AMC Managed and Standalone Organizations – A Sibling Study

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ABSTRACT: This paper examines the similarities and differences between organizations managed by association management companies (AMC-managed) and those that hire their own staff, lease or own their office space, and spend their scarce revenues on capital goods (standalone). This analysis focuses on two general questions: i) is there some inherent difference between the types of organizations based on their management and staffing model; and ii) are there different operating characteristics for organizations based on these two different models? Overall, the head-to-head comparison shows that there are slightly different profiles in the types of organizations managed by the two models, but the data clearly establish that each model possesses deep experience across the wide range of organization types up to the $5M annual operating level. Organizations with revenues in excess of $5M are managed under the AMC-managed model, but they were not in sufficient numbers in the study to be included in this comparison. In terms of the operating characteristics of organizations up to $5M in annual revenue, organizations managed by the AMC model generate slightly higher productivity, much higher net profitability, while operating with a lower risk profile. In terms of cost comparisons, standalones appear to be paying, on average, a 50% premium for the basket of compatible services they could obtain from the AMC-managed model.

This analysis points to another important conclusion: more studies of this nature are warranted to improve our understanding of the relative strengths of these two models, thereby assisting association leaders in choosing the best management model for the important work of their associations and societies. Overall, based on this comparison, neither model is inherently better than the other. Organizational leaders should become as familiar as possible with both models to make the best decisions for their organization.

Table of Contents

Introduction

For those within the association management field, there is no shortage of opinions about the relative strengths and weaknesses of the standalone and Association Management Company models (AMC-models) for staffing and managing organizations. Almost every one of these opinions can be best characterized by the old adage: "where one stands on an issue depends on where one sits." In other words, bias exists based on whether one works directly for an association or an AMC. This paper is the first of its kind in the association management field bringing some rationality to the high-level questions about how these two models compare.

This paper analyzes two separate studies with a sufficient number of common metrics making it possible to identify some similarities and differences between the two models. Whether or not these differences are relevant depends upon the individual circumstances facing each organization. This analysis is not an attempt to prove that one model is superior to the other, either in general or for specific types of organizations. The superior model is the one that produces the right results for each organization. It does, however, help identify some of the questions organizational leaders might ask of their current model to assess whether or not they are using the best model for their organizations.

It is important to note that the AMC Institute study is an aggregate of the AMC-managed model and not a profile of an average AMC. In other words, this profile is across the market of AMC-managed organizations and not a profile of AMC firms. This simply means that when choosing an AMC it will make a difference to select an AMC that has experience in the organization's profession or market segment and other factors important to the organization's future.

Highlights of the Findings

This head-to-head comparison reveals that for organizations with annual revenue up to $5M there are no material differences between the two models in terms of the membership types, the tax status, geographic scope, and primary interest areas of organizations under management:

- **Tax Exempt Status** – There is no difference in the type of organizations managed by each model in terms of tax exemption status – about two-thirds of the organizations managed under each model are 501(c)(6), mutual benefit entities, and just under a third are 501(c)(3) organizations.
- **Member Type** – There are slight differences in the two models relating to an organization's member-type, but these differences are not material.
- **Geographic Scope** – There are slight differences in the two models relating to an organization's geographic scope, but these differences are not material.
- **Primary Interest/Subject Area** – For 16 of 19 categories of organizational profiles by "primary interest/subject area" types, there's little difference between the two models. Even where differences do exist, each model still demonstrates a depth of experience in the category as to validate the general relevance of each model regardless of primary interest or subject area of an organization.

This head-to-head comparison revealed that for organizations with annual revenue up to $5M the AMC-managed model outperformed the standalone model when compared to industry standard metrics, and that different revenue and expense operating ratios exist for each management model:

- **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** – 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 jumps to at least a 30% improvement when compared with standalone organizations of the same size.
- **Leverage Ratio** – Organizations with annual revenue up to $1M have a 25% to 50% lower risk profile as measured by the leverage ratio when managed by an AMC vs. a standalone; this risk profile is about 10% lower for AMC-managed organizations with annual revenue between $1M and $5M.
- **Dues Revenue as a Percent of Revenue** – Organizations with annual revenue up to $1M generate comparable revenue from dues between the two models, but for organizations with annual revenue between $1M and $5M, the AMC-managed organizations derive considerably less revenue from dues (26.2%) than standalone organizations (41.8%), providing a more diversified, and perhaps balanced, revenue profile than for standalone organizations.
- **Meetings/Trade Show/Education Revenues as a Percent of Revenue** – AMC-managed organizations with annual revenue up to $1M generate about 10% more revenue from meetings, trade shows and education program than their standalone siblings; for organizations with annual revenue between $1M and $5M this difference expanded for AMC-managed organizations by almost a third.
- **Periodicals & Publishing Revenues as a Percent of Revenue** – AMC-managed organizations with annual revenue up to $1M generate almost 20% more in revenue from periodicals and publications sources than do their standalone siblings; for organizations with annual revenue between $1M and $5M there is a negligible difference under the two models in this revenue source.
- **AMC Fees vs. Owning the Resources** – In a comparison of fees paid by organizations managed by AMCs for the comparable collection of services that standalone organizations shoulder on their own, the evidence is compelling that standalone organizations of all types and sizes pay a premium to own their means of production; the average premium is almost 50% across all sizes of organizations in the two studies.
- **Meetings Expenses as a Percent of Revenue** – AMC-managed organizations with operating budgets up to $1M spend about 73% more on meetings than their standalone siblings; for organizations between $1M and $5M this difference expands to 150%.
- **Insurance Expenses as Percent of Revenue** – Standalone organizations spend more of their revenue on insurance than do AMC-managed organizations; the difference is negligible for organizations up to $1M, but on average standalone organizations spend more than 2x for insurance over what their AMC-managed counterparts spend for insurance.

Scope of the Comparisons

This comparison is the first of its kind in the association management field. It was made possible because the AMC Institute, the trade association of association management companies, conducted a client operating ratio study in 2007 that parallels the operating ratio study by the American Society of Association Executives & The Center for Association Leadership (ASAE). The ASAE Operating Ratio study has long been the only benchmark of its kind for the industry. The major limitation for the AMC-managed segment of the market is that the ASAE study is based on data from standalone organizations. Each study was independently conducted and evaluated by Industry Insights, Inc. under separate engagements by the two sponsor organizations.

