

# Subscription systems for business organisations

In recent years many sectoral organisations have tried both to enhance their attractiveness to members and to broaden their financial base by offering (paying) services. Nevertheless, it is still the case that virtually every business association relies on subscriptions as its most important source of income. A study by the consulting agency Berenschot in the Netherlands in the first half of 2006 showed that subscriptions accounted for an average of three quarters of income in the sectoral organisations surveyed. The study examines the subscription systems of forty-three sectoral organisations (and ten professional organisations). These organisations vary in scale from seventy to more than 20,000 members.

## Types of members

Organisations which bring together businesses such as sectoral organisations almost always take the structure of an association. Associations can have various categories of members: ordinary members, extraordinary or associate members, probationary members, junior members and senior members, and honorary members (but such members are always a category apart). Members other than ordinary members often pay a different (lower) subscription. The study related exclusively to ordinary members.

## basis for calculation

Sectoral organisations use a wide range of subscription systems. The parameters on which subscriptions are most frequently calculated are: turnover, payroll costs and number of employees. In addition, there are systems with a fixed subscription and non-standard systems which are often dictated by the nature of the member organisations.

Furthermore, combined systems are also a regular occurrence. An example of this is NZO, representing the Dutch dairy sector, where the subscription consists of a fixed and a variable amount. The variable amount is determined by payroll and milk turnover – a fairly complicated system. The combination of a fixed amount with a levy based on payroll costs is relatively frequent. In addition to the annual subscription, a number of organisations also levy a registration fee.

The table below sets out the subscription systems of a number of large sectoral organisations and the central Dutch business organisation, VNO-NCW.

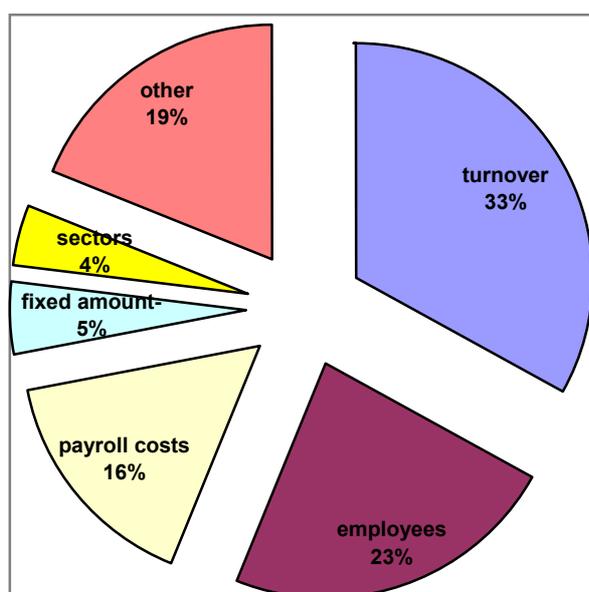
### Membership fees

ASSOCIATION	BASIS	FORMULA	MINIMUM FEE
VNO-NCW	Per mil of payroll costs	0.46% of payroll costs	€ 1,500 for companies € 4,500 for sectors
Metal sector	Per mil of payroll costs	2% of 100% of payroll costs up to € 20 million, 60% of € 20-340 million and 10% above € 340 million	€ 1,020

<b>Construction sector</b>	Fixed amount + variable amount	€ 500 + 0.026‰ of turnover	€ 500
<b>Banking sector</b>	Per mil of payroll costs	1.9‰ of payroll costs	€ 4,100
<b>Hotels/restaurants</b>	Fixed amount	Standard: € 400 Large hotels: € 800	
<b>Chemical sector</b>	Per mil of turnover	2.75 – 0.144‰ of turnover	€ 2,500
<b>Dairy sector</b>	Fixed amount + variable amount	Fixed amount: 5% of previous year's budget; Variable amount: 2‰ of payroll costs (50%) and € 88 for every 1,000 tonnes of milk supply	
<b>Transport sector</b>	Fixed amount + variable amount	€ 250/350 + € 150 per truck (≥ 50 trucks: € 28 per truck)	

On a strict analysis, it emerges from the diagram below that turnover is the most used basis for calculation, followed by number of employees and payroll costs. Clearly, there is a link between number of employees and payroll costs. Hence it is possible to assert that a subscription system that makes a link with a company's payroll costs is the most used basis for calculation. Although this is a snapshot of a non-representative sample, we believe that the findings have general validity.

