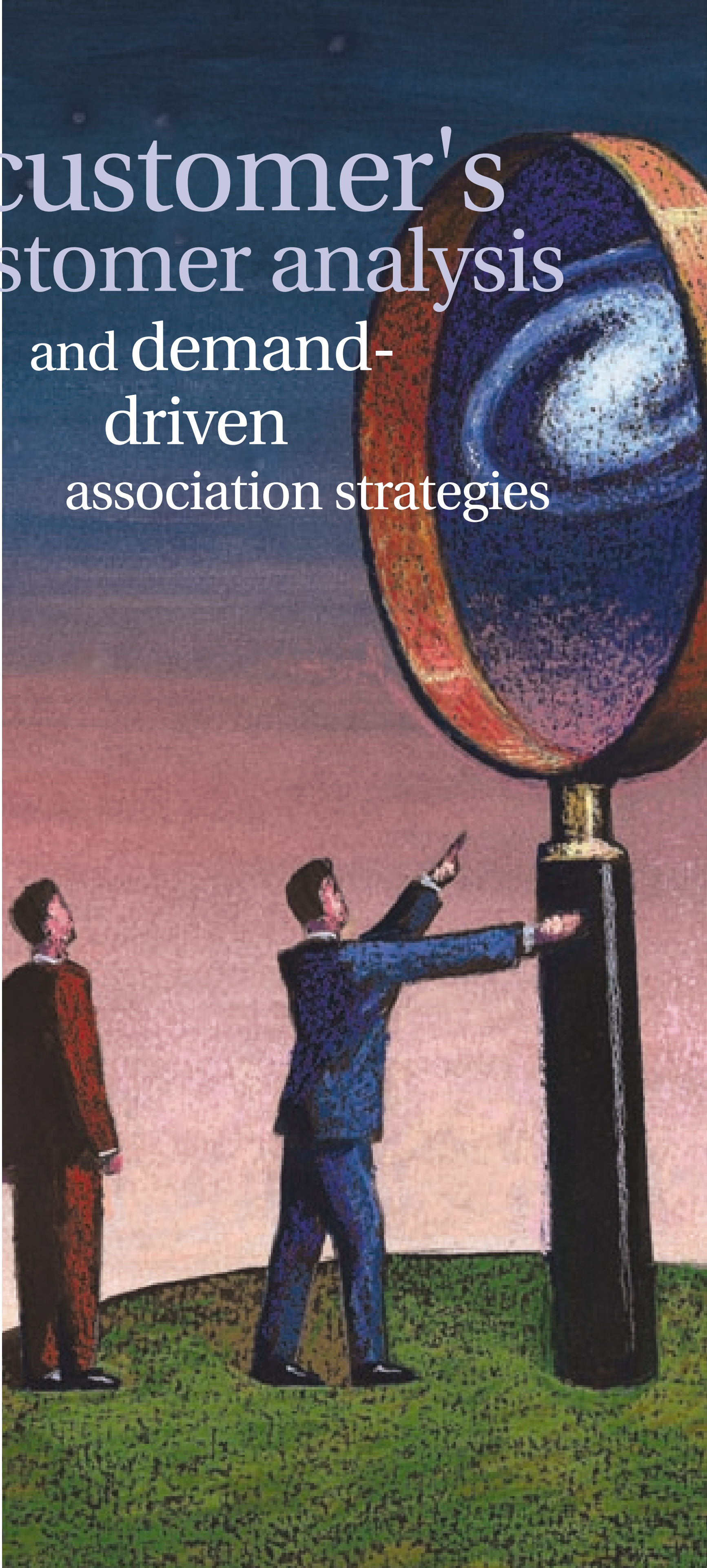
# customer's customer analysis and demand-driven association strategies

**To help members succeed, associations must understand how to satisfy their members' customers.**



The well-known story of the flap of a butterfly's wings setting into motion a chain of events that causes a hurricane is often told to demonstrate how seemingly unrelated or insignificant events can cause a chain reaction that affects everything in an ecosystem. If we are to understand what affects our members, we must understand what affects the individuals and organizations they serve.

