AMC) is not new, but statistics show it is a rapidly expanding trend and experts agree it will continue.

We are seeing more requests for proposals than we ever have and I've been in the business for 30 years," said Richard Cristol, president of the Kellen Company, one of the largest of the 676 AMCs worldwide.

That's a 32 percent increase from 1995, according to AMC Institute statistics from 2006, the latest year available.

Smaller associations are turning to AMCs to operate everything from the top down—completely eliminating the need for traditional overhead such as rent, phone lines, computers and employees, said Bob McLean, president of REM Association Services in Arlington, Va., an AMC with just seven clients.

"What we are finding most frequently is that associations look to us when they are unsure they need staff 12 months of the year, unsure if they have the talented, experienced individuals that they need for that functional area, or, they are just unsure how to proceed and would rather work with an organization that has experience in that functional area," McLean said.

## An option for large groups

The other model, more commonly used by larger associations, is to outsource components of their operations, such as human resources or public relations.

"Larger associations are coming to us because they're trying to hold down their staff size," McLean said. "They don't want to increase their overhead; they don't want to increase their payroll; they're unsure whether this is going to be a long-term product or project and more often than not they lack the expertise in the area they are expanding into."

Some companies specialize in providing services in particular areas, such as The Magazine Group, which designs, writes content, edits and publishes magazines, newsletters, web sites and videos for about 50 associations.

Associations outsource their publishing to The Magazine Group because they don't have the ability to put out a high quality publication for their members on their own, president Jane Ottenberg said.

"That's our core competency and I think associations want to outsource because that's not their core competency," Ottenberg said. "In the end you're also not hiring people that you don't know how to manage because it's a totally different field."

## Not necessarily cheaper

In fact, all the experts CEO Update interviewed said most associations choose to outsource because of the expertise a for-profit AMC offers, and that there are occasionally no cost benefits.

"I don't know that it is as much saving cost as it is improving the quality," Ottenberg said.

John Francis, president of the board at the AMC Institute and president of The Harrington Company, an AMC in Minneapolis, said, "Organizations . . . are trying to do more with less and take advantage of the shared resources. I think it's also the expertise. Smaller associations may not be able to afford all the expertise as the world gets more complicated."

The costs tend to vary widely depending on the AMC and services being provided.

"We work with clients that spend $100,000 a year and clients that spend $5 million per year," Ottenberg said. "It varies so much."

McLean said, "We can be talking about as little as $40-$50 per hour for some services and several hundred for others. AMCs may charge by the hour or they may charge on a project basis. ... But the trend is more toward an hourly basis."

Cristol estimated that association staff overhead, including physical space and equipment, typically will run 40 to 45 percent of the annual operating budget.

"So if you're looking at an association with a $2 million budget, you're probably talking somewhere in the range of $800,000 to $900,000 for overhead. ... Our fees are pretty consistent with those ratios."

Outsourcing can have its drawbacks, though, warns Francesca Dea, principal of Gordian Solutions, LLC, an association consulting company in Washington, D.C.

"The most fundamental reason for outsourcing is whether another group can do it more efficiently and effectively than your organization," Dea wrote in an e-mail. "If the answer is yes, then outsourcing will free time and resources to focus on the activities that you are uniquely qualified to provide. (But) an organization should not consider outsourcing anything it would consider a core competency or unique value provided to members."

One association found this out the hard way after they outsourced their education department.

"They neglected to consider that education was one of the primary value-added benefits that members sought from the association," Dea wrote. "The outsourcing company had an expertise in online learning but not in the particular industry (which was highly regulated). The result was that members no longer felt they were receiving the type of education they needed and by the time the association determined they had outsourced a core competency, they had to spend years trying to rebuild something that simply needed some updating originally."

Dea suggests both associations and AMCs should avoid signing a contract that does not contain a termination clause.

"A strong relationship is built on mutual trust but also the understanding that things don't always work out regardless of the best intentions. It is important for there to be a reasonable 30-60 day termination option to avoid continuing to work in a partnership that isn't effective. If a consulting company or an organization is unwilling to keep the termination clause option, the signees should consider why."