These studies were not initially designed to test any specific hypotheses, including the two general questions posed by this comparison. Thus, there should be no attempt to conclude that the comparisons reported here prove anything to any level of statistical significance. Yet, because of the parallel structures of the two studies, the similarities in methodologies and the results reported, these comparisons are more robust than the personal and anecdotal experiences driving most of the opinions about how these two management models compare or contrast. Recalling the lessons learned in "7 Measures of Success", [1] that successful organizations make data-driven decisions, this comparison now presents the market with a more rigorous assessment for organizational leaders to evaluate their management options.

While tempted to see these comparisons as twin studies, this is not a twin study because the data was not collected by matching pairs of organizations across the two studies, a necessary condition to conduct this type of analysis. But the concept is a useful one and may be the way to approach a follow up study. Rather, this comparison is more like a sibling study, where the organizations are of similar heritage – professional societies and trade associations. This initial comparison raises a number of intriguing questions for further study by the sponsors of both studies.

The comparison reported in this paper exist in two general categories: i) the demographics of the two populations of organizations – examining whether there are inherent differences between the types of organizations based on the management models used; and ii) the operating characteristics of organizations based on the two management models used, including the revenue and expense structures organizations experience under the two models.

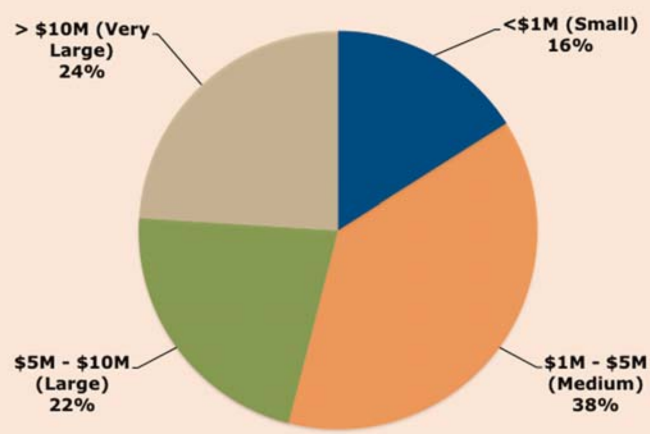
These head-to-head comparisons show that there are some profile differences amongst the organizations managed by the two different models, but also confirms that each model possesses substantial experience across the full spectrum of organizational types up to the $5M annual revenue levels. Organizations with revenues in excess of $5M are managed under the AMC-model, but they were not present in sufficient numbers in the study to be included in these comparisons. There were only 6 organizations with annual operating budgets in excess of $5M submitted for analysis in that study. About this larger-sized class of organizations, there are two positions to be drawn from this comparison: i) the AMC-model is used by organizations with more than $5M in annual operating revenue; and ii) the sample size of these larger organizations in the AMC Institute study is not large enough to make any useful comparisons about the nature and characteristics of the AMC-managed model for this class of organizations. This could be an area to address in future studies. (See box entitled "AMCs and Very Large Organizations")

AMCs and Very Large Organizations

The association market in the U.S. is larger than most causal observers think, and even more varied. But how large and what is its profile?

According to an Internal Revenue Service report (Tax Exempt and Government Entities SE-T-BSP), there were more than 86,500 501(c)(6) business leagues in 2006; there were more than 1 million 501(c)(3) organizations, but there's no information in the report about how many of these were societies vs. religious, charitable or educational institutions. Neither does this report inform about the profile of classes of organizations by organizational size. The ASAE 13th Edition ORR may be useful in profiling size. Assuming that the budget-size distribution of just the 85,500 organizations is similar to the distribution found in the ASAE 13th Edition ORR, the profile looks like Chart #1 below:

Chart #1: 13th Ed. ASAE ORR – Organizations by Annual Budgets



Based on the data made available in the two operating ratio studies used for this comparison, it would appear that the basic nature of the AMC model produces measurable benefits for smaller to medium-sized organizations for its full management offering. This alone could represent more than one half of the trade associations in operation today. Further study of the AMC model for the $5M to $10M operating budget-class organizations could extend the relevance of the model to more than 75% of the associations in operation today.

Clearly, as an organization grows and its activities justify full-time staff based on scale, then the inherent advantages in the AMC model may be less applicable. It should be clarified that full-time staffing levels should be driven by the services and support needs of an organization, and not merely the organization's ability to pay for full-time resources and the associated costs. Still, it would be unlikely that most very large organizations, say greater than $10M in annual operating revenue, would benefit as much from the economies-of-scale of the AMC-managed model. All that can really be said about the application of the AMC-managed model at this scope and level is that **"very little is known"** and it should be studied further.

In terms of operating characteristics, the following metrics used were:

Net Profitability

The amount of revenue collected less total expenses incurred over a period of time (e.g., one year).

Operating Efficiency

Total revenue divided by total assets, presenting a good overall indicator of total organization productivity – this ratio measures how many dollars in revenue are being generated by each dollar of assets employed in running the organization.

Leverage

This ratio is the total liabilities divided by total fund balances and measures the extent to which an organization is financed by debt as opposed to existing assets. In practical terms a lower ratio value represents less operating risk.

Operating Revenue

Operating revenue sources including: dues, combination of meetings, education and trade shows, and periodicals and publications.

Operating Expenses

Operating expenses including: AMC fees vs. the collection of services a standalone organization would typically retain from an AMC; meetings & events; and insurance.

About the Two Studies

For quite a few years, the American Society of Association Executives & The Center for Association Leadership (ASAE) has conducted an operating ratios study of standalone organizations. The most recent study, the 13th Edition[2], was used as the source data for standalone organizations. The ASAE study involved a total of 660 organizations ranging in annual operating revenue from under $1M to over $20M. This comparison used 74 organizations with less than $1M in annual revenue (the lowest cluster for study) and 183 organizations with between $1M and $5M in annual revenue. The operating year for this study was 2006-07.

In 2007 the AMC Institute conducted an operating ratio survey of organizations managed by Institute member firms, in part to conduct the comparison that is the subject of this paper:

> "One of the main goals of the 2007 AMC Institute Client Operating and Financial Benchmarking Survey was to create operating benchmarks for AMC-managed associations that could be compared to those of standalone associations. The AMC Institute survey form was therefore designed to parallel the form used by the American Society of Association Executives for their 2007 Operating Ratio Report (ORR) survey." [3]

The AMC Institute study included 317 organizations managed by 50 Institute member firms. This sample represented 28% of all the associations managed by AMC Institute members at the time the study was conducted. [4] The author of the study, Industry Insights, Inc., stated that the study has a ±5% margin of error at a 95% level of confidence, which means that the researcher has a 95% level of confidence that the results for a frequency question (or "check box" question) are within ±5% of the responses from the 1,134 organizations managed by all AMC Institute member firms if all the organizations had responded to the survey.

