



## AMC-managed Associations Continue to Show Resilience During Recession

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*This study is a third in a series of investigations to substantiate with data and analysis how the two most prominent association management models compare and contrast.*

*The two previous studies are available at:*

[www.amcinstitute.org](http://www.amcinstitute.org)  
and  
[www.lm-mgmt.com](http://www.lm-mgmt.com)

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### **Summary:**

*Associations managed by association management companies (AMCs) demonstrated more resilience to the negative impacts of the recession when compared to associations directly employing their own staff (standalone model). A 2010 study comparing the financial operations of two groups of associations, one managed by multi-client association management companies (AMCs) and the other directly employing their own staff resources (standalone), revealed that AMC-managed organizations weathered the onset of the current recession far better than those organizations using the standalone management model.<sup>1</sup> In 2008, despite the onset of the recession, 66% of AMC-managed organizations were still generating annual operating surpluses, whereas only 47% of standalone-managed organizations were generating annual operating surpluses. After updating the two study groups with 2009 data, the AMC-model continued to provide better protection*

*than the standalone-model against the impacts of the second year of the recession.*

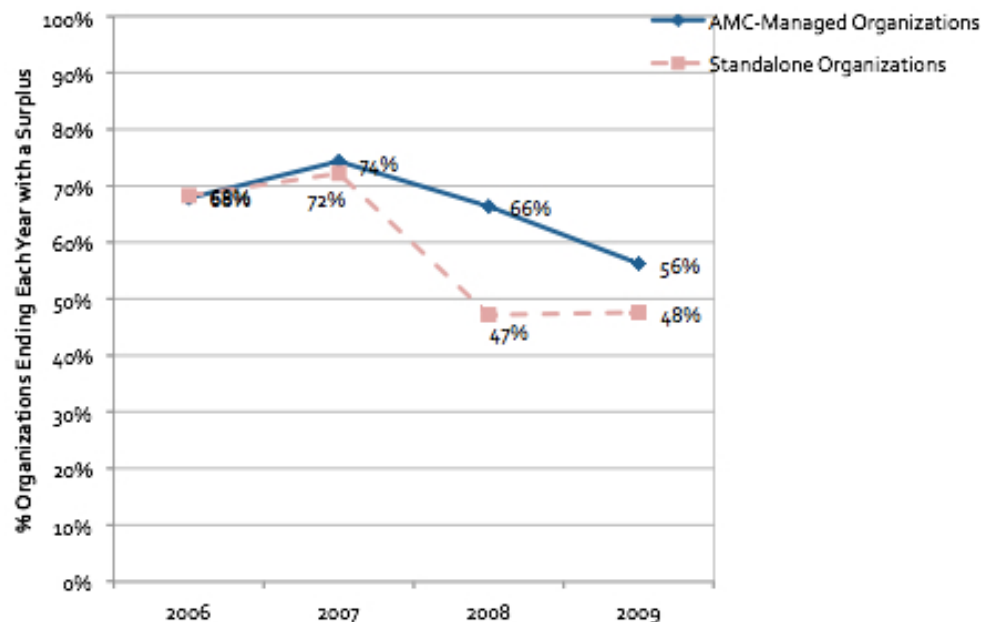
*In this updated report, revenue and expense trends were also analyzed for both association groups over the four-year period revealing that the AMC-model was better able to align expenses and revenues than the standalone model. The data shows that from 2007 to 2008, organizations managed by the standalone model experienced an average increase in expenses of 6.0%, while their revenues declined an average of 0.2% that year. Whereas, in that same year, organizations managed by AMCs experienced almost perfect alignment of their expenses and revenues. On average, AMC-managed organizations from 2007 to 2008 experienced increases of .52% in expenses and .55% in revenues. While the data does not provide specific reasons for this pattern, they do reveal that from 2006 to 2009 the AMC-model was more nimble in aligning expenses to available revenues than the standalone-model.*

The recession that began in 2008 challenged the association market just as it did every other market segment. There are a variety of methods to assess the recession's financial impact on associations. The method used in last year's study, and this update, examined the financial impacts by looking at how many organizations operated each year with "annual operating surpluses" – that is, did an organization take in more money than it spent in a given year? The study compares the two dominant association management models to each other. One group is comprised of 113 organizations managed by 41 different association management companies (AMCs).<sup>2</sup> The other group is comprised of 103 organizations, each employing their own staff and shouldering the full costs of occupancy and capital costs