*By Richard C. O'Sullivan*

*"Donor-financed institutions that have emerged in democratizing countries have not become self-sustaining because Western donors often support projects that are driven by suppliers rather than by demand." Irena Lasota, "Sometimes Less is More,"* Journal of Democracy *(vol. 10, no. 10)*

Since Dr. Lester Salamon of Johns Hopkins' Center for Civil Society Studies proclaimed the "global associational revolution" in 1994, a large number of principal donor agencies – such as development banks, government development agencies, and nonprofit aid organizations – have increasingly encouraged the independent sector to play a larger role in economic and social development. While associations and other civil society organizations (CSOs) have contributed, sometimes significantly, to promoting stronger economies, to developing more pluralistic – perhaps even democratic – standards and polices, and to creating more transparent social and political institutions, these experiments remain stubbornly dependent on donor financing.

Unless there is some realistic expectation that associations can become financially independent, donor agencies, lacking a viable exit strategy, will stop investing in them. Since the failures of associations' attempts at self-sustainability have been so frequent, some development experts question whether an association sector is indeed a necessary, universal precondition for economic development. Some hold that associations may be a uniquely Western means to attain economic development, which is not culturally transferable. Are associations, which by definition are so pluralistic that Alexis de Tocqueville described them as "the free schools of democracy," really viable in countries without democratic traditions? Are associations capable of reawakening public activism and freedom in a postauthoritarian state, or are they an institutional consequence rather than a precursor of a freer society? More importantly to donor agencies, is the general failure of CSOs to achieve self-sufficiency predictive of their ineffectiveness as economic development tools?

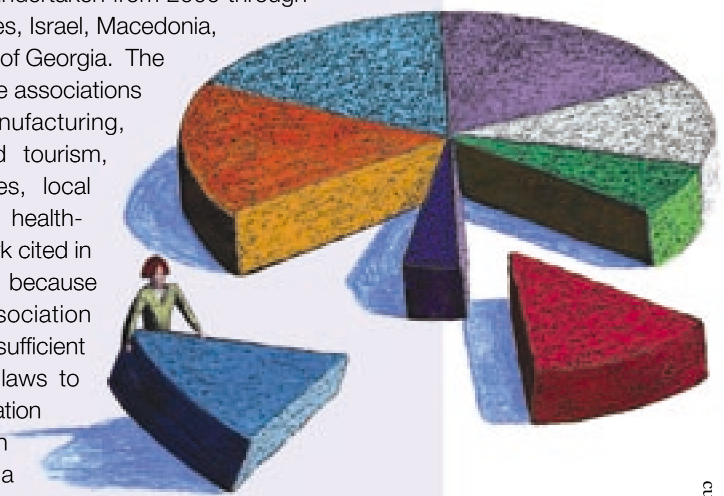
Some analysts draw distinctions between "member-serving" organizations and "public-serving" organizations and suggest that market rules may apply to organizations with narrow commercial interests, such as trade associations and professional societies, but not to "social-movement" organizations (SMOs), which provide social services such as education, health, and environmental protection. These analysts contend that associations may be able to function outside local market structures in order to provide humanitarian services that the public and private sectors cannot deliver. Many dismiss member-serving organizations as groups that pit the narrowly focused concerns of a special interest group against public good and, as such, are contrary to balanced development. In addition, micro-enterprise development agencies fear that associations could use their tax-free status and the economies of scale provided through their membership base to unfairly compete against private sector startups and undermine capacity-building efforts.

These fears are now being attributed to poorly designed association models and not to characteristics intrinsic to the association sector. Quite to the contrary, associations now are being identified as potential nurturers of public and private sector capacity, especially in developing tertiary suppliers such as crucial local business service providers. Dr. Helmut Anheier, one of the founders of civil society economic and public policy theory, wrote as recently as 1997, "Long recognized as instruments of relief and promoters of human rights, civil society organizations have only recently come to be viewed also as critical contributors to the basic economic growth and the broader civic infrastructure."