The two datasets compare in this way:

	Standalone Organizations ASAE 13th Edition ORR	**AMC-Managed Organizations AMC Institute Survey** (pg 19 of Survey)
Total Organizations in Study	**660**	**317**
Size of Pool Solicited	**8,000** **(8.25%) ***	**1,134** **(28%) ***
$1M or Less	**74** (1) **(16%) ***	**235** **(76%) ***
$1M to $2M	**73** (2) **(15%) ***	**45%** **(14%) ***
$2M to $5M	**110** (3) **(22%) ***	**25** **(8%) ***
$5M or More	**310** **(47%) ***	**6** **(2%) ***

* Percent of Sample
(1) Page 48 of ASAE OR Report
(2) Page 74 of ASAE OR Report
(3) Page 93 of ASAE OR Report

The Results

Comparisons Based on Organizational Profiles

The comparisons are divided into two general areas of inquiry. The first examines how the organizations managed under these two models are similar or different.

Organizations by IRS Tax Status

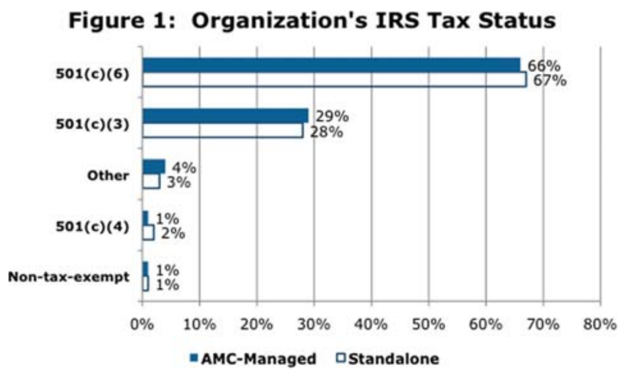


Figure 1 demonstrates that the type and kinds of organizations managed under the two models are essentially the same in terms of federal tax exemption status.

Organizations by Member Type

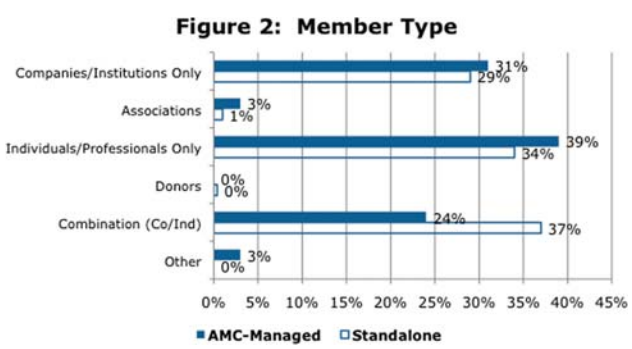
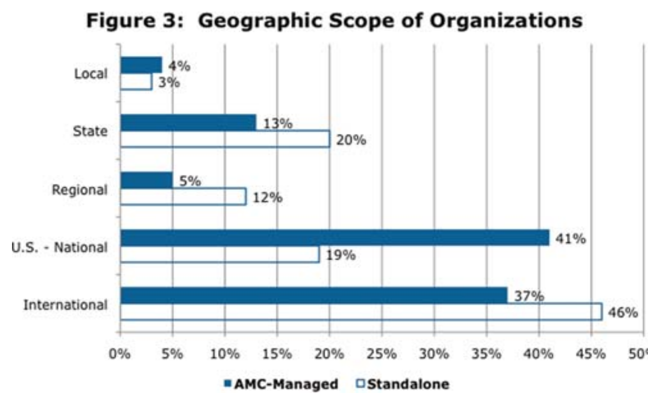


Figure 2 demonstrates that while the profile of organizations managed by the two models differ some in proportion, each of the major member types are well represented under both models. Further studies might explore these profiles to see if specific reasons exist for these differences.

Organizations by Geographic Scope



As with the case of 'member type', Figure 3 demonstrates that there are differences in the profiles of the two management models for geographic scope, but both management models have deep experience managing organizations based on the geographic reach of organizations. In future studies it might be useful to explore why these differences exist. For example, is there some historical influence at play? Many successful AMCs in operation today were founded by an entrepreneur based on his or her recent association management experience. Once established, AMCs grow according to their seeds and roots. If their first client is a society, chances are much higher that their future clients will be societies in the same, or related fields, than organizations with completely different profiles. Is the profile revealed in Figure 3 indicative of these historical roots, or some other factors? For the time being, it is clear that both models have a depth of experience managing organizations across the range of geographic scope.

Organizations by Primary Interest/ Subject Area

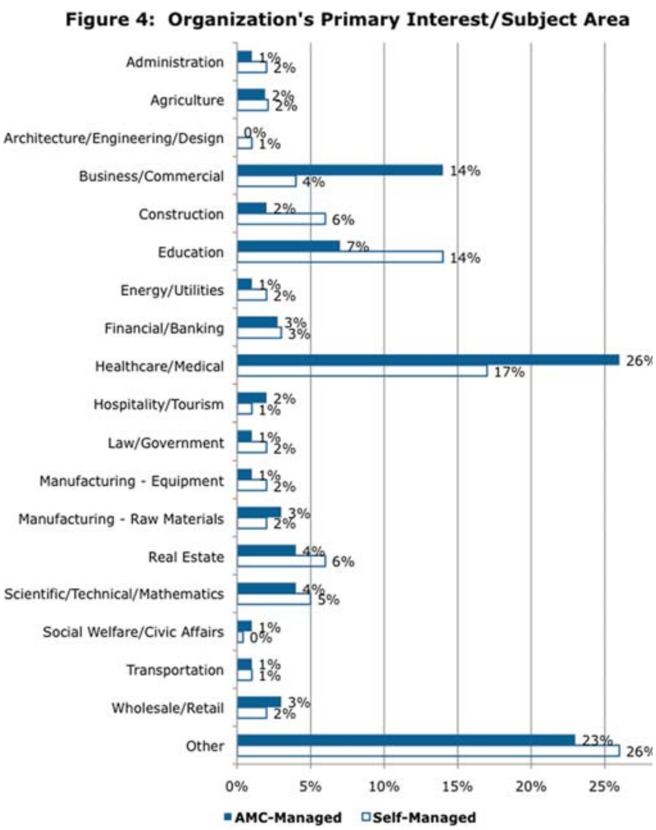


Figure 4 above, displays the primary interest/subject areas of organizations according to the two management models and suggests a similar story to the profile based on geographic scope. The profile comparison revealed in Figure 4 demonstrates that each management model has experience across a rich range of industry segments and professions with no reason to suggest that one model is inherently stronger than the other based on primary interest or subject area of the organization.

