Trade and professional associations of all sizes and types are taking a fresh look at their dues structures and corresponding benefits allocations. With lean budgets and members clamoring for more value for dues, many have been faced with the stark realities of revising their dues systems—lifting caps or creating new membership categories to accommodate new types of members—or thinking about merging with other associations or forming strategic alliances.

When associations consider reworking their dues structures, both staff and volunteers need to revisit the basics: the typical characteristics of dues, how they are classified, and the various bases on which they are priced. Additionally, they must understand what key factors must be used in determining the dues structure and what pitfalls may be encountered in modifying it or establishing a new structure. Finally, they must be prepared to communicate the new structure in such a way that members completely understand and buy into the change.
Equity: Finding the Right Common Denominator

The major reason associations have dues in the first place is to provide a fair basis for members to make an equitable contribution to the survival and growth of the association. We must weigh a variety of factors when establishing or changing a dues base or rate so that all members in all categories and classifications are treated equally. Because of this, it is difficult to redo a structure that has been in place for some time, as the association has to have a very good reason and then must explain that reason to the members in such a way that they understand that there is a need for a new equity basis to be used.

First and foremost, a good dues base provides equity among all classifications of members. If a dues base has nothing else but equity, it will likely satisfy most major objectives of the association.

Equity indicates that each member of the association will provide a financial contribution that is his or her fair share, according to the revenue and expense breakdowns of the association. Along with this goes the philosophy that larger members within the association will pay a larger “fair share” than smaller members. Within many trade associations, you see a graduated dues base in which larger members share more of the financial burden while enabling the association to broaden its base with a variety of smaller and mid-level members.

This concept must be clearly explained to larger members who grumble that they pay too much in proportion to smaller members. In fact, it is the responsibility of the larger members to sustain the financial base of the association, and the responsibility of smaller members to maintain their membership, whether or not most programs or services are directly aimed at them. Each class of members suffers to some degree for the good of the overall industry.

Conversely, some associations have a single fee paid by all members, regardless of size, based on the products and services offered by the association. Other associations provide a significantly better benefits package to larger members, who pay more, than they provide to smaller members, who pay less.

As long as the association and its members understand the basis of the dues and feel that it is equitable to all members based on the vision, mission, goals, and objectives of the association, most members should be satisfied.

After equity, it is most critical to find a common denominator to measure members’ financial contributions. This is simpler when all members are in the same line of business and do the same things. However, when the association is made up of several vertical marketplaces, it becomes more difficult. In these cases, the association must develop a common denominator for each category of member, and at the same time, ensure that all types of members are being treated as equally as possible.

Finally, the association must ensure that the amount of dues that it charges, in combination with its nondues income, has the ability to support association operations and provide approximately a three to six percent yearly contribution to reserves. It is critical that the association carefully examine the ratio of dues to nondues income it expects to maintain in its infancy—and also at maturity—so that members are paying neither too much nor too little to support the association based on the entire product line that it sells to its members and other constituencies.

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The Role of Member Categories

The dues structure that the association chooses is determined to a great degree by its member categories. If there is only one category of membership, the dues base can be easily put in place by using a common denominator from the industry or other criteria as described below. However, with a variety of membership categories, the association may need to establish a different dues base for each that provides for an equitable contribution by all.

Most associations will charge different dues for different categories of members. For example, many charge service providers (companies that sell goods and services to active members) higher dues than they charge other classes of members. Service providers...
understand this principle; they understand that they have an obligation to support the active members in their pursuits in order to make sales and provide services to them.

Associations can mix and match dues bases as long as they do not mix and match members within the category. For example, in most instances, associations that have service-provider memberships should not provide these memberships on an individual basis if they also provide for them on a company basis. If there is a service-provider company category, then an individual from a service company should not be able to join the association as an individual member. Rather, the service-provider company should be afforded the opportunity to have several members join at reduced rates as part of its organizational membership. On the other hand, if the association does not wish to provide for a service-provider company membership, but rather would like to have a service-provider individual membership, then they could establish that membership for all service providers, regardless of company size.

**Choosing a Dues Base**

There are a variety of dues bases currently used by associations:
- Total revenue;
- Total sales;
- Percentage of sales;
- Flat or fixed rate;
- Units of production;
- Number of employees;

**SQUARING OFF YOUR DUES STRUCTURE**

The quest for an equitable dues structure is complicated immensely in associations whose members can have anywhere from $1 million in assets to $10 billion. A proportional dues structure can lead to massive charges for the largest members, while a regressive or declining-rate structure (e.g., paying 45 cents per $1,000 in assets for the first $1 million, then 35 cents per $1,000 for the next $1 million, and so forth) can lead to large members adding almost nothing to their dues as their assets increase.

Bill Hampel, chief economist of the Credit Union National Association, offers one solution that some state credit union associations are beginning to use: the square root of assets formula.