### subscription systems used by sectoral organisations surveyed



When a subscription system is based on turnover, the calculation is often based on tranches: members are assigned to a category on the basis of their turnover (or several categories if they are large) and contribute a per mil or per cent of each tranche to the organisation.

Payroll costs as a basis for calculation are sometimes combined with another system. For instance, *Partos*, the sectoral organisation for private development cooperation, also uses data on turnover. The system based on the number of employees is relatively straightforward. This group includes one of the smallest organisations with 35 members but also one of the largest with 11,000 members (Bovag, the sectoral organisation for cars, trucks, bicycles, etc.). The sectoral organisations in this group usually also have a classification by tranche or category for the number of employees (or FTEs). The number of branches operated by member organisations can also be taken as the basis for subscriptions. Examples include the business organisations DIVEBO (animal feeds and animal requisites) and NBBU (temporary work sector). In the case of other organisations, including *Koninklijke Vereniging van het Boekenvak* (KVB – book trade) and NUVO (optics firms), a supplement is levied per branch, in addition to a subscription based on turnover.

A subscription system that relies exclusively on a fixed charge is relatively uncommon among sectoral organisations. Probably because it is regarded as unfair in many circumstances, because small firms pay just as much as large ones. A number of organisations have a non-standard system that is designed specifically to reflect the nature of member firms. For instance, *Nederlandse Vereniging Golfaccomodaties* (golf accommodation) operates using a system in which the determinant criterion is the number of holes, whereas *Vereniging van Poppodia en Festivals* (festivals) looks at the number of visitors and visitor capacity. The passenger section of *Centraal Bureau voor de Rijn- en Binnenvaart* (inland waterway transport) uses a comparable system.

#### **tranche or category classification**

Many associations use tranche systems that are comparable with the income tax system. However, by contrast with tax systems, the tranche systems applied by associations are usually degressive. Large members pay more in absolute terms, but less as a percentage. Not infrequently, there is also a maximum amount. Both the degressive tranche system and the maximum amount can cause the income of sectoral organisations to fall when members merge. In addition to a maximum amount, there is also often a minimum amount. Furthermore, a number of associations levy a registration fee. When an individual or an organisation wants to join the association, they have to pay a registration fee. The purpose of the registration fee can vary widely. It may be used to cover the costs of incorporating the member in the various administrative systems. It can cover the cost of buying into the association's real and intellectual assets built up by existing members. Sometimes, it is to prevent frivolous applications for membership. The registration fee is intended to create a threshold for separating the wheat from the chaff.

#### **what system should you choose?**

Each of the above-mentioned subscription systems has its advantages and drawbacks. An efficient and balanced subscription system takes account of the following aspects:

##### 1. Transparency

A first important aspect when consideration is being given to a particular system is its transparency. Some systems are easier to verify than others. A system based on turnover or payroll costs is easy to verify, because the underlying parameter is well documented. In the case of a subscription system based on the number of employees, this is already more difficult. First because not all sectoral organisations use the system based on FTEs, which can raise questions about what is understood by employees. Second because the system is open to fraud. In the case of one of the sectoral organisations surveyed, it transpired from an anonymous survey of firms that claimed not to have any employees that more than 30% did in reality have personnel on the payroll. A system that is based on the surface area of member

companies also requires (intensive) checks to prevent fraud. After all, it is quite easy for a firm to write down a different surface area.

## 2. Practicality

The above point on transparency is linked to practicality. After all, a system must be workable for both the sectoral organisation itself and its members. A number of things are important in this respect.

First is the administrative burden associated with the chosen system. It is convenient to work with parameters which are already published in annual report/annual accounts or other documents. Using such data does not require any additional administrative systems to be put in place.

Second, the degree of complexity in a system is important. The more categories are applied, the more difficult it will be to maintain clarity in the system. The use of combined systems can also be complex. That then means that complicated calculations are necessary to arrive at the subscription due, so that the chance of errors or fraud once more increases. It also makes it more difficult for the sectoral organisation to check up.