A follow up study of the AMC market might include questions about the type, geographic scope, and the subject areas of the AMC's first client organization(s) to correlate "first client organizations" to the profile of the AMC's client profile after some years in business.

Conclusion 1: AMCs and Standalone Models Manage the Same Types of Organizations

Based on the head-to-head comparisons above, the data reveals some differences (e.g., proportional mixes by geographic scope and interest/subject area), but it also shows that there are no systematic differences between organizations managed by the two models based on "organizational type".

The second comparison examines organizational performance indicators across each management model. To investigate performance under the two management models a set of common metrics to both studies were analyzed. The common metrics are three "key performance ratios" and a total of six revenue and expense "operating ratios".

Comparisons Based on Key Performance Ratios

The data that are common to both studies for the key performance ratios are "median" versus "mean" values. The ASAE study for standalone organizations reported both median and average values for these ratios, but the Institute reported only median values. For those in need of a quick review:

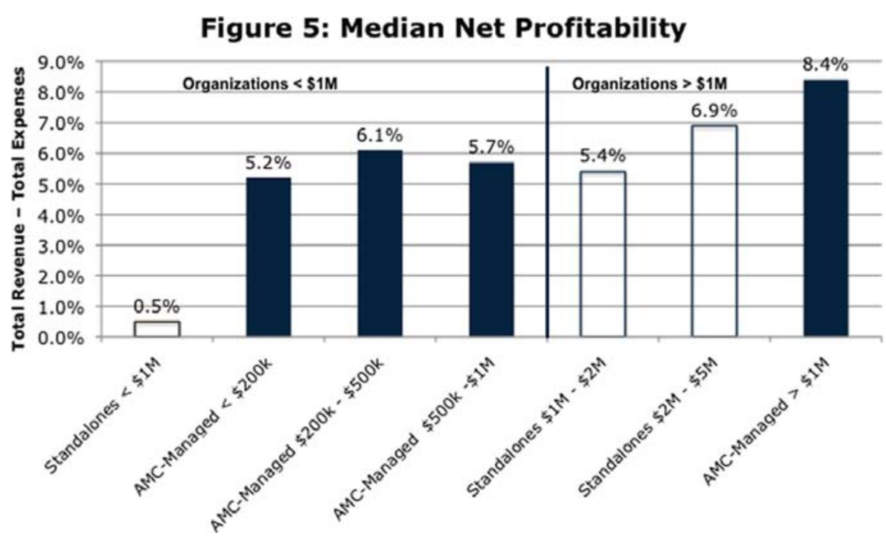
- **Median Values** = the mid-point value in a range of values; 50% of the number of values in the distribution are equally split above and below the median value.

- **Mean Values (or average)** = the sum of all the measurements in a range, divided by the total number of measurements in the range.

If these two numbers are the same, the distribution is considered "normal". If the median value is greater than the mean value, then the distribution contains values below the median, which are farther away from the center than the values above the center are away from the center. For example, one or more values below the median are so low that they "pull down" the average for the group. If the median value is less than the mean value, then there are one or more values in the distribution "pulling up" the average. It is often useful to know both the median and the mean for a distribution of data to learn something about the nature of the distribution.

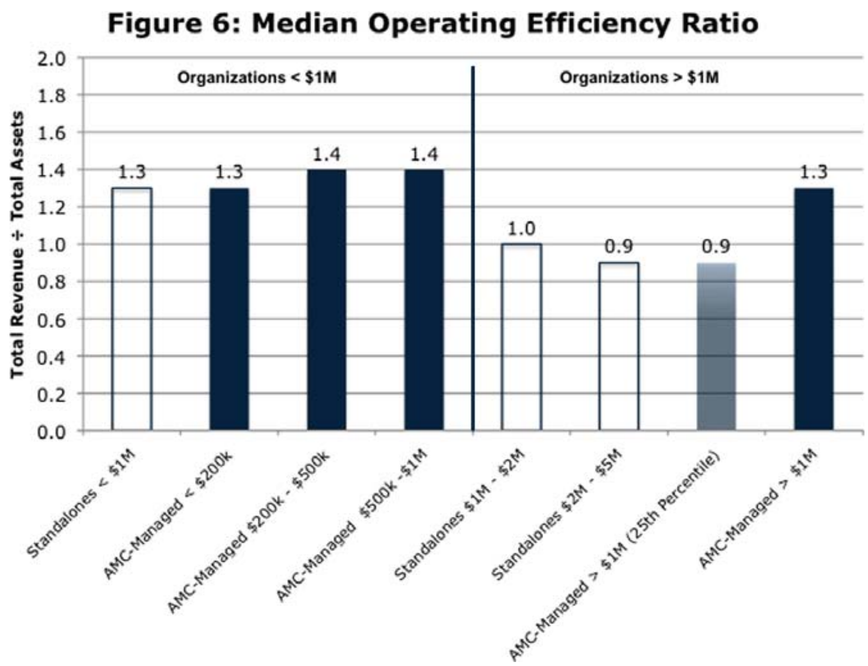
While the Institute's study of AMC-managed organizations did not include mean values for the key performance ratios (it did for all other measures), it did include quartile values, which is a substantial improvement over the ASAE's OR studies. Having quartile data is valuable because they describe the nature of the population under study in ways the metrics like means and medians lack. ASAE should include quartile data in future studies (as soon as the 14th Edition) – it's what professional managers need.

