Are AMC-Managed Organizations Recession Resistant?

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July 2010

Summary: *The current economic climate is having an impact on associations, just as it is on virtually all business sectors. This report on a recent study shows that until 2007, about 30% of all organizations with up to $5M in annual revenue operated at a loss, but organizations employing their own staff, leasing their own office space and incurring their own capital expenses (aka: standalone) were nearly twice as likely to have ended 2008 with deficits than organizations managed by Association Management Companies (AMCs). More than 50% of standalone organizations with up to $5M in annual operating revenue operated at a loss that year. The reduction for AMC-managed organizations between 2007 and 2008 was a nominal 7%. Two-thirds of AMC-managed organizations reported a surplus in 2008. Therefore, the answer to the question posed in the title would seem to be a resounding "yes."*

This is another evidenced-based study demonstrating the benefits enjoyed by many of the 1,500+ associations under management by AMC Institute member firms. Organizations managed under the AMC model and the standalone model are largely the same in terms of size, type, tax exempt status and age, except that AMC-managed organizations are enjoying valuable benefits not experienced by standalone organizations. Given the harsh nature of the current economic conditions, these benefits may make the difference for survival.

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I. Findings

There's no scarcity of news and reports about the recession's punishing impacts on associations. However, none of these reports distinguish between the two major management models used by associations: standalone and AMC-managed. For purposes of this report, a standalone organization employs its own staff, owns or leases its own office space and shoulders its own capital costs each year.

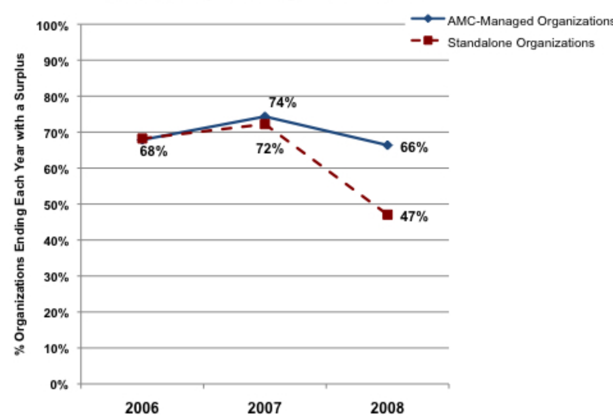
This study was modeled after a recent study reported in October 2009 by *CEO Update* that found the number of associations operating in deficit mode in calendar year 2008 doubled since just the year before.[1] The study was conducted to determine if the management model makes a difference in terms of an association's performance.

Mark Graham, Managing Director of *CEO Update,* reported in the 2009 study an average of 24% of national associations and prominent nonprofits operated at a loss in 2006 and 2007, whereas more than 48% of these same organizations operated at a loss in 2008. Graham confirmed that the population studied for this analysis consisted exclusively of standalone organizations. The data used in the *CEO Update* study were total expense and revenue data reported on 990 tax returns for each organization for fiscal year ending (FYE) December 31. The size of the organizations in the *CEO Update* study ranged from just under $2M in annual revenue to some of the largest national associations in the U.S.

The *CEO Update* study was repeated using a smaller sample of 109 standalone organizations with up to $5M in annual revenue for FYE December 31 for the same three-year period, and comparing their performance to a sample of 113 AMC-managed organizations with up to $5M in annual revenue. The observations are striking in two respects. First, the direction and magnitude of the observations were very similar to those found in the *CEO Update* study. In this latest study, the two-year average for 2006 and 2007 for standalone organizations operating at a loss was 30% – slightly higher than the 24% observed in the *CEO Update* study. For 2008 the percentage was 53% compared to 48%, as shown in the *CEO Update* study. Looking at this from a deficit perspective, more than half of standalone organizations studied operated at a loss that year.

