

# ADVANTAGE SOLUTIONS

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SPECIAL EDITION

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## Turning Threats into Opportunities

By Ken Monroe, *Chairman and CEO, Bostrom*



The old adage – a "threat is an opportunity in disguise" – is becoming the new mantra. Tough and uncertain times have the potential to stimulate and support creative solutions

for today and establish new approaches and

**best practices for the longer term.** As companies and organizations re-think how, when, where and what they do, any new approach should be integrated into a broader strategic plan. These days, organizations seek to find greater efficiencies in everything from technology to financial operations, from insurance policies to business relationships. And it's creativity, innovation and out-of-the-box (or outside-of-the-organization!) thinking that will help equip organizations with the tools to propel them forward.

In this special issue of SOLUTIONS, we've gathered seven leading experts to share their expertise with you. From strategies for meetings and conferences to assessing risk and identifying new strategic approaches that add value for members, these experts weigh in on some of the pressing issues facing non-profit organizations today. With the strength and insights of the Bostrom team, we can help you turn today's "threats" into opportunities.

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# Behind the Numbers: A Silver Lining in Meeting Planning

Bill Grusich, *President, Hinton + Grusich*

When it comes to meeting planning in today's economy, numbers don't tell the whole story. True, corporate meetings have come to a screeching halt – and only certain industries – (such as pharmaceuticals and insurance, as of this writing) are continuing to book meetings. For most associations and professional societies, meetings are holding up, while manufacturing and trade industries are down about 10-20 percent.

But there is a silver lining: increased dialogue between hotel properties and meeting planners can yield results for both.

First, a quick look at the numbers. According to a November 2008 hotel industry forecast from PriceWaterhouseCoopers LLP: "In 2009, demand is forecast to decrease by 2.0 percent, which, when coupled with a 1.6 percent increase in supply, is expected to further reduce occupancy to 58.6 percent, the lowest since 1971. As a result, hotels are expected to continue to lose pricing power, resulting in an ADR (average daily rate) decrease of 2.4 percent, which coupled with a 2.1 point drop in occupancy, is expected to decrease RevPAR (revenue per available room) by 5.8 percent, the greatest annual decline since the 7.0 percent drop in 2001."



## Numbers Don't Tell the Whole Story

Even with this forecast, there *are* opportunities for hotels and meeting planners. Smart meeting planners – and smart hotel operators -- are quickly learning the new rules of engagement, which include:

- > Assurance or "partnership" from the hotel. As a meeting planner, you will work as hard as you can to market the meeting – but if your numbers fall short, you want an assurance from the hotel as it pertains to any attrition (i.e., the amount owed to the hotel if your association falls short of the anticipated number of rooms needed). And if attendance does fall short, properties should work with associations to lower food and beverage estimates, as long as there are not cancelled functions or events.
- > Room rate consistency. We've heard loud and clear from the hotel industry that many properties are offering lower rates. As a meeting planner, make sure that you're receiving a comparable rate – and make sure that your meeting attendees indicate that they are attending a meeting so that their reservation is coded correctly. A case in point: a meeting attendee for a big convention in Las Vegas reserved his room six months ago at a rate \$50 more than the current rate. The hotel notified him via e-mail that they had lowered the entire group rate by \$50 because of specials that property was offering.

Generally speaking, most properties are partnering with associations because they represent one of the few industries that continue to hold meetings. What do those partnerships look like? They include dialogue and conversations – and plenty of both. Many hotels are actively helping to market a meeting. Perhaps they're offering a restaurant special – or promoting a unique, local attraction to encourage people to attend the meeting.

## Increased Understanding Provides Opportunities to Connect

There's a basic understanding that both hotels and planners face challenges and the response has been to work together to meet those challenges. This partnership spirit ebbs and flows with the times. It was clearly evident following the events of September 11.

# Assessing Your Organization's Risk: What You Need to Know

Randy Lindner, CAE, President, Bostrom



While many of us wish we had a crystal ball to determine how the current economic crisis will play out, we can take steps to ensure that our organizations are not exposed to unnecessary risk.

## Conduct an Annual Assessment

An annual risk assessment should form the framework of your organization's evaluation process. Just as you evaluate your budget, conduct executive and staff performance reviews, and measure progress against your strategic plan, you should conduct an annual risk assessment. In reality, all assessments "are" a part of risk management.

Although each organization will have its unique risks, you can probably categorize the majority of your risks under the following six topics:

- > Fiscal Issues
- > Human Resources
- > Technology
- > Regulation
- > Faulty Strategies
- > Operational Uncertainty

Let's take fiscal issues as an example. You might think broadly about three elements of risk related to this area, such as:

- > Loss of Assets
- > Board Policy
- > Insurance

Then start by dissecting each of these.

