TPG Pulse For Associations

In Partnership with The Canadian Society of Association Executives

VOLUME 7, August 24, 2020

Focus on Finance: COVID 19's Impact on the Bottom-Line of Canadian Associations

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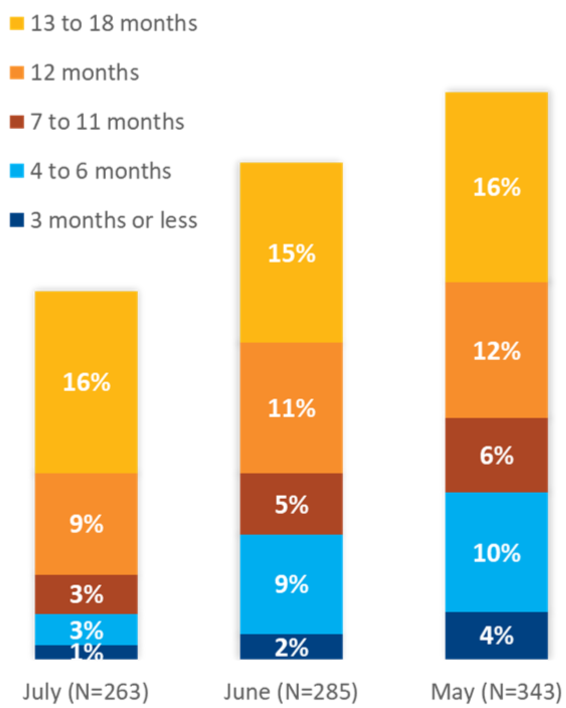
The TPG Pulse for Associations is a publication series focused on providing information, insight and tracking of the impact of COVID 19 on the association sector.

This edition of the Pulse highlights the key findings from the July Pulse Survey, which was completed by 279 Canadian associations and other nonprofits between July 22 and July 30, 2020.

This Pulse has been developed in partnership with The Canadian Society of Association Executives.

Updated Financial Impact of COVID 19 on Canadian Associations

Financial Viability Under Current Conditions



For the associations positioned to weather the storm of the initial months of the COVID 19 pandemic, many are finding themselves with a bit of breathing room in terms of immediate cash flow and financial viability issues. Inevitably, many of those that were without a sufficient financial cushion or access to government supports have not fared so well.

Sixteen percent (16%) of the organizations surveyed in July predicted they have 12 months or less before they may have to shut their doors under current socio-economic conditions. This number is halved (32%) from those reporting in May of this year.

Likewise, the portion reporting to have more than 18 months' financial viability and those whose financial viability is not impacted by COVID 19 has increased from May when it was first measured.

Although this is certainly good news for the organizations that were surveyed, it is important to note that a significant 14% of surveyed organizations in early May reported at that time to have six months' or less before they would have to cease operations. Those organizations that have shuttered would not have reported in the July survey and therefore are not represented in the results.

CEWS Providing Critical Temporary Support for Qualifying Associations

"Considerable uncertainty remains. With the extension of CEWS to December, [the] outlook is much better. We are able to keep everybody working, learning and training - pivoting the organization to deliver valuable products and member services in this new reality."

National Professional Association CEO, Ottawa

Associations that qualify for and that have utilized key government supports such as CEWS (Canada Emergency Wage Subsidy) have benefitted from the badly needed breathing room to navigate through the many challenges of the last few months. With CEWS now extended to the end of 2020, many are leveraging this opportunity to pivot the way in which they serve members and stakeholders within the context of the current reality.

Not all associations have benefitted from government supports, however: Nearly one in ten surveyed associations (such as those with independent contractors as staff and those whose revenues are not realized monthly) have not qualified but indicated that they need CEWS.

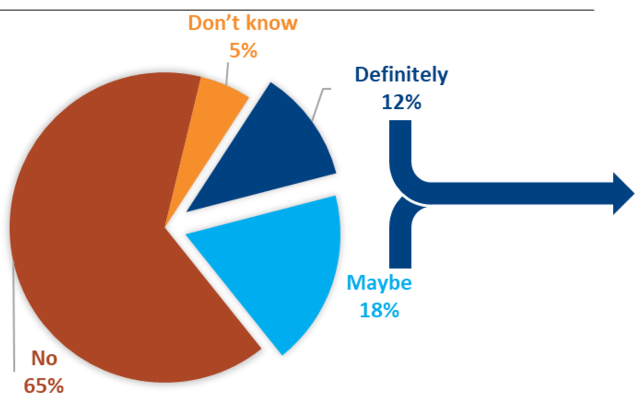
> "As an NFP that pays contract employees, we are not eligible for any COVID relief programs. This has decimated our organization."
>
> ***Trade Association CEO, BC***

For others, the financial situation is daunting even with the benefit of government supports. A significant 30% of associations surveyed in July indicated they need more financial help despite current government support and programs (note, this includes those that have received and those that don't qualify for CEWS).