The second finding is for 2006 and 2007, 32% and 26% respectively of the AMC-managed organizations studied operated at a loss for those two years. However, this number rose to only 34% in 2008, reflecting virtually no change due to the difficult economic conditions of the current recession. Chart #1 displays the surplus data:

Chart #1: Percentage of Organizations Operating in Surplus by Management Model



Clearly, this comparative study of standalone to AMC-managed organizations contains limitations. Random sampling techniques were not used to select the two samples studied. Further, the profile of organizations in the groups was not consistently matched by size, however, as previously stated, they were all under $5M in annual operating revenue for fiscal year 2008 (one organization in each study group was slightly over $5M in 2006). Despite these limitations, the profiles of the two groups were quite similar, and the observations were corroborated by two independent studies.

One of those corroborating studies is the previously cited study by *CEO Update* conducted in fall 2009. The percentage of standalone organizations operating at a loss in the current study (see Chart #1) is greater than what Graham found, which suggests that larger organizations (over $5M) were not affected as strongly as smaller organizations, at least in terms of their ability to avoid deficit operations. Still, the direction and magnitude of the results were strikingly similar.

The second of these two corroborating studies is the comparison of operating ratios between standalone organizations and AMC-managed organizations as documented in an AMC Institute® white paper published in August 2009.[2] The differences reported in that study for two standard industry metrics between these two management models strongly supports the findings in this comparison of incomes and expenses reported in 990 filings:

- **Net Profitability** – Organizations with annual revenue up to $1M experienced at least a 10-fold greater net profitability when managed by AMCs versus their standalone siblings; for organizations with annual revenue between $1M and $5M, this advantage for AMC-managed organizations was at least 22% greater than for standalone organizations of this size.
- **Operating Efficiency**[3] – Organizations with annual revenue up to $1M enjoyed a small improvement in operating efficiency when managed by an AMC vs. a standalone arrangement; for organizations with operating revenue between $1M and $5M, this advantage for AMC-managed organizations jumped to at least a 30% improvement when compared with standalone organizations of the same size.[4]

The net profitability and operating efficiency ratios enjoyed by AMC-managed organizations over standalone organizations by themselves could have predicted the findings in this three-year study. While a three-year time frame is probably too short to identify a trend, the data does suggest that AMC-managed organizations have a wider cushion of surplus revenue each year to soften the effects of a hard year.

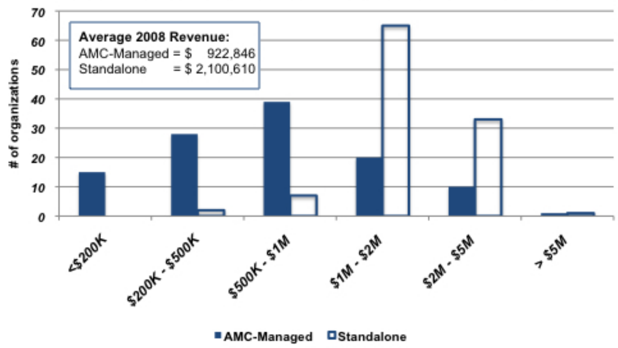
II. How the Sample Groups Compare

Despite the absence of the deliberate attempt to carefully match the two sample groups of organizations analyzed in this study, the groups compare reasonably well in terms of size, types, tax exempt status and age.

Revenue Size

Chart #2 displays the profile of the two sample groups by revenue size. The common factor for the two groups is size; they are up to $5M in annual operating revenue. While the standalone organizations are, on average, more than twice the size in revenue than the AMC-managed organizations ($2,100,610 vs. $922,846), this does not necessarily present a bias in the resulting observations. For example, the AMC Institute's Client Operating and Financial Benchmarking Survey (2007) reported standalone organizations pay a 50% premium to own their means of operations (e.g., employing staff and shouldering full costs of occupancy and capital investments).[5] This finding, along with the finding that standalone organizations experience dramatically less net profit than AMC-managed organizations, would support the type of imbalance shown in Chart #2 – standalone organizations need more revenue to operate on par with AMC-managed organizations.

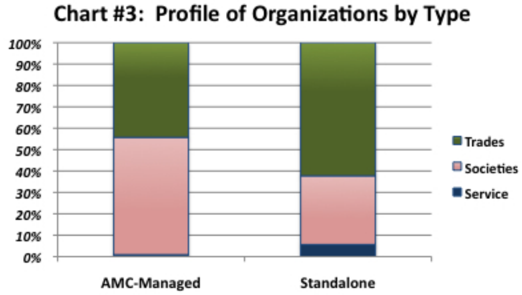
Chart #2: Profile of Organizations by Revenue Size



Organizational Types

Chart #3 displays the profile of the two sample groups by organizational type (i.e., societies, trades and service providers). The AMC-managed study group had more societies (55%) than trade associations (44%) with only one service organization. The standalone organizations had more trade associations (61%) than societies (32%) with six service organizations.