- > Loss of Assets – What are the risks?
  - Accident or Theft
  - Embezzlement
  - Mismanagement
  - Inflated Costs
  - Deflation of Assets

Today, most of us are not immune to "deflation of assets." You may have experienced investment losses, lower interest income, or a deflation in the value of your real estate.

## How Do We Assess and Minimize the Risk?

It is important to have controls to assess and manage risk. Some examples of controls for loss of assets might include:

- > Good internal control policies and financial procedures that are agreed upon, enforceable and part of your organization's bylaws
- > An internal control checklist (your CPA should be able to provide this)
- > A review of internal controls annually with every audit

Does your organization have an investment policy? Does it allow for investing in equities? If so, that is a calculated risk that must be considered. In other words, what can you afford to lose in a bear market? If the answer is nothing, your investment policy should prohibit investing in equities.

Using the above approach and applying it to each of your organization's primary risk categories should help ensure that you can understand, assess, and manage your organization's risk.

# Uncertain Times Call for Certain Actions

Barton G. Tretheway, CAE, Managing Partner, Bostrom Consulting Associates

One wouldn't think that today's economic news could offer some good news for associations.

Think again.

What better chance for an association to step up to the plate and help members through this period? Conventional wisdom calls for associations to hunker down and slash expenses to weather the economic storm. Good advice, however I would argue that one expense that should not be cut is new program and service development. The key is to use association resources wisely; putting a plan in place is the right first step.

**Step #1:** Determine what you want to accomplish; set a goal with supporting objectives. You might have a revenue goal. Or perhaps it's a more strategic goal to share/develop new programs and services with members to support their efforts.

**Step #2:** Now is the right time to research what's keeping your members up at night. What are the problems they are facing today? What are the problems their customers are facing? Using electronic survey firms like Survey Monkey can help minimize the dollar cost of this research. Consider shadowing (virtually) one of your members for a day. Observe what they do and how they do it. How can you help them be more efficient or effective?

**Step #3:** Brainstorm program and service solutions from the research gathered in Step #2 with staff and possibly one or two volunteer leaders. What issues and problems can the group identify? Once you have exhausted the ability to develop new solutions, screen the list for the most viable new programs and services. Screens might include 1) ability to assist members through this economy; 2) cost to develop is minimal and value to members is high; 3) addresses members immediate needs, etc.

**Step #4:** Refine the top 3-4 screened ideas and test them with a select group of members to make sure they are providing solutions to current needs. Build an economic model for each idea.

**Step #5:** Develop the top 2-3 ideas. During this step, develop your marketing plan for creating the program/service launch and generating awareness.

Getting new solutions to members at this critical economic juncture will help them and reinforce the value that your association delivers. Rather than retrenching, associations that are able to "seize the day" will demonstrate their leadership as they move through an uncertain economy.

# Save Money and Protect Assets with an Insurance Review

Paula Goedert, Attorney, Barnes & Thornburg

A financial downturn can be a good time to review insurance policies and coverages as associations look for ways to trim budgets and keep their doors open through today's economic challenges.

## Avoid Duplicate Coverages

When budgets are fat, it's easy to say buy new and additional insurance coverages. But now is a good time to review your association's entire package and see if some of the coverages are duplicative and can be eliminated.

For example, many associations carry both an association liability policy and a directors and officers (D&O) liability policy. Usually, these policies are duplicative, as the association liability policy already covers – or can be expanded to cover – directors, officers, employees and volunteers.

Another example of duplicative coverages are publishers liability and Internet coverage. Most of what an Internet policy or rider covers is already covered by a publishers liability policy, or the publishers liability section of an association liability policy. Many non-profits are paying extra premiums for this duplicate coverage.

## Consider Increasing Deductibles

Often, an association can save considerable premium costs by increasing deductibles. While many

associations have kept deductibles low (\$2500-\$5000) over the years, it doesn't make sense to file insurance claims for matters of this size. Instead, associations should check with their agents about savings on premiums from increasing deductibles to \$10,000-\$20,000. If an association has a healthy reserve, it makes more sense to use the reserve to pay small claims and save premium dollars.

## Combining Insureds

Associations with a family of organizations and separate policies for each of those organizations should talk to their broker about combining the organizations on one policy. Any claim against the entities will be subject to the coverage limit. Most associations, however, rarely have claims against their association liability or D&O liability policies. Combining an association's policy with its related foundations or for-profit subsidiaries may yield significant savings.