Based on extensive research on donor-assisted civil society experiments, The Forbes Group has concluded that the failure of associations to achieve self-sufficiency is due more to misguided supplier-driven strategies that established these organizations than to a poor fit between civil society and local cultures or the callousness of the marketplace. To be self-sufficient, associations need to position themselves as partners with their members, volunteers, and activists in serving the same customer base and not simply as policy advocates providing limited, bundled services to members at a fixed price. Ultimately, association revenue does not so much come from members as much as through their members from the final customer. Associations must contribute to a firm's success to justify dues payments. To help their members succeed, then, associations must understand how to satisfy their members' customers. This new approach is extremely important in economic development projects given the primary criticism of current supplier-driven association experiments – that they are unable to create constituents in the marketplace, that they are easily co-opted by government agencies on which they depend for ongoing subsidies, and that they are ultimately dominated by the existing economic elite, which has little interest in profound structural change.

## METHODOLOGY

The analysis and recommendations found in this paper are the results of extensive field research, experiences from several USAID-sponsored association development projects in both developing and transitional economies, and case studies undertaken from 2000 through 2003 in the Palestinian Territories, Israel, Macedonia, and the former Soviet Republic of Georgia. The sectors represented through the associations I worked with included manufacturing, transportation, hospitality and tourism, banking and financial services, local government, agriculture, and health-care. In all of the cases, the work cited in this paper was commissioned because the traditional American association development model proved insufficient due to a lack of civil society laws to support nonprofit and association development, official corruption that undermined transparency, a vacuum of traditions in pluralistic decision-making and advocacy, and impoverished member bases that lacked the financial resources to provide traditional revenue sources. My assignment was to find new tools and means to help these associations become viable and self-sufficient in the absence of such traditional infrastructural support. These personal field experiences were complemented by comparing these projects with similar association development efforts undertaken by the World Bank, especially the Southeastern European Economic Development initiative (SEED).



In addition to primary field experience, extensive secondary research was undertaken that examined the work of others in the field of civil society development. These organizations included the Comparative Nonprofit Sector Project (CNP) at Johns Hopkins University, the International Center for Nonprofit Law (ICNL), the Center for International Private Enterprise, Civicus, the Woodrow Wilson International Center's Eastern European Studies (EES) program, the Center for Democracy and the Third Sector at Georgetown University, and the Center for Civil Society at the London School of Economics. Both in-person and telephone interviews were conducted with numerous leaders and practitioners in the fields of civil society development and democracy and governance. I especially thank Dr. Lester Salamon and Dr. Andrew Green, Johns Hopkins; Volkhart Heinrich, Civicus; Dr. Helmut K. Anheier, LSE; Stefan Toepler, George Mason University; and Jackie Coolidge, World Bank, for their insights, observations, and advice.

The Forbes Group has created a methodology called Customers' Customer Analysis to develop long-term, self-sustaining association business models. This method includes commercial factors and public policies influencing their members' environments beyond immediate parochial concerns. The wider scope suggests that most changes, challenges, and opportunities that define market sectors usually come from outside existing market boundaries. For example, the technologies currently reshaping the convention industry came from experiments in distance learning in the nation's colleges and universities and corporate teleconferencing. Changes in healthcare practices are being driven more by lifestyle changes in the home and the workplace than by technological breakthroughs.

Despite this, the traditional industry analysis that guides most institution building and strategic planning is predominantly introspective and considers only how existing suppliers will survive given new technologies, customers, or competitors.

To evaluate the potential of an industry or sector, Customers' Customer Analysis looks at activities in competing and alternative sectors as it examines existing threats and opportunities within the target industry itself.

## From Supply Chains to Demand Networks

Customers' Customer Analysis examines demand-driven networks that begin with the final customer, both domestic and foreign, and works backward through all relationships and resources needed to serve the final market. Importantly, demand networks must include those suppliers and customers not directly related to the market under review. This analysis, therefore, identifies the challenges and resource requirements of the industry's allied industries and support businesses as well as immediate customers, suppliers, and competitors. This method also examines more broadly defined infrastructure and policy changes needed to assure competitive positions in these other sectors as well as within the targeted sector itself.

Traditional supply-chain analysis holds the markets around the sector static. That approach often recommends how to serve existing firms to be more effective and competitive members of the supply chain as it is currently defined. This tends to bias the analysis and the product and service offerings toward existing enterprises and less toward small- and medium-sized enterprise development. However, in developing markets, a sector's relationships with suppliers and customers must be seen by definition as moving targets. By focusing first on the end-user markets as they are today and also how they will be in the future, Customers' Customer Analysis allows policy makers and investors to anticipate how future market structures and relationships need to influence today's strategies and choices.