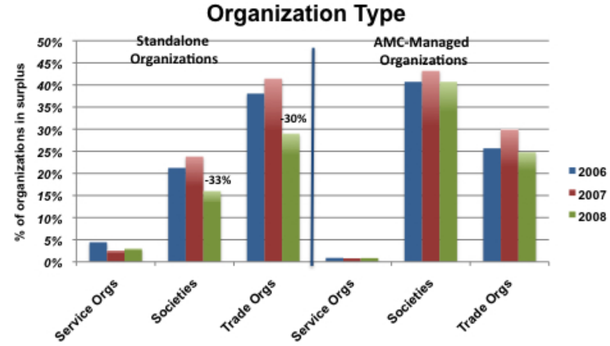
Chart #3: Profile of Organizations by Type



The profile of the two groups depicted in Chart #3 suggests that the sharp differences in deficit operations between the two management models may be influenced by this imbalance. Perhaps standalone trade associations experienced a higher rate of deficit operations than standalone societies? But, this does not appear to be the case.

Chart #4 following shows that between 2007 and 2008 the number of standalone-managed societies and trade associations operating with a surplus dropped 33% and 30% respectively. This suggests that the management model has the same general effect for these two types of organizations. Both societies and trade associations managed under the standalone model were similarly punished by the difficult economic conditions. However, trade associations and societies make sufficiently different demands on operations and infrastructure support requirements, suggesting further comparative analysis may be worth the effort. For example, are there certain conditions where societies or trade associations are consistently better off utilizing one management model over the other? These questions could be explored in further studies involving larger sample sizes than used in this study.

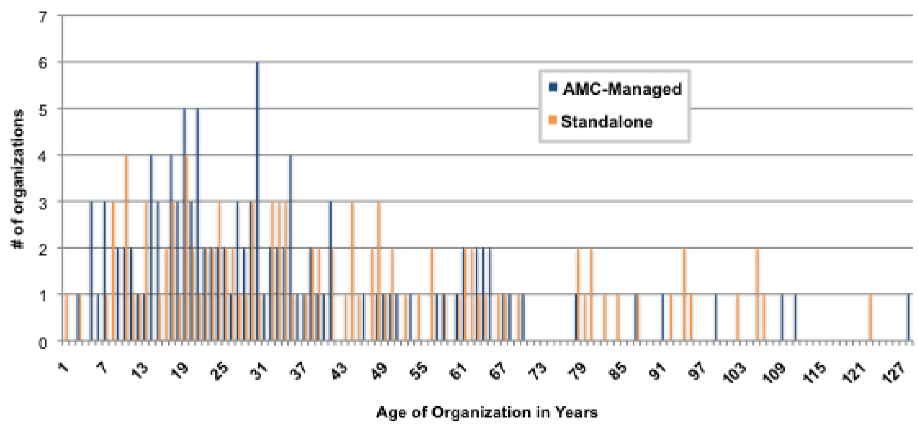
Chart #4: Profile of Surplus Operations by Organization Type



Age of Organizations

Chart #5 displays the profile of the two groups based on the age of the organizations. There appears to be no relevant differences between the two groups based on the ages of organizations managed under the two different models. Standalone organizations, on average, are older than AMC-managed organizations. The average age of the standalone organization study group was 42 years vs. 34 years for the study group of AMC-managed organizations. Interestingly, three of the four oldest organizations across both groups are AMC-managed. Age does not appear to be a dependent factor, but it was not