(standalone organizations). See the 2010 study for a complete description of these two groups.<sup>3</sup>

This report updates the 2010 study by adding 2009 data from the respective 990 tax returns for each of the organizations in the two groups. Chart #1 below displays the percentage of organizations by the two management models that operated with surplus revenues for each of the years 2006 through 2009. It reveals that standalone organizations were still underperforming in this metric compared to AMC-managed organizations with only 48% of the standalone organizations generating operating surpluses. It also appears that standalone organizations may have bottomed out between 2008 and 2009 in terms of deficit operations. The data from 2010,

**Chart #1: % of Organizations Operating in Surplus by Management Model (2006 - 2009)**



*"The AMC-management model was better able to align revenue and expenses from 2006 through 2009 than the standalone model during the same period."*

when it becomes available, will need to be analyzed to determine if the AMC-managed organizations also reached their bottom in 2009.

### Apparent Cause of the Trend

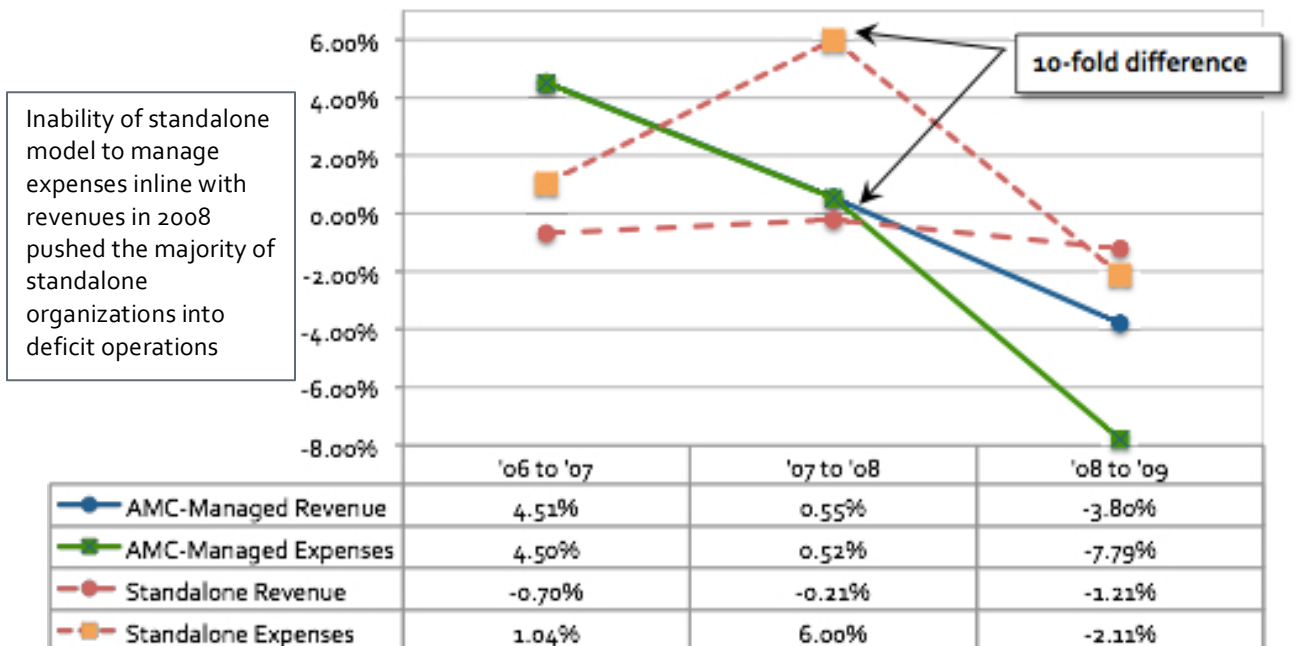
There are only two factors determining whether an organization operates with a deficit or surplus in a given year: revenues and expenses. By incorporating 2009 990 tax return data in the data set it was possible to look at how revenue and expenses changed from year-to-year over a three-year period of time – 2006 to 2007, 2007 to 2008 and 2008 to 2009. Chart #2 below displays the rates of change in expenses and revenues by the two management types.