Graphically, Customers' Customer Analysis can be presented as follows:

Identify trends that are shaping the markets into which the sector will sell.

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Profile end-user customers/firms as they are today and how they are evolving with emphasis on new needs and problems.

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Identify key customer, supplier, and allied industries needed to competitively serve the end-user market both now and in the future.

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Define the existing strengths and weaknesses of the association's immediate members/customers as well as of other industries to determine what new functions, products, and services need to be fostered to meet emerging and current needs, including capital development, technology adoption, labor force requirements, and skill development.

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Identify support industries, business service providers (e.g. consulting, training, technology specialists), and other private-sector firms that need to be developed or enhanced to make the targeted cluster competitive.

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Determine the infrastructure requirements and public policies that need to be addressed in order to accommodate the development of the targeted cluster and its intermediate customers, suppliers, and supporting industries/services.

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Define a strategic direction based on the newly identified purpose and new relationships with government and market sectors.

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Determine how the new products and services will be financed, taking into account which should be dues supported and which should be fee for service.

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Develop a self-sustaining business model that includes an exit strategy and timeline for donor agencies.

## Balancing Channel Strengths

After identifying the critical market and infrastructure gaps needed to promote the targeted cluster, Customers' Customer Analysis then determines the most efficient channels for resource development. Resources can be developed through associations or other civil society organizations, through business service providers or other private sector enterprises, or through government services.

- Products and services best provided through the civil society sector define the organization's new product/service offering;

- Products and services best provided through independent private sector firms identify the CSO's or SMO's new collaborative partners;
- Products and services that should be provided as public goods define the association's public policy agenda.

Including a channel analysis within the organization design process will concentrate association products and services only in those areas in which the nonprofit channel has a comparative advantage. For all other products and services, the association's role should be limited to developing mutually supporting private-sector business service providers and to constructing government policy that supports public infrastructure investment in support sectors as well as in the association's primary market.

The traditional supplier-driven approach, coupled with broad or ill-defined social goals, often leads to attempts to offset low member participation and dues shortfalls with revenue-generating programs that target, and eventually depend upon, the existing economic elite. Perversely, this strategy leads donor-assisted associations to compete directly with for-profit business service providers and undermines the essential capacity building that the donor agency entrusts the association to engender.

**One must distinguish between membership and participation. Achieving the former does not ensure the latter.**

### Associations' Four Key Constituents

There are four primary means through which associations can deliver services: members, customers, suppliers, and allies. All four groups must be used effectively to assure productive and self-sustaining organizations; failing to employ one greatly reduces the value of the rest.

The disproportionate dependence on membership, common in many developing economies, is a major reason for the failure of many of the associations The Forbes Group studied. Economic development models that have given primacy to membership development without giving adequate attention to the other four means of distributing services and political influence compromise the long-term financial stability of the association from its very inception. Association development strategies that rely on membership drives focused on head count alone can actually hurt an association by undermining efforts to create a pluralistic forum needed to promote transparency and ethical business practices.

**Members.** Association executives need to view members the way banks view depositors: as liabilities, not assets. In the banking industry, a person who gives money is not a customer; he is a liability to whom that money must be returned on demand. People to whom banks *give* money, on the other hand, are the true customers who generate revenue. They also are assets, as the loans can be sold to other lenders. Similarly, association members are liabilities to whom the association must deliver any and all member services on demand for a prepaid, flat fee.

The most common mistake made by NGO organizers is the failure to properly delimit dues-covered services from the outset. Members come to view dues as the equivalent of a tax that entitles them to all of the association's resources. They quickly overuse association services and undermine the organization's financial sustainability. Dues-dependent associations soon begin a spiral escalation of dues and subsidies to cover growing member-servicing costs. Such NGOs become the exclusive clubs of the most affluent and, thus, undermine the essential role that associations must play in promoting pluralism in cultures without strong democratic traditions.

