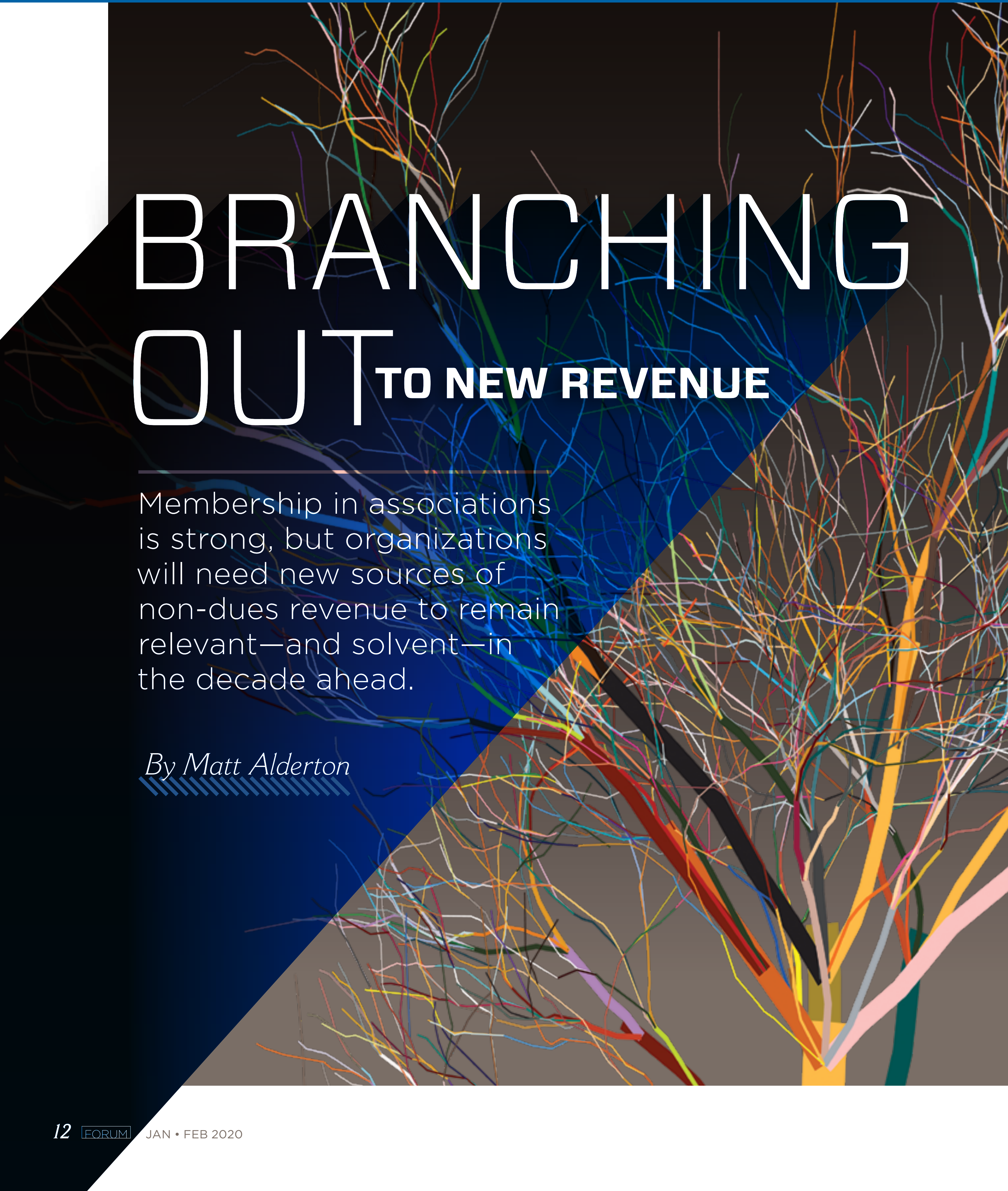

BRANCHING OUT TO NEW REVENUE

Membership in associations is strong, but organizations will need new sources of non-dues revenue to remain relevant—and solvent—in the decade ahead.

By Matt Alderton

The year was 1999, and a new millennium was about to dawn. When it did—at the stroke of midnight on Jan. 1, 2000—chaos would ensue, and the world would unravel like a sweater with a fatal snag.

At least, that's what doomsayers predicted. Because of the way computers had been programmed to record dates, they believed machines everywhere would interpret the year 2000 as the year 1900, causing networks to crash en masse, bringing down with them financial systems, power grids and even airplanes in the sky.

Of course, the world did not end in the year 2000. But something else did: software. Not because of Y2K, but because of software executive Marc Benioff, who in March 1999 established the company Salesforce inside a one-bedroom apartment in San Francisco. Benioff and his co-founders declared the "end of software" when they launched their cloud-based customer relationship management (CRM) platform, which lived on a website instead of a hard disk. Traditional "on-premises" software was expensive to install and support, was slow to implement, required copious infrastructure and was updated at a snail's pace. So-called "software as a service" (SaaS), however, could be implemented, scaled and updated quickly, easily and affordably, thanks in part to an entirely new revenue model based on subscriptions rather than licenses.