## 3. Fairness

For any association, and hence also for sectoral organisations, it is important that the subscription system is seen by members to be fair. Fairness often takes the form of ability to pay. This is done by creating different ‘tranches’ and charging a degressive percentage for each tranche of turnover, payroll costs, etc. In this way, the strongest shoulders bear the heaviest burden or it is implicitly assumed that the largest members also gain the greatest benefit. For organisations with a fixed subscription, a system that is often found in professional organisations, it is assumed that everybody is equal and benefits to the same extent. Yet fairness is a highly complicated aspect. Whereas in the past fairness was based to a certain extent on solidarity between large and small or between rich and poor, there is now a tendency to think more in terms of use and profit. One way of solving this problem is no longer to fund specific services which are only used by a limited number of members from subscriptions but by charging separately for them. That means that only general advocacy and collective services are then paid for out of the subscription.

## 4. Durability

Because it is often complicated and often leads to problems in the association when a new system is introduced, it is important that a system can be used for a long time once it has been chosen. A good subscription system takes account of possible changes. This refers not only to changes in the association itself, but also changes in society and the socio-economic environment. What are the consequences of mergers between members of the association for income? What happens if members reduce the number of their branches? What is the effect of drastic changes in a sector? How does the association deal with rising costs, even if caused only by inflation? Should you choose to submit the subscription system to the annual general meeting of members each year or opt for a system that adjusts automatically? For instance, systems that are based on payroll costs have the advantage that the subscription automatically increases with inflation. There does not need to be an annual debate on the desirable increase in the subscription. In the case of a levy on the basis of the number of employees, the increase will have to be decided each year.

A system based on turnover also offers advantages for the future, especially when this system is compared with a system based on the number of branches. After all, the number of branches can stagnate whereas the turnover continues to grow. This means that both income and the sense of fairness can be brought into question with the passage of time. In that case, a balance between fairness and durability can be found by working with a top tranche that is significantly lower than the tranche below.

### **Membership policy**

Subscription systems are sometimes set up in such a way that joining the association is made easy for new members, e.g. probationary membership with a lower subscription. But sometimes the reverse is the case. Some organisations want to stand out by representing the top end of the market. A high registration charge can keep the weaker players out. An admission fee can be used for the same purpose. This creates a threshold. Nevertheless, it is important to use objective criteria, because otherwise there will soon be conflicts with competition legislation. An approval mark or certificate system is usually a better system for improving the quality of members than through the subscription system.

A threshold can also discourage members from leaving. Furthermore, junior or senior tariffs are deployed as a marketing tool in order to stimulate the membership of particular groups.

### **Changing the subscription system**

Our analysis of subscription systems shows that there is a wide variety. There are different bases for calculation, but turnover and payroll costs predominate. A whole range of elements are sometimes incorporated in order to increase the fairness of the system, e.g. tranches, ceilings, admission fee, etc. The combination of basic principle and added elements sometimes produces such a complicated system that the subscription can only be calculated using a computer program. Developing an efficient, effective and fair subscription system is no simple matter. When existing associations have to develop a new subscription system, e.g. when it merges with an association which uses a different system, it becomes a lot more complicated. It occurs regularly that associations with an outdated or no longer appropriate subscription system do not dare to adjust because they are afraid of resistance among members. Adjustments or moving to a new subscription system always cause shifts: there will be members who will pay less, but undoubtedly also members who will have to come to terms with a higher subscription. Shifts such as this often lead to tension within the association. However, it is not sensible to postpone necessary changes as long as possible. In that regard, mergers in particular can provide an instructive picture. After a long process, consensus has been reached on the tasks, activities, administration and name of the club, but the subscription system ... well, we still need to talk about that. In many cases it can be a good idea not to modify the subscription system in the early years. Which means that two (or more) systems operate in parallel. But the time for adjustment finally arrives. A temporary transitional arrangement whereby the greatest changes are phased in is another possibility for overcoming resistance.

Changing a subscription system is a chess game played on several boards: negotiation, calculation, communication. Often more difficult than finding a Pareto optimum. After all, not only should everyone become better placed and nobody in a worse position; in reality everybody expects to gain. Which is only right and proper. At the same time, the club's finances still have to add up. And that is before we even consider the issues of transparency, practicality and durability. Transitional arrangements can offer a solution, but that is not usually enough. It may help if the organisation is rationalised at the same time, perhaps coupled with the introduction or a widening of a system of paying services, exploration of other sources of income and/or seeking out new members. Clearly, it is also easier when the economic situation is healthy.

Dedan Schmidt, Lotte van Vliet and Tim van der Rijken (Berenschot)  
Thieu Korten (DECP)