That said, dues-paying members are quite important. Those who perceive value in joining pay dues. They participate in the governance of the organization through volunteer activities and are the most committed constituents. They are the real voice of the association in the marketplace and public arena. The intangible business goodwill gained by membership is a crucial element in developing a sense of community, and the common benefits of membership justify the association's existence.

However, the value of business and professional associations must translate into specific economic gains for members (individuals or firms) in order for the association to foster long-term commitment. Such economic benefits are traditionally achieved through such services as educational and training opportunities that provide members with a competitive edge, statistical information that allows for more effective and efficient business decisions, exclusive network opportunities, public recognition of the leadership role of the firm or its executives in the industry or profession, and periodic "soft" market intelligence through newsletters, magazines, industry and market tracking programs, and conferences.

The primary benefit from membership and volunteer participation is in standards and program development. In developing markets, and even in mature markets undergoing profound change, the adage "He who has the gold makes the rules" is stood on its head. Entrepreneurs in developing markets realize that those who make the rules get the gold. A principal function of any CSO in developing markets is to develop and promote the business or social practices and standards that make the nation an attractive investment opportunity, market, and supplier to outsiders and a productive seedbed for domestic entrepreneurs. Early members are those who understand the value of participating in developing those standards for their cluster and establishing the priorities for the association.

**Customers.** Dues-dependent organizations are among the most fragile in the association sector. In the United States, dues revenue accounts for 40 percent total association revenue on average; however, for successful associations, dues usually account for no more that 30 percent of revenue. Unfortunately, nondues-based association models are often resisted in postautocratic societies, because government leaders fear that fee-for-service arrangements will limit access to the association's services by poorer and smaller firms, which often need the services the most. Government officials also fear that nonprofit firms that participate in purely market activities through fee-for-service programs will undermine private-sector development by allowing tax-free providers an insurmountable competitive advantage. In fact, the opposite is true on both counts.

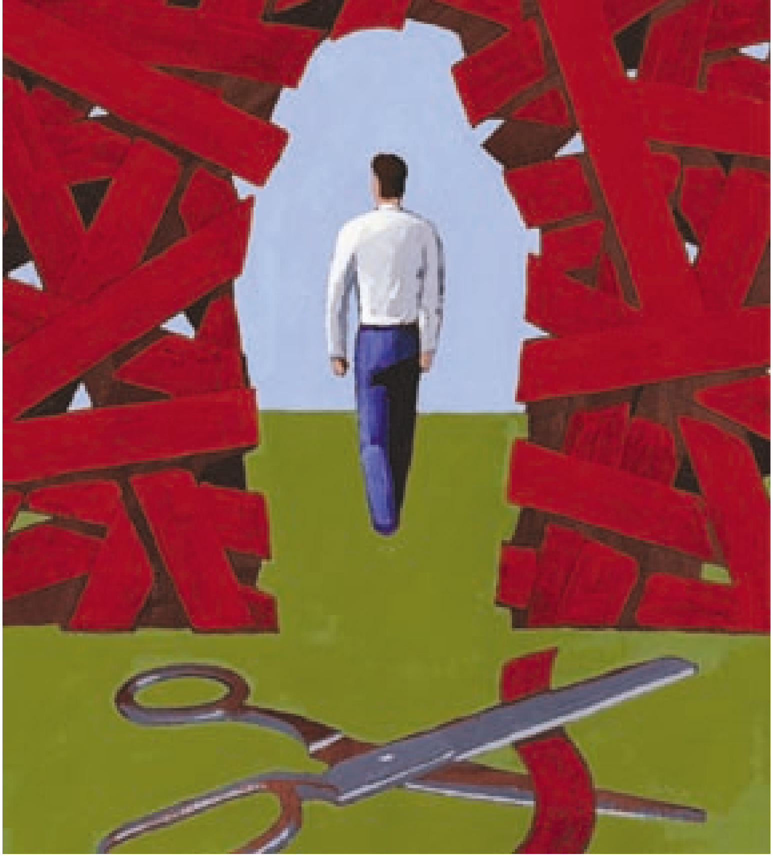
Contrary to the all-or-nothing dues-based package, user fees allow associations to offer startups and very small businesses access to necessary member services without the burden of paying the full dues. Fee-based services also are more exposed to direct market forces and thus make the association more responsive to the cluster's needs while also limiting powerful members' efforts to create and maintain narrowly focused pet projects. Yet, dues-paying members are potentially the most lucrative customers, because they are the easiest to upsell additional products and services. Thus, dues-paying members often subsidize product development costs, even when they are paying a reduced price. That is why it is so crucial to delineate dues-financed and nondues-financed services from the very beginning.