Net Profitability



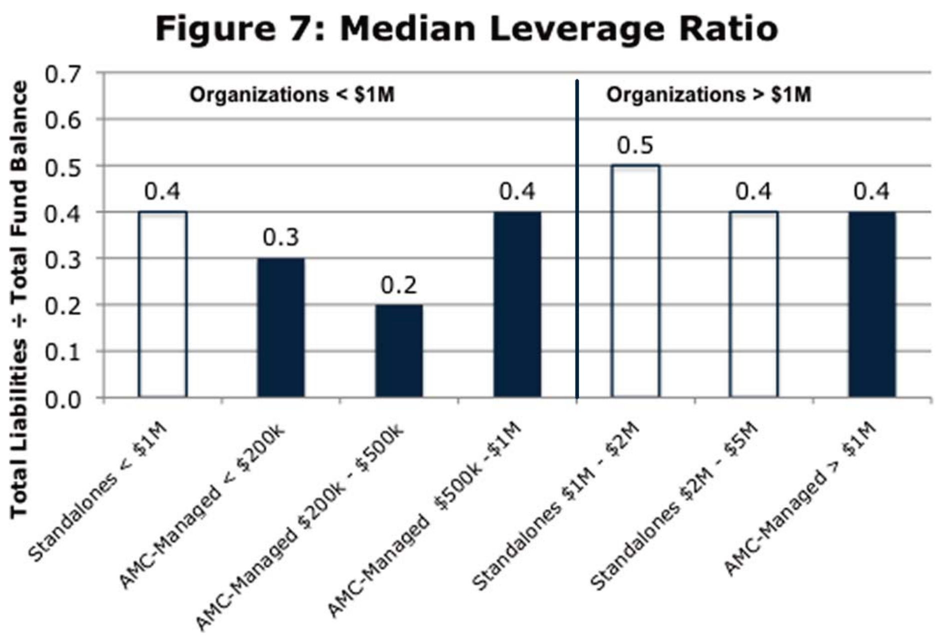
The first of the key performance ratios examined is net profitability, which is the measure of operating surpluses, when positive, or deficits, when negative. Figure 5 compares the median values for net profitability for the two studies. For organizations up to $1M in annual revenue AMC-managed organizations enjoy at least a 10-fold advantage over standalone organizations. For organizations between $1M and $5M in annual revenue, AMC-managed organizations enjoy at least 20% greater net profitability than standalone managed organizations.

Operating Efficiency



Operating Efficiency is charted in Figure 6 above. According to the ASAE Operating Ratio 13th Edition, this ratio "tells us how many dollars in revenue are being generated by each dollar of assets employed in running the organization." [5] This comparison of median values for organizations with annual revenues up to $1M, the operating efficiency ratios are comparable between the two management models. However, in the case of organizations with annual revenues between $1M and $5M, AMC-managed organizations at 1.3 are enjoying a 38% better level of efficiency than standalone organizations at .9. It is interesting to note that as much as 75% of the AMC-managed organizations between $1M and $5M are at or above 50% of the standalone organization in operating efficiency. This is demonstrated by the shaded column in Figure 6 above.

Leverage



The last metric in this series of key performance ratios is Leverage. This is often used when evaluating an organization's need and/or ability to borrow funds. Given that most associations would not seek to acquire debt to support operations, like a profit-driven organization might, leverage then can be a useful proxy for assessing general operating risk. In this case, a lower ratio is probably more desirable. This ratio is derived from dividing total liabilities by total fund balance; thus, the higher the ratio, the less able the organization is to cover its commitments.

Figure 7 above reveals that for organizations with annual revenue between $1M and $5M, the AMC-managed organizations enjoy a slight, but probably insignificant edge over standalone organizations. Whereas, for organizations with annual revenue up to $1M, those managed by AMCs appear to operate with a 25% to 50% lower risk profile than organizations using the standalone model.

The next six metrics compare how organizations under the two different management models derive their revenue and how they allocate their financial resources for operations. The remaining metrics are comparing mean (average) values, thus it is possible to use weighted averages to group the results into organizations up to $1M in annual revenue and organizations between $1M and $5M in annual revenue.

Total Dues Revenue

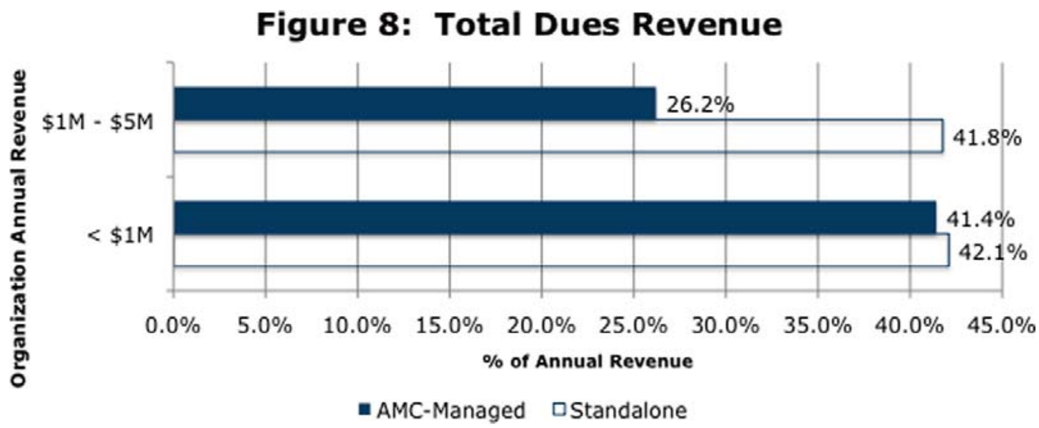
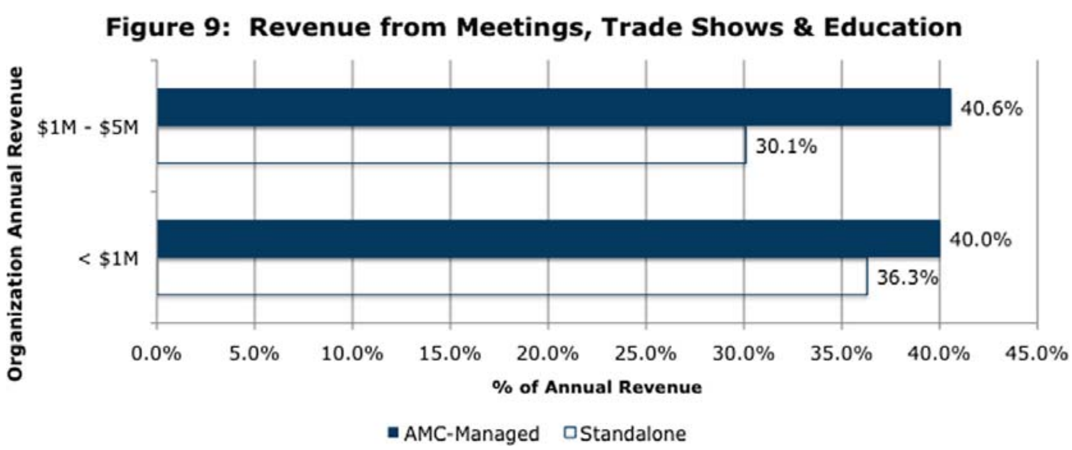