Although it seemed radical at the time, the value proposition was undeniable. Twenty years later, most enterprise applications are SaaS-based. On-premises software didn't stand a chance.

Associations in 2020 look a lot like software did in 1999: Although they're valued, vital and growing, many of them also are slow, stale and ungainly. In order to remain viable in a changing world, they must go the way of software by finding new, better ways to do the things their members rely on them to do—and a new revenue model with which to support them.

Modulating Membership

Membership in associations is strong. In the 2019 edition of its Economic Impact on Associations Study, McKinley Advisors reports that member retention rates have reached their highest level in more than a decade. Marketing General Incorporated (MGI) is similarly upbeat in its 2019 Membership Marketing Benchmarking Report, in which it states that 45% of associations have seen membership increase, while only 26% have seen it decrease. Because members are the financial and existential bedrock of associations, that's good news.

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>
> *SHERI JACOBS, FASAE, CAE, PRESIDENT AND CEO, AVENUE M GROUP*

And yet, storm clouds loom, according to MGI, which says 75% of association members are age 40 or older. If demographic trends hold, associations can no longer afford to rely on membership dues in the long term, even if membership surges in the short term.

"Membership has been the main revenue driver for a lot of associations because for a long time it was consistent," says Tyler Eble, vice president at Association Development Solutions (ADS), a Naperville, Illinois-based fundraising consultancy for associations. "You could plan on it and project it out, but it's becoming way more difficult to do that now. Younger generations have different values and priorities. A lot of young people don't even understand what an association is. So you have to turn to non-dues revenue streams in order to supplement potential losses."

Associations' survival depends on non-dues revenue, echoes Sheri Jacobs, FASAE, CAE, president and CEO of Avenue M Group, a Chicago-based marketing research and consulting organization that specializes in association clients. "If its main source of revenue starts to dry up, or if changing trends suggest it may not be around for much longer, an association must be prepared to pivot and change its business model," she says. "Not in the future, but right now."

Agile Associations

Non-dues revenue already is a significant income source for many associations, according to the ASAE Foundation. In the most recent edition of its Association Operating Ratio Report, the foundation reveals that membership dues still constitute the largest chunk of revenue for associations, but their contribution to the bottom line has fallen from 95.7% of total revenue in 1953 to 45.4% and 30% of total revenue for trade associations and professional associations, respectively, in 2016.

"The status quo doesn't exist anymore for associations," Eble says. "That's a good thing because it has caused leadership to really think about how they're going to change with the times and create new programs that can help them stay relevant."

In that way, non-dues revenue is as much about innovation as it is diversification. In fact, associations that have seen increases in membership are significantly more likely to indicate that their organization has a culture that supports innovation, according to MGI.

That rings true to Terrence Sykes, MBA, chief development officer for the Emergency Nurses Association (ENA) in Schaumburg, Illinois. In 2016, his organization appointed a new executive director, Nancy MacRae, for whom innovation is a major strategic priority. Under MacRae's leadership, ENA has accelerated its development of new programs and, as a result, increased its non-dues revenue by 25%, from $20 million in 2016 to $25 million in 2019.

"In recent years we've made a really conscious effort to grow non-dues revenue in a way that has been very targeted and very intentional," explains Sykes, who says membership dues account for only 18% of ENA's overall revenue. "Nancy has been a driver around that. Because of her, we're a much more nimble organization today than we used to be."

At innovation-minded organizations like ENA, the secret to growing non-dues revenue is acting more like a software company than an association. The latter typically uses a waterfall-based approach for project management; because associations move step by step through the product development process, they often take months, or even years, to conceptualize and mitigate risks before new programs see the light of day. Software companies, on the other hand, take an agile approach to project management; they work in iterative sprints to quickly launch a minimum viable product that they can subsequently improve and expand based on user feedback.

"A lot of organizations are willing to stay in creation mode forever, but our philosophy is: We're going to pilot, we're going to assess and then we're going to execute," Sykes says. "We're not afraid of failure, and that allows us to create new products quickly."

Revenue Roulette

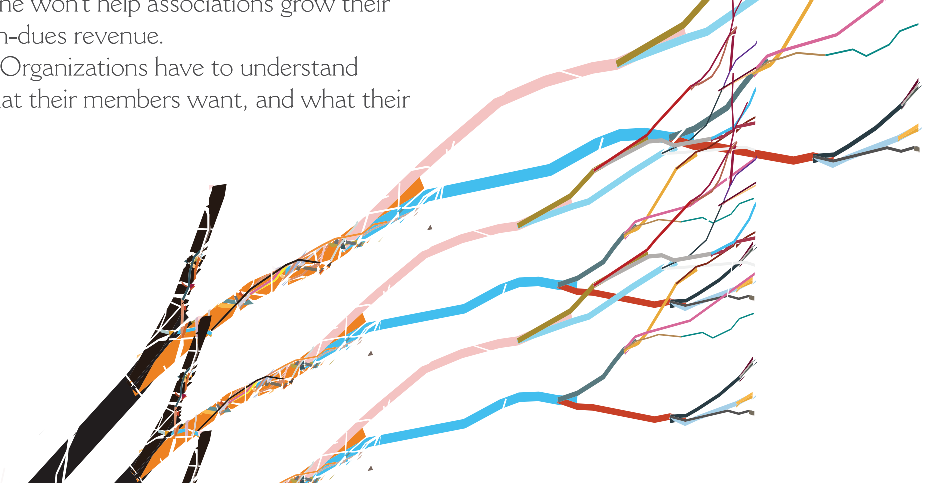
An agile approach can make associations faster and more responsive in the face of threats and opportunities. But speed alone won't help associations grow their non-dues revenue.