Chart #5: Profile of Organizations by Age

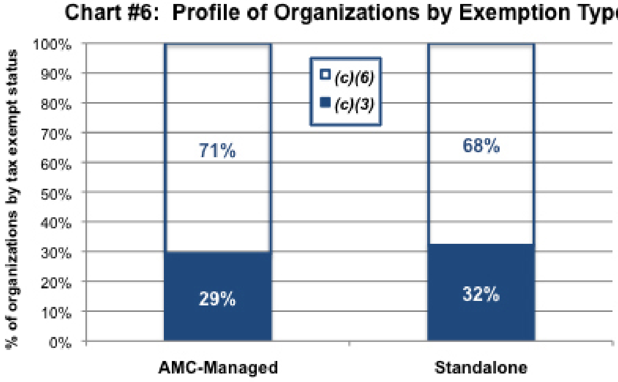


specifically evaluated as an influencing factor relating to whether an organization experienced a deficit in 2008.

Tax Status of Organizations

Chart #6 below displays the profile of the two groups based on tax status. There appears to be no relevant difference based on the tax status of organizations managed under these two models. These observations are consistent with those found in the AMC Institute's Client Operating and Financial Benchmarking Survey (2007).[6]

Chart #6: Profile of Organizations by Exemption Type



III. Study Methodology

While random sampling was not the technique used to select organizations for either group in this study, there were some guiding principles involved. The minimum sample size was established at 100 organizations per group. Fiscal year end December 31 was selected for two reasons: 1) it captured the tumultuous fourth quarter of 2008; and 2) December 31 is the most popular fiscal year ending date, thus minimizing the time required to select the study groups.

Selection Criteria – AMC-managed

The 113 organizations comprising the study population are managed by 41 separate AMC Institute member firms. The AMC-managed organizations were selected from clients of AMC Institute members firms to minimize practice variability. There are about 160 AMC members of the Institute; most are U.S.-based firms. The AMC Institute sets minimum membership eligibility requirements, which is likely to bring more consistency in how association management is practiced, thus eliminating variability caused by non-conforming service practices. Therefore, any conclusions from this study about AMC-managed organizations should be limited to organizations managed by AMC Institute member firms.

Once the organizations were identified as "AMC-managed," a search was conducted on GuideStar[7] to obtain the organizations' 990 returns for the years 2006, 2007 and 2008. Only those organizations reporting December 31 as their fiscal year end for the three years were selected (several organizations that changed their fiscal year ending dates during the three-year period were not included). To verify that each of the 113 organizations was a "full service" client, vs. a project-based client, the organization's headquarters address needed to match one of the AMC's office addresses. Further, Parts VII and IX of the 990 returns were examined to verify that the organization did not have a "key employee" receiving compensation, nor reporting any salaries.

Selection Criteria – Standalone

The primary source for the 109 standalone organizations in the study was AssociationIntel, an online subscription service of *CEO Update*. This data source contains membership-based standalone organizations with annual budgets beginning around $1.7M. A search was conducted to generate a list of standalone organizations up to $5M in annual revenue. The resulting list of 768 organizations contained links to short profiles of each organization, along with links to PDF files of filed 990 returns. Beginning with the first organization on the alphabetized list, 990 returns were analyzed if: a) the organization's fiscal year ended on December 31; and b) 990 returns were available from either AssociationIntel or GuideStar. Summaries of the two study groups can be found in the Appendix.

IV. Conclusion

This study should contribute to a more rational and evidence-based approach when considering management models for organizations. Clearly, many factors are considered when selecting the AMC-model versus the standalone model. This study was not a controlled experiment to prove that one model is superior to the other. It was, instead, a careful examination of how a reasonably well balanced group of organizations, differentiated by management models, performed in terms of operating deficits over a period of economic stress.

The findings from this study are consistent with the white paper published in 2009 comparing the operating ratios of organizations employing the standalone and AMC management models. There are demonstrated differences in the operating results of organizations based on these two management models that do not appear to be associated with size, type, age or tax exemption status of the organizations themselves.

The observations in this study clearly debunk the view that AMCs are good just for incubation; the AMC model is very effective for both mature organizations and start-ups. The study demonstrated that during economically challenging times, AMC-managed organizations are more likely to miss the negative impacts of a deep recession. A previous study comparing operating ratios demonstrated that AMC-managed organizations, on average, outperformed standalone organizations during times of healthy economic conditions.