Finally, programs funded through user fees actually help the association use its position and economies of scale in the industry to introduce new business practices and technologies that private firms would not attempt. In this way, fee-based services play a crucial role in building capacity and expanding the tax base by providing a sheltered environment in which to incubate business services that, once viable, can be spun off as independent tax paying business service providers (BSPs). Economic development authorities need to educate government officials in developing markets that the common policy of treating ALL non-dues revenue as taxable activities is restrictive and misguided.



**Suppliers.** Both direct and indirect suppliers to the cluster are valuable partners of any successful association, thanks to mutually beneficial relationships designed to serve the cluster. Direct suppliers are raw material and intermediate manufacturers of products and services used by the association's members. These would include unions, venture capitalists, transportation and utilities, financial services, and other direct business services. Indirect suppliers to the cluster include educators and trainers, information technology developers, marketing and advertising experts, and other consultants. Together, usually through revenue-sharing schemes, the association and both types of suppliers educate the cluster on the value of the services and, through their consumption, increase the viability of the cluster. These are extremely important capacity-building programs and effective technology- and skill-transfer mechanisms. Supplier/association relationships greatly expedite foreign direct investment.

As mentioned above, it is not uncommon for suppliers to start out as a member service since associations have the power to incubate entire BSP sectors. The grandfather of today's electronic commerce, Electronic Data Interchange (EDI), began as a collection of association-sector working







committees that negotiated communications protocols and transaction standards with telecommunications, computer hardware manufacturers, and software designers. Associations played the absolutely essential role of creating the transparent process for standards and practice development that assured EDI's financial viability. Associations published the standards and held training sessions for product developers who created the hardware, software, and value-added networks (VANs). Associations also worked with outside suppliers to develop and promote the business practices and laws (such as those governing electronic signatures) needed to make EDI and electronic commerce viable. If these activities had not been subsidized through tax-free revenue arrangements, associations would not have taken the risks, and customized proprietary standards would have emerged instead of the transparent public standards we all enjoy today.

**Allies.** The association's allies, which include other NGOs and associations, government agencies, development banks, schools and universities, research and development organizations, news media, and consumer groups, provide the critical mass needed to promote and implement the cluster's public policy agenda. Allies provide the means for associations to share costs (rather than revenue) to create critical infrastructure and enact legislation. Associations that develop peer relationships rather than confrontational relationships not only create a more viable environment for their members; they encourage a more viable environment for associations as well.

By recognizing the importance of all four key constituents – members, customers, suppliers, and allies – civil-society organizations can serve as viable and sustainable advocates of an economic environment that promotes the transparency and pluralism needed to shift economic and social institutions from autocratic traditions to democratic institutions. In the end, this business model, which balances all four sectors, will transform subsidized associations from fragile donor-dependent organizations to investor-driven development success stories.

### Association Revenue Matrix

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|---|---|
| **Members: dues payers**<br>Perceive value to join, pay dues, and to participate<br><br>Most committed and lucrative constituency<br><br>Real voice of the association in the marketplace and public arena<br><br>However, the value membership must be easily translated into specific economic gains | **Customers: fee payers**<br>Smaller firms who cannot afford dues and "non-joiners"<br><br>Help cover fixed costs and keep dues low<br><br>Engaging those in other industries builds wider support<br><br>However, products and services must remain consistent with core mission |
| **Suppliers: business partners**<br>Direct: Raw and intermediate products, unions, utilities, financial services<br><br>Indirect: trainers, IT developers, marketing and advertising expertise, and other BSPs<br><br>Direct revenue source (e.g. trade show exhibitors)<br><br>Indirect revenue source: Joint ventures with third-party payers including members. | **Allies: public policy partners**<br>Other NGOs, government agencies, development banks, schools/ universities, R&D organizations, news media, and consumer groups.<br><br>Provide critical mass to support public policies |

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