"Organizations have to understand what their members want, and what their industry or profession needs," Eble says. "Because you can create a lot of great programs, but if it's not what people are looking for, nobody's going to invest in them."

For associations that want to widen their non-dues aperture, a good first step is to conduct an assessment of their member needs that marries membership feedback with market research.

Because every organization is unique, no two should reach exactly the same conclusion. Associations' shared DNA, however, means there are opportunities with universal appeal. Among them:

- **Meetings:** The largest source of non-dues revenue for many associations is meetings, demand for which continues to grow thanks to consumers' appetite for live experiences. Organizations can grow non-dues revenue from meetings by creating new opportunities for attendees and sponsors alike, according to Sykes, who says ENA has successfully created numerous value-added revenue streams within its meetings. At its annual meeting, for example, it offers sponsored education sessions during which exhibitors can teach attendees to use their products, hands-on skill labs during which attendees can learn and sharpen specific nursing skills, skills-based competitions and destination excursions—all of which generate ancillary fees from participants and sponsors who are willing to pay extra for premium opportunities. The organization also has launched several smaller, regional meetings that generate registration and sponsorship dollars from



25%

REVENUE FROM NEW PROGRAMS

Development of new programs increased the ENA's non-dues revenue by 25%, from **$20 million in 2016 to $25 million in 2019**.

Source: Emergency Nurses Association (ENA) individuals and organizations that can't participate in its national convention.

- **Online education:** Education is another major source of non-dues revenue on which ENA has focused. In particular, it has digitized several core education products by adding online modules that feature virtual and gamified simulations. In so doing, it has simultaneously increased access—more members can enroll when education is offered remotely—and appeal: More members want to enroll when education leverages the latest technology.

- **Streaming content:** Associations don't have to create new offerings to grow non-dues revenue. Often, they can simply create new pathways to existing assets, according to Jacobs, who says associations should think strategically about access to their present portfolio. Consider popular music, for example, which used to be sold outright in the form of records, cassettes, CDs and MP3s, but is now offered via streaming services to which listeners subscribe. As a result, some artists have stopped making albums in order to focus on releasing singles. Associations that want to stimulate non-dues revenue should consider similar shake-ups by assessing what products, services and content can be sold as "singles" instead of "albums"

CREATING REVENUE OFFSHOOTS FOR YOUR ASSOCIATION

Image: filo/DigitalVision Vectors via Getty Images and which ones can be "streamed" instead of sold.

- **Philanthropy:** Philanthropy is an underutilized non-dues revenue stream for many associations, according to Eble. From member giving programs to large-scale capital campaigns, they can be an effective way to generate both revenue and enthusiasm in support of an organization, industry or initiative.
- **Partnerships:** Partnerships have been another lucrative non-dues revenue stream for ENA, according to Sykes, who says the organization's partners include a major medical publisher with which it codevelops educational content for the company's training platform, and international liaisons in 16 countries that deliver ENA products and programs to global audiences. ENA receives royalties from each partner in exchange for its expertise and brand equity.
- **Data mining:** A final piece of low-hanging fruit, Jacobs and Sykes agree, is data, which can be monetized, packaged and sold to corporations and other stakeholders who covet valuable information about associations' members.

Same Mission, Different Market

Speaking of data, it's the key to change management, according to Sykes, who says associations must be willing to prune their portfolio to achieve optimal non-dues revenue. Although that might mean establishing new products, it also could mean retiring old ones—a hard pill to swallow for association boards, whose members often have emotional connections to legacy offerings. Hence, data.

"If you need someone to be a good leader or partner, you have to put them in a position to be a good leader or partner," Sykes says. "For us, that means supplying our board with the data necessary to see the gaps in our portfolio and the possibilities."

Therein lies the fundamental promise of non-dues revenue: When associations address gaps and possibilities on their income statement, they also address gaps and possibilities in the execution of their mission.

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>
> *TYLER EBLE, VICE PRESIDENT, ASSOCIATION DEVELOPMENT SOLUTIONS*

"At the end of the day, members still need the same things they needed 50 years ago: They still need to grow their business, advance their career, make money, learn new skills," Jacobs says. "Those key drivers existed yesterday, they exist today, and they'll exist in the future. What needs to change is how associations deliver those benefits, so they align with today's market forces."

Expanding Further

Learn more about how to add to your association's non-dues revenue streams with real-life advice from the experiences of the American Academy of Periodontology. Access this *FORUM* Magazine Web Exclusive at ***forummagazine.org***.