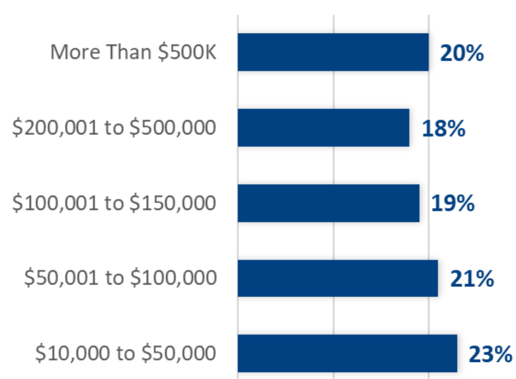
In dollar terms, more than half (57%) of those in need require $100,000 or more to remain viable in the next 12 months. One in five need more than $500,000 to continue operating.

> "Our major revenue generator, a consumer exhibition, was cancelled two weeks out, so not only did we lose all of the revenue for the year, we had $700,000 in unrecoverable fixed costs. With the current COVID-19 situation, we will not be able to hold this event again in 2021. [This will be] another 40 percent hit to revenue. CEWS has been a great help to many of our members and to us but does not fill the huge hole left by the loss of our major revenue generator."
>
> ***Trade Association CEO, BC***

Assistance Needed (N=279)



Amount Needed (N=72)



Current Year Losses Estimated at $1.6 Billion For Professional and Business Associations

As has been the case for industries and organizations across the globe, the revenue impact on Canadian associations resulting from COVID 19 has been dramatic.

Three quarters of those surveyed (76%) are projecting a decline in revenue in their current fiscal year.[1] Moreover, six in ten (62%) of those surveyed have already taken a negative hit compared to their pre-pandemic budgeted revenue since March 2020.

Associations Anticipating an Average Revenue Shortfall of $382,000 This year

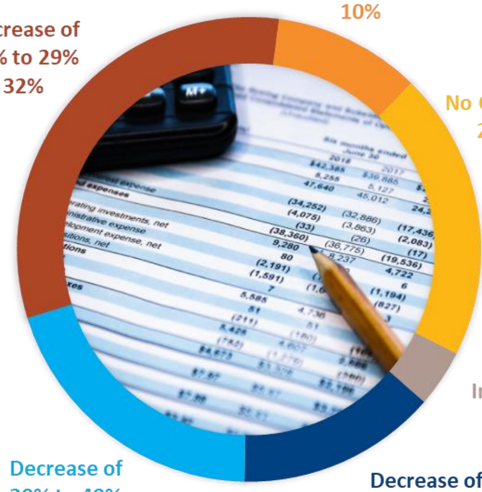
On average, surveyed associations are planning for a drop of nearly one-quarter in revenues (23%) for the current fiscal year compared to budget. This translates to an average decline of $382,000 per organization surveyed (the median anticipated decrease is $157,500). This average represents the total sector change in revenue, including those expecting no change or an increase.

A significant 14% are anticipating a revenue shortfall of over fifty percent for the current fiscal year.

According to Industry Canada's Canadian Industry Statistics, there were 4,688 professional and business associations in Canada in 2019 with at least one staff member. Based on the survey data for just these two association types, the estimated impact to date (July 30, 2020) for business and professional associations alone is $920 million. Estimated total losses for the current fiscal year is anticipated to be a staggering $1.6 billion.

Note that data limitations do not allow us to reliably estimate the impact on other types of associations, or special interest groups. According to Industry Canada, there were 1,620 labour organizations and 3,582 other membership organizations with at least one staff member. These groups are not included in the estimate. Accordingly, the loss for all associations (with staff) is likely to be significantly higher.

Anticipated Change in Revenue in Current Fiscal Year



Notes: Mean percent change -23%
Mean dollar change -$382,500
Median dollar change -$157,500
N=254

[1] Among those surveyed, 72% have fiscal year end dates between December and March.

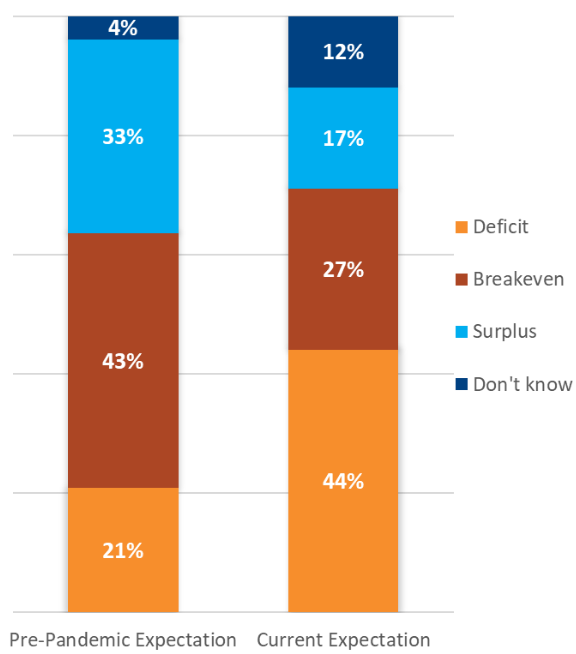
Overall, the pandemic has struck a blow to the overall profitability and bottom line of many of the associations surveyed. Over half (53%) experienced a negative shift in their bottom line (surplus/deficit).