As Hampel explains, the square root of a number rises much less quickly than the number itself. Look at the following sequence of numbers and their square roots:

- 1,000,000 SR = 1,000
- 2,000,000 SR = 1,414
- 4,000,000 SR = 2,000
- 10,000,000 SR = 3,162
- 50,000,000 SR = 7,071

Simply put, two million is twice as much as one million, but the square root of two million is not twice as much as the square root of one million. “It only goes up by 40 percent,” explains Hampel. “At $4 million—that’s four times the size of the base case—if we look over at the square root of assets, it’s only doubled, from 1,000 to 2,000. The increase early on is pretty strong, but it gets softer and softer and softer the further you go.” Fifty million is 50 times greater than 1 million, but the square root is only seven times larger.

But what does this have to do with dues? First, determine your dues budget for the year—how much you need members to contribute to the ongoing work of the association. Then, add up the square roots of the assets of all association members and divide that number by the amount of the total dues budget. The result is a coefficient that you would use to determine each member’s dues, simply by multiplying the square root of their assets by the coefficient.

Hampel explains, “So the square root of dues formula happens to be a fairly systematic, fairly balanced way to have a fair, but regressive—a fair, but declining-rate dues formula. ... And if each year, you calculate the total dues budget, and calculate the sum of the square roots of all the members, and use that to calculate a coefficient each year, everyone will get a proportionate, fair increase in their dues from year to year.”

He does provide a few caveats for those interested in such a system. “For this formula to work, it requires that you have an unambiguous, quantifiable measure of size” like total assets, he says. It also makes less sense for associations whose members are—generally speaking—smaller businesses. He adds that associations with a proportional structure already in place might not want to rock the boat if their members are happy and feel the current system is fair. Switching over to the square root of dues formula would significantly change the distribution of dues payments across the membership.

Readers should review the various dues base options illustrated in the accompanying article before selecting one that is right for them. According to Stephen Carey, after reviewing a variety of dues formulas, especially with trade associations, “the square root of assets is the most promising in assisting to resolve the dues cap issue once and for all.”

“In the last five years, the dues cap issue has been the most disconcerting for trade associations in need of raising dues for larger members that have merged or consolidated with another,” he adds. “Without a good formula that allows them to capture an equal amount of pre-merge revenue, associations have a most difficult time sustaining or developing capacity for future operations without resorting to significant nondues programs, many of which are off-mission and take up staff and volunteer resources.”
One pressing issue many associations face with regard to dues rates is that of industry consolidation.
rise through mergers and acquisitions (see sidebar on page 53 for more information). So, they pay more, but not in proportion to smaller units, and caps can be avoided.

The key point in setting dues for multiconglomerates is that only the revenue and sales that apply to the industry—not the conglomerate’s total sales and revenue—should be included in the dues formula. Additionally, associations should endeavor to back out product and inventory they provide to other association members down the wholesale/retail chain. This holds true as well for the retail segment, which should back out sales to members. There are a variety of nuances to this aspect of association dues operations, and the association should seek the advice of a dues structure specialist when juggling these issues.

**Telling the Truth**
Most members across industries are honest in reporting their dues. There may be some fudging between a level or two; however, members understand the obligation to the association and feel the peer pressure associated with this reporting. In benchmarking a variety of trade and professional associations thinking of changing structures, we have found that approximately 80 percent of members report their dues accurately or somewhat accurately. This leaves 20 percent who, for a variety of different reasons (including simple misunderstanding), do not.

Given this circumstance, associations should not worry about whether members will accurately report their dues when establishing their structures. Unless you have a unique situation (and they do exist) and must rigorously enforce your dues structure for legal reasons, don’t waste time and energy creating complicated enforcement policies that are really unenforceable.

**Spreading the Word**
Many associations fall down when communicating their dues structures to stakeholders. Oftentimes, they fail to make the vital quantitative as well as qualitative link between dollars in dues and services and benefits and programs provided.

Associations must find the quantitative value of the services provided and the unique communications delivery vehicle that will hit the radar screens of their members. The resource list (see sidebar on this page) will provide insight and solutions to this problem.

In the meantime, ensure that your dues program

- Is research based;
- Encompasses representatives from all stakeholder segments;
- Uses a common denominator unit of measurement for its basis that members easily recognize and understand;
- Is tied to quantitative and realistic products and services provided;
- Is communicated early and often during the discernment process.

Using the information above, associations can make intelligent decisions about their dues formulae and ensure all stakeholders are on board when a change takes effect.

**RESOURCES**
Many of the specific concepts and definitions for this article came from the following sources:


“Dues” (Chapter 10) in *Attracting, Keeping, and Organizing Members* by Sue Priestland (ASAE, 1989). Explains dues structures, detailing a variety of classifications and setting rates and collections. The concepts of equity and dues as denominator come from this work, which is the first of its kind.


*Available through ASAE & The Center’s bookstore.

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