The solid lines in Chart #2 below reveal that, on average, the AMC-managed model was better able to

align revenue and expenses from 2006 through 2009 than the standalone model during the same period. From 2006 to 2007 and 2007 to 2008 the AMC-model produced nearly identical percentage changes in revenues and expenses (0.55% and 0.52% respectively). From 2008 to 2009 the AMC-model drove down average spending to four percentage points lower than the average revenue collected during the period.

The dotted lines in Chart #2 below reveal a different story for organizations under the standalone management model. While average revenues increased by a half of one percent from 2007 to 2008, expenses increased nearly 5 percentage points for the same year, which is a 10-fold magnitude difference of expenses over revenues.

**Chart #2: Percent Change in Revenue & Expenses**



### Outliers Are Not a Factor

Comparing averages has many beneficial characteristics, but averages can also hide important traits of a distribution of data elements. For example, might there be a few standalone organizations in the sample pool that experienced more extreme losses than other standalone organizations, thus bringing-down the averages and making the entire pool look worse than it really is? Conversely, were there a handful of AMC-managed organizations with exceptionally high surpluses that raised the average of that group, making the entire AMC pool look better than it really is?

of net profitability profiles. Lastly, there is no evidence of high or low outliers in the data, supporting the conclusion the management models alone account for the performance differences observed in the data.

### Analysis of Trends

There are two separate questions under examination in this study. The first question is the same question examined in the 2010 study: "Is there a difference between the two association management models in terms of bottom-line management during challenging economic conditions?" To answer this first question we simply counted how

Change in:	'06 to '07	'07 to '08	Change
Standalone Revenue	-0.70%	-0.21%	+0.49
Standalone Expenses	1.04%	6.00%	+4.96

To test for these possibilities, profiles were created for each year comparing the number of organizations in each group and their respective profitability rates. See Charts #3a - #3d in the appendix for the annual distribution profiles.

These profiles reveal several important characteristics about the data. First, each distribution for each year looks strikingly like a standard bell curve. Secondly, the line contours for each group for each year are very similar, suggesting these two groups are very compatible in terms

many organizations in each of the "management-type" categories ended each year with surpluses from operations in each year.

The answer is clear – Yes, there is a difference and that difference is in favor of the AMC model. If your organization was under AMC management entering the current recession, there's a better chance that your organization would experience operating surpluses than if your organization employed its own staff and shouldered the full costs of occupancy and capital expenses.

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The second question is a little more ambitious to answer: "Is there a difference in the two association management models in terms of revenue management vs. expense management?"

A different approach was taken to answer this question. All the revenues and expenses were pooled by management type and then analyzed how these streams changed from year-to-year. Assuming that all the organizations, regardless of management-type, faced the same general challenges presented by the recession then this approach is more like comparing two different investment management strategies. Each pool is comprised of many diverse decision makers. The only apparent difference is the management model – the standalone model vs. the AMC model.

The answer to this second question is also clear – "Yes, there is a difference and again, the difference is in favor of the AMC model." If your organization's revenues and expenses were being managed by an AMC, the chances were better during the first couple of years of the recession that your expenses would have been aligned to your revenues than if your manager was employed by your organization.

#### **Lack of Random Sampling and Bias**

Are these results significant? In a

strict statistical sense they are not because the samples were not randomly drawn. However, it must be pointed out that random sampling is done to eliminate biased results, which simply means that there is confidence that the results are measuring the variables under examination and not some "unknown" variable that might produce the observed results. If bias does exist in these samples, all that can be said at this time about possible bias is that the direction of the bias is unknown. It is just as likely that bias could be in favor of the AMC-management model as it is the standalone model.

To review the study methodology, consult last year's study.<sup>4</sup>

#### **Conclusion**

It should come as no surprise that the AMC model of association management provides organizations more options when it comes to allocating available resources to program needs than the more stationary structure of the standalone model. This study reveals that the results reported last year are enduring with a slightly deeper understanding of how those favorable results are delivered each year. The AMC management model demonstrated more skill at managing the bottom line.