During these challenging times, we need more than opinions and conjecture to justify the important strategic and management decisions made on behalf of our associations. This report will help organizational leaders of standalone organizations better understand the AMC option and how it can deliver the types of results and value enjoyed today by approximately 1,500 societies and trade associations under management by members of the AMC Institute.

V. Acknowledgements

The author is especially grateful to Mark Graham of *CEO Update* for his accessibility and assistance in obtaining some 990 returns filed late in 2009. He is also grateful to the following individuals for their guidance and assistance in producing some of 2008 returns: Rick Cristol, John Dee, CPA, Bryce Denton, Steve Drake, Taylor Fernley, Jay Hauck, Esq., CAE, Jaime Nolan, CAE, John Ruffin, CAE, Greg Schultz, and Gregg Talley, CAE; and to Francine Butler, PhD for editorial guidance. It is also appropriate to acknowledge an accommodating business partner, Michael Majdalany, CAE, who is always willing to tolerate wild ideas.

1 **Analysis Confirms 2008 Group Deficits**; CEO Update, Volume XIX, Number 486, October 30, 2009

2 **AMC Managed and Standalone Organizations – A Sibling Study**; by: Michael T. LoBue, CAE, © 2009 AMC Institute

3 The Operating Efficiency Ratio is a good overall indicator of an organization's efficiency. This ratio is the total revenue of an organization divided by the total assets of an organization. The ratio measures how many dollars in revenue are being generated by each dollar of assets employed in running the organization. (**Operating Ratio Report – 13th Edition**. Washington, D.C. The American Society of Association Executives, © 2006. Pg 20.)

4 **AMC Managed and Standalone Organizations – A Sibling Study**; by: Michael T. LoBue, CAE, © 2009 AMC Institute. Pg 4.

5 **Ibid**, pg 20.

6 **Ibid**, pg 16.

7 Subscription service making information available about many nonprofit organizations, including filed 990 returns (**www.guidestar.com**)

VI. Appendix: Highlights of the two study groups

	AMC Managed	Standalone
Source	Organizations managed by 41 AMC Institute member firms – pulled 990s from Guidestar or obtained from AMCs	Searched AssociationIntel and Guidestar online databases for membership-based orgs up to $5M in annual revenue and pulled 990s
Quantities (990 returns) **(Still waiting for 6 standalone 2008 returns to complete the data set)**	2006 .... 113 2007 .... 113 2008 113	2006 .... 108 2007 .... 109 2008 103
Managed by AMC Institute Accredited firms	Of the 41 AMC Institute firms managing the 113 organizations making up the study sample, 20 of those firms are AMC Institute Accredited (7 are Charter Accredited), accounting for 68, or 60%, of the organizations in this sample set.	
Profiled by Size (2008)	<$200k .... 15 .... 13% $200k - $500k .... 28 .... 25% $500k - $1M .... 39 .... 35% $1M - $2M .... 20 .... 18% $2M - $5M .... 10 .... 9% >$5M .... 1 .... 1% Average 2008 Revenue .... $922,846 Median .... $634,626 Min .... $62,106 Max $5,979,684	<$200k .... 0 .... 0% $200k - $500k .... 2 .... 2% $500k - $1M .... 7 .... 6% $1M - $2M .... 65 .... 60% $2M - $5M .... 33 .... 31% >$5M .... 1 .... 1% Average 2008 Revenue .... $2,100,610 Median .... $1,835,127 Min .... $326,485 Max $4,888,955
Profiled by Type	Trade Associations .... 44% Societies .... 55% Service Organizations 1%	Trade Associations .... 61% Societies .... 32% Service Organizations 6%
Profiled by Tax Exemption Status	501(c)(3) .... 29% 501(c)(6) 71%	501(c)(3) .... 32% 501(c)(6) 68%
Profiled by Age (as of 2008)	Youngest .... 3 yrs. Overall Average .... 34 yrs. Oldest .... 128 yrs. Median .... 28 yrs. Mode .... 30 yrs.	Youngest .... 3 yrs. Overall Average .... 42 yrs. Oldest .... 122 yrs. Median .... 34 yrs. Mode .... 19 yrs.