Membership Income

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NCNE
Helping nonprofits make wise economic decisions

How important is Membership Income?

- Dues are the only portion of member income regularly and clearly reported
- Still problems with defining “dues”:
  - Reported dues can be like donations (if organization provides collective goods and no governance rights.)
  - Reported dues are clearly “dues” when the organization provides collective goods only to members and members govern the organization

How important is Membership Income?

- Reported dues can be like sales of goods and services when they support private goods and services.
- IRS 990s separate “dues” into reasonable payments for member services and donations. Donations are not classified into donations by members vs. nonmembers.

How important is Membership Income?

- The average 501c3 receives less than 1% of revenues from dues.
  - Recreation orgs. receive 11% of revenues in dues
  - Animal related npo's receive 5%.
- Social clubs (501c7) get 60% of revenues from dues
- Business leagues (c6) get 40%

How important is Membership Income?

- Members of American Society of Association Executives (mostly c3 and c6) rely more heavily on dues, but…
- Share of dues in their total revenues has been declining since 1974

Choices to Make

Dues are one element of the revenue "portfolio," so reliance on dues should be a strategic investment choice.

Choices to make

Dues are complicated – there are choices regarding:

- categories of members (differentiated by organization vs. individual, income, willingness to pay extra, benefits provided)
- member benefits vs. those available for sale in each category
- discounts and surcharges
- sales to nonmembers

Making Choices: principal considerations

Mission:

Structure of Membership Income Doesn't just raise $ – it affects attainment of mission as well by affecting who wants to join and how the organization is seen by outsiders.

Making Choices: principal considerations

- Missions are instrumental, affiliative, expressive or paternalistic and policies towards member income need to account for the differences:
    - Instrumental – usually maximize net revenues
    - Affiliative – exclusive clubs set dues high, inclusive low.
    - Expressive – member benefits visible
    - Paternalistic – low dues, high benefits to allow them to “push”

Making Choices: principal considerations

- Covering Costs
  - Cross-subsidization – dues lower than cost for member-serving, higher than costs for public-serving organizations.
  - Overhead Allocations – Accounting conventions shouldn’t define management decisions

Making Choices: principal considerations

- Membership numbers respond to changes in dues rates and structures.
  - If demand is elastic (percentage fall in membership caused by a 1% increase in dues is greater than 1), rate increases result in lower dues revenue.
  - Elasticity is large if member services are unimportant to them, there are good alternative organizations to join, and dues are a large fraction of member ability to pay.
  - Elasticity is small if the process for deciding dues is seen as fair, the case for an increase is clearly communicated, and the value equation remains favorable (perceived value exceeds cost of membership).

Making Choices: principal considerations

- Fairness
  - as the outcome of a fair process of decision making
  - as vertical equity (higher rates on those with greater ability to pay)
  - as horizontal equity (same rates for similar members) – but based on use of services or value placed on services?
  - as an “envy-free” rate and benefit structure (no category of member wants to switch places with another).

Making Choices: principal considerations

- Know your membership – motivations:
  - distinguish joiners from stayers
  - do they get tax deductions or reimbursement?
  - will dues come at the expense of donations from members?
  - will they switch to a different category of membership to save money?
- Know the competition – are they also raising rates? Are member benefits similar?

Making Choices: deciding on a rate structure

- Projecting the Effects of Rate Changes
  - See handout
  - Project trend in membership with/without the rate change
  - Surveys and focus groups help predict effects on membership, but it is important to frame the issues realistically.
  - Conduct sensitivity analysis.

Dues at “Long Strange Trips”

Year	#Reg Mbrs	Reg Mbr Dues	Cost, Reg Benfts	Reg Mbr Net Rev	#Stud Mbrs	Stud Mbr Dues	Cost Stud Mbr	Stud Mbr Net Rev	Cost, Collec Ben	Mbr Net Rev	Other Rev	Other Cost	Other Net Rev
Historic													
2003	100	50	30	2000	50	30	30	0	3000	-1000	5000	4000	1000
2004	110	50	45	550	60	30	45	-900	3000	-3350	6000	5000	1000
2005	121	50	45	605	80	30	45	-1200	3100	-3695	7000	5500	1500
Baseline													
2006	133	50	45	665	100	30	45	-1500	3100	-3935	8000	6000	2000
2007	146	50	45	730	110	30	45	-1650	3200	-4120	9000	6500	2500
2008	162	50	46	648	115	30	46	-1840	3300	-4492	10000	7000	3000
Raised													
2006	126	75	45	3780	90	40	45	-450	3100	230	8000	6000	2000
2007	139	75	45	4170	99	40	45	-495	3200	475	9000	6500	2500
2008	154	75	46	4466	104	40	46	-624	3300	542	10000	7000	3000