## Theft Coverage

Financial downturns can prompt employees or volunteers to engage in activities they would otherwise never do. In fact, associations see an unfortunate upturn in theft by volunteers during a financial crisis. Make sure your association is adequately covered by theft insurance, which is usually a part of, or a rider on, general liability coverage.

# Behind the Numbers: A Silver Lining in Meeting Planning

Bill Grusich, President, Hinton + Grusich *continued from page 2*

Many hotels are actively helping to market a meeting. Perhaps they're offering a restaurant special – or promoting a unique, local attraction to encourage people to attend the meeting.

Along with the silver lining comes a reminder about the importance of face-to-face meetings – where associations can offer connections and connectivity. Even with all of the Web 2.0 technology, there's no substitute for meeting someone and looking them in the eye. While an association might provide other ways to help

members connect – through regional meetings or Web casts, there's no substitute for an annual – or national meeting. Regardless of the industry in which one works, there's a need to have a benchmark – to see how you and your business are doing against your peers – and to learn from colleagues.

During these tough times, properties should be as flexible as possible, particularly because for the most part, associations are holding a majority of the meetings. And it's smart organizations that extend this goodwill beyond these tough times and into the long term.

In the world of associations, remember that meetings continue to be a key vehicle for serving members and generating revenue. Now there's a silver lining.

## Caring For Your Organization's Financial Health



we're working with created a top of the line series of educational materials. Because they had done their research, they knew they could carve out a niche and generate interest among a key audience. With a well-executed plan, the organization turned an initial investment of \$10,000 - \$20,000 into a six-figure sum. Another way to increase non-dues revenue is to charge a fee for a link on your organization's Web site.

Keep in mind that any organization – whether profit or non-profit – requires retained earnings to grow. Yet some non-profits think that they can't show a profit. In fact, they need to realize it's more than OK to show a profit – it's important to the organization's financial health. As a target, an organization should have a minimum of one year's worth of operating expenses in net assets. For example, if your organization receives state funding and the state is behind in its payments, your organization will need such a reserve to avert a cash flow crisis.

SOLUTIONS sat down recently with Russell Wilson, CPA and a partner at Porte Brown. Wilson manages the firm's non-profit practice group and together with Managing Partner Bruce Jones, provides a wide range of services to this sector, one of five industry sectors the firm serves.

### **SOLUTIONS: What are the three most important issues to consider when managing in a down economy?**

Wilson: Cash flow, cash flow – and cash flow. In difficult economic times, an organization might have unanticipated losses so it's important to ensure a steady cash flow.

### **SOLUTIONS: What are some common mistakes organizations make?**

Wilson: Sometimes, people just bury their head in the sand when they should be looking at tough times as an opportunity. A key question to ask: how will your organization position itself for when the economy rebounds? Often, organizations fail to recognize current members or reach out to lapsed members. Smart organizations do both.

### **SOLUTIONS: How can associations increase non-dues revenue?**

Wilson: Start with the positives. What benefits does your organization provide? Think out of the box. If you have corporate sponsorship of events, be flexible. Make sure the packages they have sponsored in the past directly meet their needs today. If not, work with them to create a package that does. Or perhaps your organization could develop and market products to your members and/or the public? One trade association

After looking at some fixed costs, are there others (leases, bank accounts, vendor terms) that can be negotiated to a more favorable rate? What about increasing your organization's line of credit, or, establishing one if it currently does not have one?

Successful organizations will be proactive on several fronts. Take the time to do a cash flow projection. Is your cash management program sound? How can you avoid bad debts and encourage on-time billing?

Regardless of the economy, it's critical to ensure that your organization has a plan and a solid path for building up its reserves. More often than not, organizations will turn to a trusted advisor to help them create an action plan.

### **SOLUTIONS: What criteria should organizations consider when prioritizing projects in the near and long term?**

Wilson: It's best to look at criteria on a case by case basis. Conduct a review of current programs. Which are vital to maintaining and attracting members? Could any programs be put on hold – or scaled back?

And if your organization is involved in fundraisers, it might be a good time to take a hard look at the cost/benefit equation. Would resources be better spent doing another type of event – or no event at all? These times call for good decisions and often, tough decisions. More and more, it's through conversations with board members, members and volunteers – or other outside experts like attorneys, investment advisors or accountants, that can yield the information and intelligence your organization needs to persevere.

