Growing Markets, Shrinking Prospects: Thriving in an Era of Consolidation

By Kevin Whorton
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Industry consolidation. It's an interesting subject--an aspect of our operating environments that's often hard to measure. I recently conducted research on the impact of industry consolidations, collecting data from 70 associations. It is not a random sample, but rather includes trade associations that are concerned with the challenges of consolidation. In fact, only 14 percent expressed concern.

Consolidation happens

To understand how consolidation affects the industries that our associations serve, we need to track statistics closely and sometimes ignore the hype.

Business press covers major mergers, acquisitions, and bankruptcies with a microscope, but rarely do these activities directly affect our memberships. Instead, it's the cumulative effect of many smaller, unlamented companies being snapped up by growing companies that will have the greatest impact on nonprofit memberships.

In this study, I focused primarily on trade associations, but the dynamics of consolidation affect the membership and revenue base of many professional societies as well. As consolidation occurs, corporate headquarters, hospitals, stores, service providers, and so forth may close or change policies. The new corporate parent may be less likely to pay dues for everyone, give time off for conferences, or reimburse for publications. Membership declines can be tracked in all associations and attributed directly or indirectly to consolidating markets.

The cost of consolidation

The 70 participating associations provided data regarding their membership demographics, budgets, and total memberships. The goal was to identify long-term trends by comparing this data to comparable figures from five years ago. Simply, the average direct income loss was approximately $206,000 in general member dues per year beyond normal attrition. This loss, which reflects the dues from a mean of 73 and a median of 20 lost members per year, would have been 5.4 percent of this year's average total association budget, or 10.8 percent of the total membership budget.

This figure, of course, excludes other possible impacts, such as reduced associate or affiliate member dues or declining industry support, but it gives us a general sense for the cost of consolidation.

Profile of participating associations

- The associations reported a median of 540 general member companies, 108 associate or affiliate member companies, and a total budget of $2.2 million.
- Five years ago, these associations reported a median of 330 general members, 119 associate or affiliate members, and a total budget of $1.3 million.
- The median change was 0 percent for total direct or general membership, and 2.8 percent for associate members.
- Several associations in growing industries posted huge increases, but the typical experience was little or no growth in terms of total companies represented.

Associations' total budgets grew a median of 18.8 percent over five years. This growth resulted from a mix of dues increases, changes in structure (allowing them to maintain or increase dues revenue as companies grew through mergers), and the exploitation of new revenue streams.

Associations report an average revenue mix of general member dues, 42 percent; associate or affiliate dues, 8.2 percent; exhibits or sponsorship revenue, 20.3 percent; and all other sources, 29.6 percent. Five years ago, the picture was only slightly different--general dues, 45.4 percent; associate dues, 8.7 percent; exhibits or sponsorship, 19.9 percent; and other sources, 24.3 percent. Across time, budgets are shifting away from dues and into other revenue sources at a rate of less than a percentage point a year.

The "average" association is following a long-term diversification strategy, but in the short term, its size and structure may be vulnerable to the shock of losing one or a few large members.

Dues were worth an average of $10,490 and a median of $1,025 for general members; an average of $1,761 and a median of $700 among associate members. Most (69 percent) have a sliding scale based on dollar volume or some other indicator--a necessary feature to ensure that new, post-merger companies automatically pay more dues.

Many associations operate in highly concentrated environments. Respondents indicated, on average, the top 10 players combined make up 51 percent of the volume in their industry. The average market share accounted for by the association's total membership is 61 percent--only 10 percent more than the major players combined.

The degree of concentration, and the increasing influence of large members, can affect the overall future of our associations as business entities. Most associations indicate that they have no direct competition or at most only one key competitor, but having no competition in an eroding market may be just as damaging as having associations competing for your members' time, attention, and allegiance.

What are associations doing about consolidation?

Although many association executives indicated that consolidation is not yet a significant concern among their boards, they personally are concerned, and many are taking action.

- **Some expand:** "We've changed from being strictly a 'trade association' to one that more closely represents the entire industry/channel."
- **Others focus:** "A significant part . . . has moved toward servicing the significant players in the market to ensure that they remain satisfied."
- **And others have improved their image:** "(We) raised our profile and thus the value of association in the industry."

Some indicate that the possibility of future consolidations is leading to changes in member services, and conscious choices to expand into new, peripheral markets. As their industries change, so do the individual company members, providing association executives with "moving targets."

In terms of marketing tactics, a majority of associations rely on direct marketing and responses to incoming inquiries. And a few use personal sales, the Web and e-mail, and exhibits to generate additional memberships.

Many have increased their recruitment and retention efforts and created new services for more diversified membership bases. Other solutions include new markets and new membership segments, new governance structures, and adjustments to the business model such as new or changing dues structures for general membership and associate members, and even recognizing sub-units of companies as members. Only one third is responding by simply reducing expenses.

How well have these associations adapted? Forty-three percent indicate they have maintained market share (in terms of memberships' total share of the industry's total business), and another 34 percent have stayed roughly the same, in a world where nearly 70 percent indicate that their industry's overall concentration has increased.

What's next?

Because the average association is still growing, consolidation currently represents a drag on growth--something that challenges us to replace about 5 percent of our revenue each year.

Over time, or with a cooling economy, we must be vigilant to ensure that the effect doesn't grow into a full-blown problem fostering missed targets, tighter budgets, or even loss of funds for programs and services.