Financial Impact Variability Across the Sector Means Some Associations Faring Better than Others

Before the pandemic struck, three quarters (76%) of participating organizations were anticipating a break-even or surplus budget for the current fiscal year. In contrast, only 44% of associations were anticipating a revenue neutral or positive position for this fiscal year as of the end of July.

Profitability and Bottom-Line Impact

Anticipated Bottom-Line Expectations



Notes: Pre-pandemic mean – surplus of 0.5%
Current mean – deficit of 10%
N=279

Correspondingly, the number of surveyed associations anticipating a deficit has more than doubled compared to pre-pandemic expectations: Before the pandemic struck, one in five (21%) surveyed organizations anticipated a budget deficit for the current fiscal year. By July, this jumped to 44%.

> "While our revenue is down, so are our expenses which is what has lessened the impact of COVID on our organization."
>
> ***Professional Association CEO, Ottawa***

On a more positive note, there is still a significant portion (44%) of associations surveyed in July anticipating a surplus or break even for the current fiscal year. Most of those in a surplus position are anticipating ending the fiscal year with between one and ten percent in surplus funds in the bank.

The results reinforce that the bottom-line impact has not been equal across all the associations surveyed, with some much more adversely affected than others.

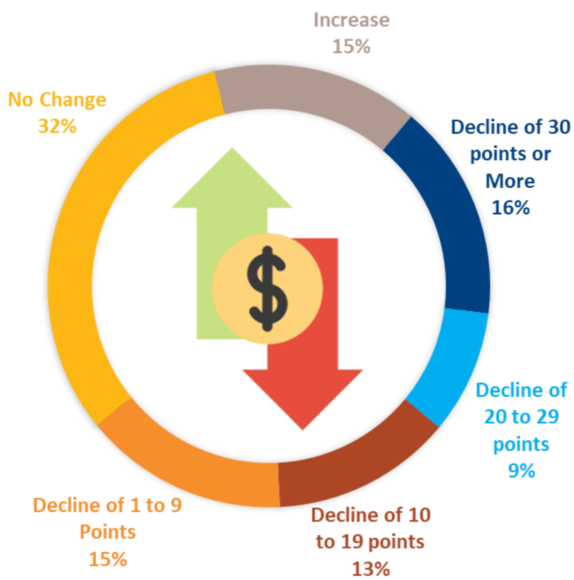
Some associations have seen little change in their operations and revenue because of their organizational focus and/or because of the profession or industry they represent. Others have mitigated some of the financial impact of COVID 19 by significantly reducing expenses across many areas such as those associated with events, travel, leasing office space, and other expenses.

Use of Reserves and Contingency Funds in 2020 Adding to Concerns For 2021 and Beyond

The anticipated profitability of participating associations declined an average of 10.6 percentage points compared to pre-pandemic expectations. This means that most organizations with 'money in the bank' before the pandemic now have less of it. Those that were (or were closer to being) in the 'red' are now further in debt due to COVID 19.

A full quarter of those that participated in July's survey are anticipating a drop in their bottom line of 20 points or more.

Projected Change in the Bottom Line



Notes: Mean change -10.6 percentage point
N=221

The data suggests that although many remain operational for now, most associations are putting less into and/or taking more from reserve and contingency funds than planned. This is highly worrying for the longer-term viability of the sector, particularly as a critical concern voiced by several survey respondents is less about how to make it through 2020 and more about what lies beyond.

Many respondent comments expressed worry that the worst may be yet to come, with the true economic impact on their organization to occur in 2021 and 2022, once government programs and benefits have ceased and when many associations anticipate they will have utilized available reserve and contingency funds.

"We have reserves for one-two years, then things get interesting."

Professional Association CEO, Alberta

Supporting Associations Retooling to Thrive

Over the last several months, TPG and CSAE have been collecting data to publish a series of free resources that track the impact of COVID 19 on the association sector and that delve into how associations are adapting, retooling, and refocusing not just to survive, but hopefully to thrive, in our new reality. You can find other recent resources and information on upcoming initiatives here.

About The Portage Group Inc.

The Portage Group is a full-service consulting firm serving the association sector. TPG is the official research partner for the Canadian Society of Association Executives.

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