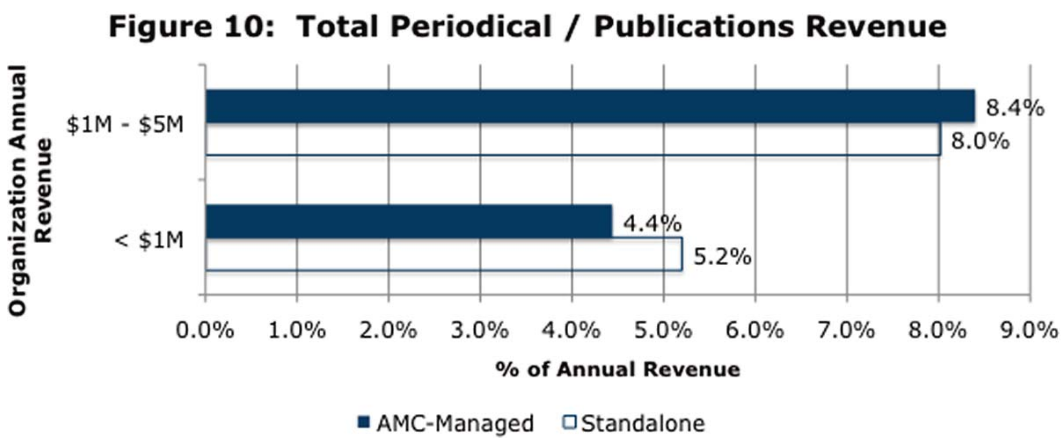
Figure 8 above demonstrates that organizations with annual revenue up to $1M are comparable for each management model in terms of deriving revenue from dues. However, there is a sizable difference for organizations with annual revenue between $1M and $5M, where organizations managed by AMCs appear to derive considerably less of their revenue from dues (26.2%) vs. standalone organizations, which on average derive almost 42% of their revenue from dues.

Revenue from Meetings, Trade Shows & Education



While the causes of this difference are not evident from the study data, it does suggest that AMCs, in general, have developed the capabilities to support more diverse non-dues revenue programs. This "non-dues experience" may be evident in Figure 9 above, which compares revenue from the combination of meetings, trade shows and education. In both organizational groups, AMC-managed organizations derive more revenue from these sources than do standalone organizations. In the case of organizations with annual revenue between $1M to $5M, AMC-managed organizations are generating a third more from this source than standalone organizations.

Total Periodical / Publications Revenue



The last revenue ratio is featured in Figure 10 above and addresses total periodical and publications revenue. Here the results are mixed. For organizations with annual revenue up to $1M, the standalone model is supporting almost 20% more in this revenue category than AMC-managed organizations (5.2% vs. 4.4%). For organizations in the $1M to $5M annual revenue category, the two models are supporting comparable revenue levels from this category.

The next set of metrics are expense ratios, which are derived from dividing expenses by revenue. The first one, in Figure 11 below, compares the average fees paid by AMC-managed organization for the collection of services that are shouldered directly by standalone organizations to essentially own their means of operations. This metric is where the AMC-managed model should demonstrate the economies-of-scale benefits inherent in the model. The basic difference between the two models is amortization. In the standalone model, the organization pays the full share of the resources, especially for full time staff that might otherwise be shared or part time from an AMC, as well as occupancy costs and capital costs. (See box: Rent or Buy – The Basics)

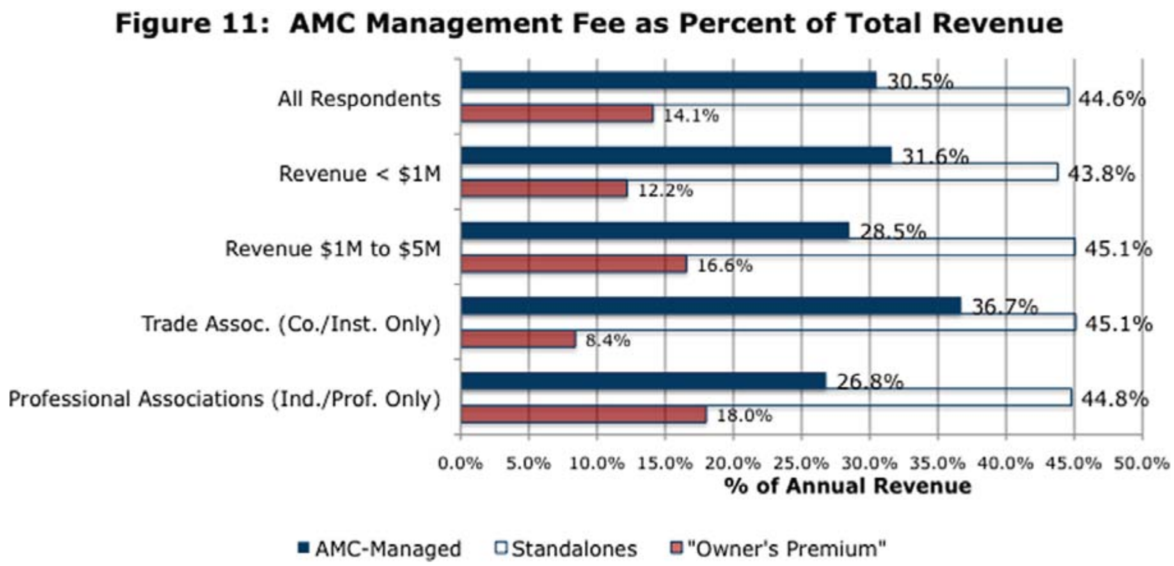
Rent or Buy – The Basics

The basic question facing organizational leaders with the choice between the AMC-managed and standalone models is to rent or to buy. In the case of the standalone model, organization boards essentially own the resources necessary to achieve their goals. They assume the full legal and organizational responsibilities of an employer for the staff working directly for their organizations. This responsibility includes: personnel recruitment, payment of salaries and payroll taxes; personnel policies in conformance with federal, state and local employment laws and regulations; shouldering the costs for professional training and development; and being concerned with benefit offerings like health and retirement. Standalone organizations are also directly concerned with occupancy issues and costs like leasing or purchasing office space, furnishings and equipment, and the proper insurance coverage for these assets. While standalone organizations would have an experienced executive director (or executive team) responsible for the execution of these important operational functions, prudent governance practices suggest that boards of standalone organizations spend some of their scarce time overseeing these functions. The costs associated with personnel, occupancy and capital investments, like information technology (IT), are among the largest on operational budgets and can present business risks large enough to significantly impact an organization's ability to deliver on its mission, which is what makes these issues governance concerns.