## Footnotes:

- <sup>1</sup> "Are AMC-Managed Organizations Recession Resistant?"; by: Michael T. LoBue, CAE; © 2010 LoBue & Majdalany Management Group
- <sup>2</sup> While the AMC Institute was not involved in this study, the 41 AMCs were all Institute member firms at the time of the study.
- <sup>3</sup> "Are AMC-Managed Organizations Recession Resistant?"; by: Michael T. LoBue, CAE; © 2010 LoBue & Majdalany Management Group; page 4
- <sup>4</sup> *Ibid*; page 6

## About LoBue & Majdalany Management Group



LoBue & Majdalany (L&M) is an AMC Institute Charter Accredited association management company. Since 1993 we have been providing executive management and operational support services to discerning international trade associations in the computing technology market segments, as well as professional societies. Our executive directors are committed to the association management profession, as designated by their commitment to earn the industry's highest professional credential, Certified Association Executive (CAE), awarded by the American Society of Association Executives (ASAE).

## About Michael T. LoBue, CAE



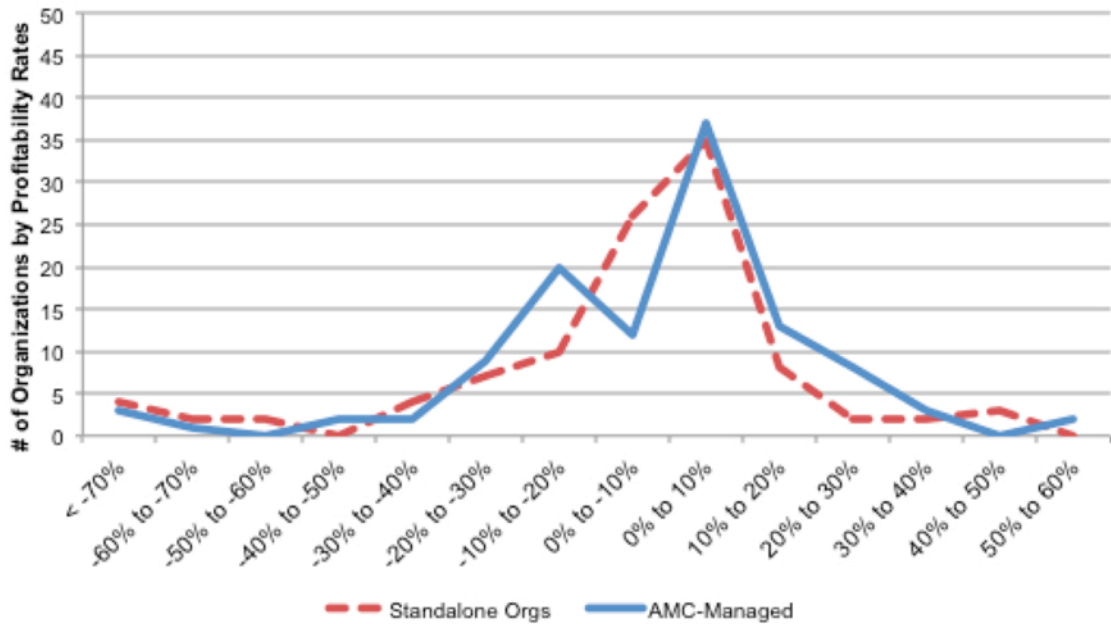
Michael LoBue, CAE, has served as executive director and board member to various non-profit organizations since 1980. LoBue entered into the association management business in 1993 to provide the computing industry with a highly experienced professional alternative to existing management options.

As an independent marketing consultant from '90 to '93, LoBue developed marketing strategies for workflow products, professional technology services, and high-performance desktop communications products. As a marketing manager at Sun Microsystems, he developed and implemented marketing strategies for the higher education market.

