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Membership: The Pricing and Value Challenge

Associations are slowly waking up to a new reality. The use of the Internet and globalization are resulting in competition from organizations beyond the normal turf. This is not strictly a "for-profit" concern. Members of associations are able to access information and knowledge from other organizations and therefore have exposure to products and services of varying degrees of quality, value and pricing. As a result, members know what value the association is or isn't providing, and, they are generally demanding more value for their membership dues and fees.

Members are concerned about value. It is ever present in their minds - not just at annual renewal time. Of course, there are different perceptions of value. In the view of one member, value may be getting what they want from a specific product or service. Another member may simply define value as a low price.

To improve the value proposition, associations have been changing information into knowledge for members. This results in improved value. It also increases costs resulting in new pricing arrangements. It is important to know how many members value information or refined knowledge and for what products and services. This can help guide your packaging and pricing of dues and product and service fees. It is therefore important to monitor what members value and reassess pricing as those values change.

Is the value right?

How do you monitor member value to help guide your pricing and quality decisions? Some of the more popular approaches include personal contact with members and the conduct of surveys. Having access to member value performance indicators for association products and services will assist not only with pricing decisions, but will help you determine when it might be appropriate to abandon a product or service or bring in something new.

Donald Belfall, in his book "Creating Value for Members", takes a look at member value in the association community and finds that associations are all over the map when it comes to matching pricing to value. His research suggests value ranks before price, and that members will pay for what they really value. Members will pay the price for products or services they value as long as they receive the desired benefit. Constantly trying to reduce or maintain dues or service fees can often result in a decrease in quality and, in turn, value. This may well result in a reduction of desired benefits and could result in a decrease in members.

Maximizing member relationships and activity has stepped up a notch in the for-profit sector with a renewed focus on customer relationship management. Will the not-for-profit sector be far behind or do we think we have always had that focus?

Members are influenced by what they see in the for-profit world and association managers must display much of the same knowledge and skills as a for-profit manager in order to develop an effective response. While there are many similarities between the for-profit and not-for-profit sectors, there is a difference in the area of pricing.

Is the price right?

Pricing philosophies for associations are different than those in the public sector as associations are not out to generate revenue for the sake of profits. Associations seek to break even or generate a surplus that will allow them to more effectively carry out their mandate, improve services, and enhance member satisfaction. All of this adds to the complexity of any pricing decision.

Pricing, therefore, is not always straightforward. Some association products or services may be:

- priced at or below cost in anticipation of a large volume of sales;
- priced as a core service that must be available to all members at a reasonable cost; or,
- subsidized because it will be of more value to the association than the member.

On what basis do you set prices for dues and product and service fees?

Price is based on three key costs: direct materials, labour and overhead (facilities, and other general operating costs). There are some obvious "numerical" variables that must be considered in developing a price. Beyond the general rule, there are other factors that need to be taken into consideration such as marketing strategy, politics, legal concerns, cost, demand, pricing objectives, competition, the product or service, delivery systems and promotion. If you consider all of these factors, you will be more likely to arrive at the appropriate price for your product or service.

As a general rule, all products and services should be priced at least at a level that covers both the fixed and variable costs of delivery. In other words, the association should consider each of its products and services as a "profit center" or a contributor to a surplus. The extent of the level of contribution to overhead and surplus will vary from association to association and is based on a number of factors as listed.

One unwritten common policy has membership dues subsidizing services even though not all members use them. Why send a product out to all members when only 40 percent may use the product and the rest throw it out? This problem is now being addressed. There is a trend toward maintaining or reducing the level of membership dues to cover core services and applying a user pay policy to value added items.

A pricing policy to cover different arrangements for core services and other value added services is required. There will be exceptions to policy that may require some products and services to be subsidized or bundled. Association managers without policies should be able to justify a decision to establish a given price. Remember that all pricing decisions can be subject to criticism.

Many educational related services and other products and services do not account for replacement or development costs. In cases where there are substantial development or replacement costs, the costs should be amortized over the estimated period. Pricing should take this into account.

From Subsidization to User Fees

Responses from students in the Association Management Education program indicate:

- There is a valiant effort to establish prices for products and services on a breakeven basis and losses are still occurring.
- Not all financial staff are consulted on pricing decisions.
- Not all policies in place are simple. One organization has a flexible discriminatory policy based on capacity to pay. Abuses are noted, as there is some relish in getting something for free.
- One association charges more in areas where they have a strong membership and less in areas where membership is lower.
- There is a trend to low memberships where it is easy to become a member but to charge market average for conferences and special services.
- Despite attempts to include all costs in pricing decisions, fixed costs are often neglected and the real cost of doing business is often unknown.
- Some external funding conditions may prohibit revenue generation.
- Most report they have no formal pricing policies in place and pricing is generally "hit and miss" in terms of financial impact.
- Benchmarking for pricing is a rare practice.
- Allocations for contributions to overhead are in the 10 to 25 percent range.

Improvements in pricing policies, practices and product and service value will reduce the challenges of finding the right price-value balance for dues, and products and services and provide for longer-term continuity. If you want to get off the short-term scramble and gamble, I suggest you read Belfall's "Creating Value for Members" and conduct some Internet research on pricing.

This column features innovation and practical solutions applied to challenges, trends, issues, and opportunities for the association community. Column editor Jim Pealow, MBA, CMA, CAE is a consultant and the Association Management Education Program Lead Instructor/Coach for CSAE. He can be reached at jim@amces.com.