The AMC-managed model offers governing boards the option to avoid owning any of these operational resources and the associated concerns. AMCs assign their professional and trained staff to specific clients, often in less than full time assignments, to meet the optimal capacity and skill-level requirements for their client organizations. The AMC shoulders all the legal and human resource responsibilities for the assigned personnel. AMCs also provide office space and other capital investments necessary to present a complete management and operational solution to the organization.

This model also offers association executives the option to outsource selective portions of their operations to an AMC, taking advantage of the knowledge and skills of AMC staff working with a variety of client organizations, often presenting the association executive with higher skill levels than the organization may be able to attract to their individual organization for ongoing support, or project specific assignments.

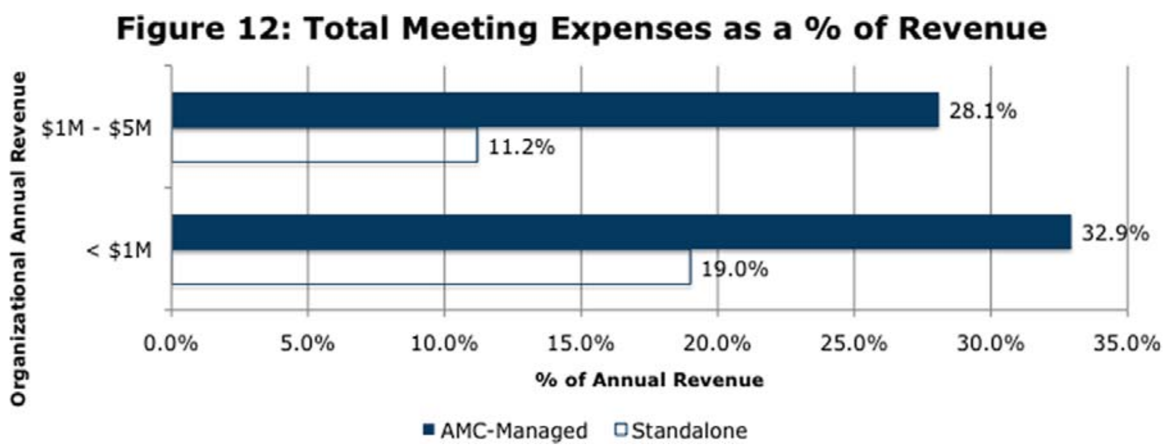
AMC Management Fee as a Percent of Total Revenue



Indeed, Figure 11 shows the economies of scale measures between the two management models. The only valid way to read these results, based on the data available for this comparison is that on average, standalone organizations are paying a 50% premium to own their own means of operation. This does not mean that the AMC model is the cheaper alternative; it more likely means that AMC-managed organizations are taking advantage of the inherent features of the model itself to pay for only those resources, generally staff resources, they require and to amortize certain other costs, like occupancy and capital assets, which they do not need to own in their own names.

A further word about the leverage available in the AMC-managed model: it is likely, although there are no data in these two studies to support this notion, that the AMC-model is successful at delivering services more efficiently because AMC personnel are more experienced as a result of supporting more than one client organization at a time. And, where AMC personnel are dedicated to a single client, they work in a richer environment with colleagues who are supporting more than one organization.

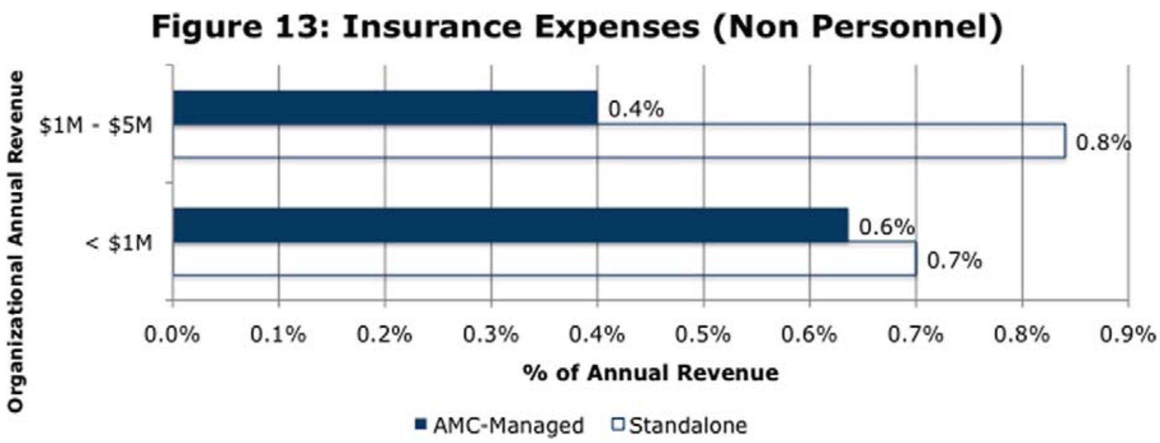
Total Meeting Expenses as a Percent of Revenue



Meetings represent a consistent activity for trade associations and societies, even in the "Internet Age" where more opportunities for remote and "virtual" meetings are becoming popular. However, the different meeting expense profiles for organizations under the two models is striking, as Figure 12 above shows. AMC-managed organizations with annual revenue up to $1M spend about 73% more on meetings than their standalone siblings (32.9% vs. 19.0%). The spread nearly doubles to 150% for organizations with annual revenue between $1M and $5M.

It's tempting to think that AMC-managed organizations are facing higher meetings costs, but there's no reason to believe that meetings costs, which are generally external to an organization, would differ based on the management model. What seems more likely is that meetings are one area that AMC-managed organizations choose to "invest" the savings they enjoy from being managed by an AMC. Again, there is no proof of this explanation and this question could easily be explored in further studies – "What do organizations do with their AMC-savings?"

Insurance Expense (Non Personnel)



Insurance costs are another expense category that one would expect to be lower for AMC-managed vs. standalone organizations. Figure 13 above shows the expected difference, where there's a slight savings for organizations with annual revenue up to $1M (0.6% vs. 0.7%), but the cost differential for organizations with annual revenue between $1M and $5M is more than twice as high for standalone organizations.

It seems appropriate to conclude this comparison with insurance costs, because insurance costs are a proxy for risk. Insurers charge their policy holders premiums for certain levels of coverage against some event occurring that would cause the insurance company to pay for its costs or consequences. The premiums charged are in direct relation to the extent of risk as measured by the insurer. This comparison is not so much a comparison of premiums charged to organizations under the two different models, as it is a general measure of how much insurance each organization should carry based on their risk profiles.

Just as the key operating ratio Leverage revealed (see Figure 7, page 13), AMC-managed organizations operate with a lower risk profile than their standalone siblings.