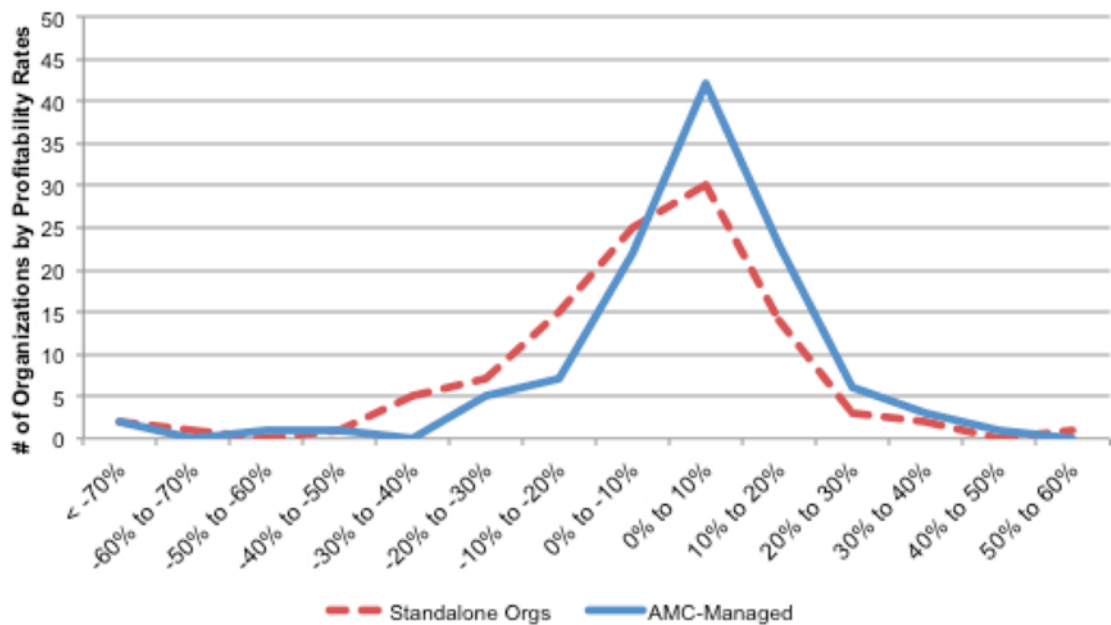
LoBue has an M.S. in Management & Public Policy from Carnegie Mellon University and a B.A. from the University of California at Berkeley.

## Appendix – Distribution of Net Profitability Profiles

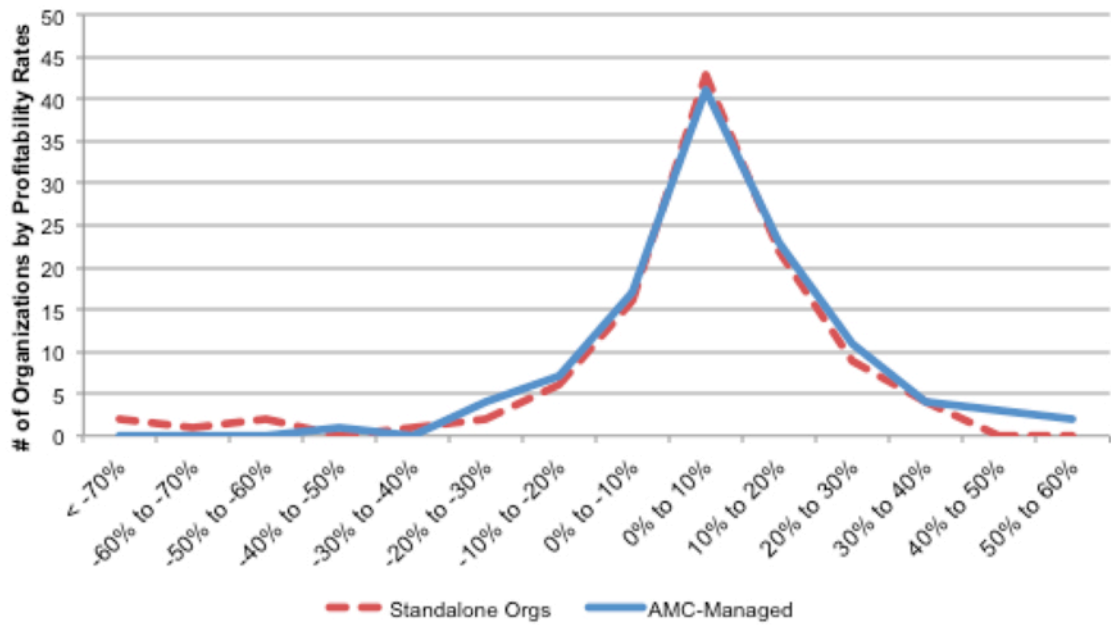
### Chart #3a: Distribution of 2009 Net Profitability



### Chart #3b: Distribution of 2008 Net Profitability



**Chart #3c: Distribution of 2007 Net Profitability**



**Chart #3d: Distribution of 2006 Net Profitability**