ARNOVA Dues

Historic	reg.#	reg.dues	reg.revenue	FT stud.#	FT.stud. Dues	FT stud. Rev	total #	totrev.	var.cost*	NMR**
2001	677	$ 100	$ 67,700	171	$ 45	$ 7,695	1,005	$ 91,830	20100	$ 71,730
2002	688	$ 100	$ 68,800	150	$ 45	$ 6,750	1,068	$ 98,130	21360	$ 76,770
2003	742	$ 100	$ 74,200	165	$ 45	$ 7,425	1,069	$ 102,270	21380	$ 80,890
2004	692	$ 110	$ 76,120	229	$ 45	$ 10,305	1,100	$ 114,525	22000	$ 92,525
2005	703	$ 110	$ 77,330	239	$ 45	$ 10,755	1,119	$ 116,285	22380	$ 93,905
2006	712	$ 110	$ 78,320	222	$ 45	$ 9,990	1,102	$ 113,210	22040	$ 91,170
Baseline(linear trend)										
2008	724	$ 110	$ 79,661	271	$ 45	$ 12,210	1,209	$ 124,328	24174	$100,154
2009	729	$ 110	$ 80,195	288	$ 45	$ 12,964	1,244	$ 127,632	24872	$102,760
2010	734	$ 110	$ 80,730	305	$ 45	$ 13,717	1,279	$ 130,937	25571	$105,365
2011	739	$ 110	$ 81,264	322	$ 45	$ 14,471	1,314	$ 134,241	26270	$107,971
2012	744	$ 110	$ 81,798	338	$ 45	$ 15,224	1,348	$ 137,569	26970	$110,599
Baseline(adhoc)										
2008	720	$ 110	$ 79,200	230	$ 45	$ 10,350	1,144	$ 118,870	22872	$ 95,998
2009	720	$ 110	$ 79,200	240	$ 45	$ 10,800	1,158	$ 119,614	23167	$ 96,447
2010	720	$ 110	$ 79,200	250	$ 45	$ 11,250	1,173	$ 120,358	23462	$ 96,896
2011	720	$ 110	$ 79,200	260	$ 45	$ 11,700	1,188	$ 121,102	23757	$ 97,345
2012	720	$ 110	$ 79,200	270	$ 45	$ 12,150	1,203	$ 121,846	24052	$ 97,794

What Happens if ARNOVA Dues increase 5%?

(Columns are Year, # Regular Members, Regular Member Dues, Reg. Member Revenues, #Student Members, Student Dues, Student Revenues, #Total Members, Total Revenues, Variable Cost, Net Member Revenues).

Baseline(linear trend)										
2008	724	$ 110	$ 79,661	271	$45	$ 12,210	1,209	$ 124,328	24174	$100,154
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5% annual increase simulation***										
2008	717	$ 116	$ 82,808	263	$47	$ 12,436	1,189	$ 128,812	23779	$105,032
2009	714	$ 121	$ 86,603	270	$50	$ 13,414	1,201	$ 136,848	24029	$112,819
2010	711	$ 127	$ 90,508	276	$52	$ 14,378	1,211	$ 145,109	24220	$120,889
2011	707	$ 134	$ 94,519	280	$55	$ 15,315	1,217	$ 153,569	24348	$129,221
2012	703	$ 140	$ 98,629	282	$57	$ 16,209	1,221	$ 162,221	24411	$137,810
Intermediate Calculation for simulation										
	elast.	mbr1.n	elast.2	mbr2.multiplier						
2008	0.2	0.99	0.6	1						
2009	0.2	0.98	0.6	0.9						
2010	0.2	0.968	0.6	0.9						
2011	0.2	0.957	0.6	0.9						
2012	0.2	0.945	0.6	0.8						
*** Assumes linear baseline trend, price elasticity = -0.2 for regular, instit., supporting and inst.										
*** Assumes price elasticity = -0.6 for students and retirees										

Making choices: Diagnostic Questions

- Adequacy of dues:
  - What is the share of revenue from dues?
  - How does dues revenue compare with the cost of member services?
  - How stable is non-dues revenue?
  - What increases are likely in the costs of member benefits?
  - What trends are there in membership in the npo and others in the same field?

Making choices: Diagnostic Questions

- Rate increases:
  - What are the financial projections with and without increase?
  - What degree of price elasticity is there?
  - What level of membership category switching might there be in response?
  - What will competitors do in response?
  - What will the effect be on non-dues revenue?

Making choices: Diagnostic Questions

- Structural reforms:
  - What will their effect be on mission?
  - What balance is required between member benefits and sales to members?
  - What types of membership are to be offered?
  - Are the changes fair?

Making choices: Diagnostic Questions

Finding the answers to these questions:

- good research
- sensitivity analysis
- appropriate stakeholder consultation.