Conclusion 2: AMC-Managed Organizations Perform At or Better Than Standalone Organizations

Based on the data from these two operating ratio studies, a fairly compelling picture emerges that the AMC-managed model, when compared to the standalone model, produces:

- Higher net profitability;
- Greater operating efficiencies;
- Lower operating risks, as measured by both the Leverage ratio and insurance premiums paid;
- A more diverse revenue structure;
- More funds available to invest into programs like member meetings and events; while
- Paying substantially less for the staffing resources, occupancy and capital goods necessary to support an organization's mission.

Conclusion

It is hard to escape the overall implications of the comparison between the two operating ratio studies:

i. there's no discernable difference between organizations based on their management model; and

ii. AMC-managed organizations generate greater operating surpluses, are more efficient, involve lower operating risks, enjoy more diverse revenue profiles, spend more on meetings, trade shows and educational activities, and pay, on average, a third less for the staffing, occupancy and capital costs than sibling standalone organizations.

Why is any of this significant to organizational leaders and chief staff personnel? Does this mean that every standalone organization with annual revenue up to $5M should immediately hire an AMC to replace their staff and other resources? No, it does not mean that, however, these results add to the useful metrics that organizations should use when evaluating certain strategic and tactical programs and making plans for the future.

For organizational leaders satisfied with their current management model, it may be prudent to ask: "Under what circumstances might it be appropriate for our organization to consider the AMC-model?" It might be when the current successful executive director departs the organization. It might be during a challenging general economic climate, or for the organization's specific market segment or profession.

For organizational leaders and senior staff, it might prove valuable to engage an AMC with experience in their organization's area for advice and counsel about operational issues and strategies that could be employed within the standalone model to produce results similar to those demonstrated in this comparison. It is important to bear in mind, AMC's produce these results both because of the model and because of the knowledge and expertise gained by using the AMC model. One easy way to tap into this knowledge and expertise is to outsource certain projects and operational functions of the standalone to a qualified AMC.

It is worth emphasizing that AMC-managed organizations spend more of their revenue on meetings, trade shows and educational programs (and derive a higher percentage of revenue from these sources) than do standalone organizations. This is not to suggest that standalone organization should have a profile like AMC-managed organizations, but it does demonstrate rather convincingly that AMCs may posses considerable more experience in these areas and be a valuable outsourcing partner for the standalone organization looking to launch, or improve upon, these types of programs.

Considerations for Further Research

Both of these operating ratio studies provide valuable knowledge for association leaders. But new knowledge also raises new questions. The AMC Institute should follow the lead established by ASAE and The Center for Association Leadership and commit to a regular interval of follow up surveys for AMC-managed organizations. The series of operating ratio studies conducted by the ASAE serve to validate the results of each previous study, plus serve as a barometer measuring changes that may occur over time. Repeating the survey of AMC-managed organizations will serve the same purposes.

Each follow up survey also presents the opportunity to expand knowledge by asking new and additional questions. Here are some questions that should be evaluated for future surveys.

1. Are there special circumstances that make one management model more appropriate or valuable to an organization than the other?

Possible approach – Using techniques similar to those employed by Jim Collins in “Good to Great” and “7 Measures of Success”, identify twin-pairs of AMC-managed and standalone organizations in an attempt to neutralize differences between the pairs except for the management models used to assess success factors of each organization.

2. How does the AMC-management model apply to organizations with annual revenue greater than $5M?

Possible approach – In subsequent AMC Institute surveys endeavor to increase the number of AMC-managed organizations above the $5M annual revenue level to a sample size that approaches statistical significance. If conditions of random sampling exist, this number could be as low as 30 AMC-managed organizations.

3. How do AMCs grow as reflected in the size and profiles of organizations under management?

Possible approach – Compare the organizational client profiles (e.g., type, size, geographic scope, interest areas/professions, etc.) of “first clients” when an AMC is founded with the profiles of client organizations over the life of the AMC. The interesting class of AMCs to further study in this type of investigation are those AMCs that have different client profiles as the firms mature from when they were formed and what might have caused those profile differences (e.g., firm reached certain size of clients, billings, staffing, etc.)

4. Are there differences in organizations (qualitative and quantitative) at different points on a distribution range (e.g., 25th quartile vs. 75th quartile)?

Possible approach – As mentioned above, the ASAE OR survey would need to begin reporting quartile data. Next, once the quartile data is provided, reports would need to be generated that included other characteristics about organizations. For example, are there systematic differences in the characteristics of organizations at each of these quartile marks by geographic scope, interest/subject areas, number of meetings, certification programs, and so on?

5. In the case of AMC-managed organizations, what are the differences between those organizations at the first quartile (25th percentile) versus those organizations at the second (50th percentile) and third (75th percentile) quartiles? What might account for the variances, especially between the top and bottom 25% of the distributions?

Possible approach – Run and report correlation coefficients for the other characteristics collected on the sample of organizations between these two "quartile groups".

6. What might account for benefits of the AMC management model? How much of the value is due to "economies of scale" (non-specific amortization of classic overhead resources across multiple clients) vs. "economies of scope" (the availability of specific knowledge and experience)?

Possible approach – Using a "twin pairs" approach (see #1 recommendation above) isolate the relative education and training experiences, and tenure levels of staff to explore, at least in terms of correlations, how much of the benefit can be attributed to simply sharing common resources (e.g., amortizing staff and other overhead resources), vs. a depth of knowledge and experience that might be greater within an AMC than a standalone organization.

About The Author

Michael T. LoBue, CAE is the founder and president of LoBue & Majdalany Management Group, an AMC Institute Charter Accredited AMC headquartered in San Francisco, CA with offices in London, U.K. LoBue continues to be active in the practice of association management, serving as chief staff officer to two of the firm's clients. LoBue currently serves on the governing boards of the AMC Institute and The Laurel School (independent K-8 school in San Francisco) and serves as president of The Laurel School board of trustees. LoBue has an M.S. in Management & Public Policy from Carnegie Mellon University and a B.A. from the University of California, Berkeley.

1 **7 Measures of Success**. Washington, D.C.; ASAE & The Center for Association Leadership, 2006.

2 **Operating Ratio Report –13th Edition**. Washington, D.C. The American Society of Association Executives, 2006.

3 **2007 Client Operating and Financial Benchmark Survey Report**; Philadelphia, PA; AMC Institute, 2008. 16.

4 Ibid; ii

5 **Operating Ratio Report –13th Edition**. Washington, D.C. The American Society of Association Executives, 2006. 20.