# P&C Insurance: Finding Savings & Safety In A Recession

By Lou Novick, *President Novick Group, Inc.*

Over the past six months we have spoken with many association executives about the impact current economic conditions are likely to have on their organization. Whether it's membership, sponsorship, meeting attendance, advertising, continuing education or publications, with few exceptions, the executives are adjusting revenue expectations. In the context of Property & Casualty Insurance, the need to identify cost cutting options must be balanced against the equally compelling need to safeguard the organization and its resources.

## Safety vs. Savings: Not Mutually Exclusive

Regardless of how long the economy remains in recession, it is essential for every business to look carefully at their expenses for cost cutting opportunities that don't impair operations or place the association at heightened risk of loss. In this article, we offer some ideas that should be helpful in identifying cost saving options and making informed decisions about your insurance portfolio. However, there are two caveats to consider:

*Carrier Strength* - on Labor Day 2008, American International Group was without peer in the commercial insurance world...the biggest of the big. The company's near collapse in mid-September rocked the insurance and financial markets in an unimaginable way. Because the current economic climate will challenge the financial strength of many carriers, working only with carriers that have the strongest balance sheets is more important than ever before.

*Coverage is Not a Commodity* - while competition and market conditions may explain differences in premiums, it is just as true that coverage differences will account for wide variations in premium expense. When comparing alternatives, make sure that the agent guides your attention to any significant differences in coverage terms and conditions and then give careful consideration to the possible impact these may have on the level of protection.

## Marketing Your Account

Make it a goal to market the major elements of your insurance portfolio on a regular basis. Working with your agent to decide which policies to take to market in any given year. Consider market conditions, recent claims experience and the length of time since coverage was last remarketed.

## Raising Deductibles

Historically, we have discouraged clients from raising deductibles as a technique to reduce premium expense.

Particularly with respect to **property**, the tradeoff between premium savings and higher loss costs has not been worthwhile. Similarly, raising the deductible for **Directors & Officers Liability insurance**, traditionally quite low for most associations, does not present meaningful savings in most cases. However, while the savings associated with these changes may not be worthwhile under normal circumstances they do present an opportunity for some savings at a time when any reasonable cost savings should be considered.

For those associations with **Professional Liability, Errors & Omissions** or **Publisher's Liability**, an increase in the deductible may offer an opportunity to reduce premium expense. Mindful that claims under these policies tend to be low frequency, high severity events associations should consider whether deductibles in the five, six and for some even seven figure range may now fall within their tolerance if the premium savings is significant.

**Automobile Physical Damage deductibles** (comprehensive and collision) may present an excellent opportunity for nominal but worthwhile premium savings.

## Worker Compensation

For many associations, worker compensation is the one policy where they can have the greatest impact on premium expense.

### *Worker Compensation Claims Rise In Bad Times*

Employees anticipating adverse employment events often view a worker compensation claim as one method of insulating themselves against a reduction or total loss of earnings. Employers are well served to be cautious in discussions of planned reductions in force.

### *Claims Reporting*

As you may know an Experience Modification Factor\* (mod) is the measure of how favorable or unfavorable the loss experience of an employee group has been. It's a complex algorithm that compares the actual loss experience of an organization with statistical projections of what that loss experience should be. A mod in excess of 1.0 is unfavorable. The measure above or below 1.0 correlates with a surcharge or credit applied directly to the worker compensation premium. A mod of 1.05 results in a 5% surcharge; a .95 mod yields a 5% premium credit. Since the mod algorithm assigns a negative value to claim frequency as well as claim severity, associations should be cautious about turning in as worker compensation claims events that result in neither lost time nor medical expense.

\* a mod is generally used only when the annual Work Comp premium exceeds \$5,000

# P&C Insurance: Finding Savings & Safety In A Recession

## Last Million is the Cheapest Million

Associations seeking to reduce premium expense by lowering their liability limits should know that the cost of coverage is not linear. For example, the reduction of a liability policy from \$3,000,000 to \$2,000,000 is not likely to yield a 33% reduction in premium expense. Because the lower limits of coverage (the ones most likely to be affected by a claim) are generally more expensive than succeeding limits, associations should inquire about the savings impact before deciding to reduce limits.

## Physical Damage for Older Vehicles

For automobile insurance, the coverage for damage or loss of the vehicle is tied to its age. For vehicles older than seven years, there may be little value in maintaining collision or even comprehensive coverage. Automobile physical damage deductible may also present an opportunity for modest premium savings.

## Payment Options

Most associations pay their premiums in full at policy inception. Given today's economy, it may be worthwhile for some to reconsider an alternative. Premium financing (whether provided by the carrier or a third party financing company) won't reduce costs but it can offer cash flow relief for some associations.

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