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It's About the Money

How did the AESF get into such a money crunch? I'm going to try to explain it.

During the past nine years, the Society has had only one year (2000-01) in which it had an operating profit. Three other years (1995-96, 1996-97 and 1997-98), the Society had an operating loss, but the income from the reserve fund in each of those years made the bottom line positive. The remaining five years had operating losses even when the incomes from the reserve fund were included.

Did the Society spend too much or take in too little income? Was it the falling membership, the recession, or the stock market? It was all of these.

When revenues were falling, expenses were not cut fast enough. Probably because it was anticipated that the next year was going to take care of it. But, in the main, it didn't. The fear was that cuts in staff and the services programs would have meant less benefits for members.

There was too much optimism about future conferences. These were planned five or more years ahead to get the accommodations necessary for the expected attendance. When the conferences did not meet the expectations, the Society was responsible for the guaranteed hotel rooms that were not occupied. This has amounted to a considerable sum of money. Recently, some of these were reduced through negotiations with the hotels, but it is still a large sum. Now, the Society has learned to be more conservative in its contractual obligations.

At the same time, membership dropped 10 percent from 1995-96 to 1999-2000. Then, the recession started to hit and businesses cut their budgets. Among these cuts were company paid memberships in the AESF. Membership dropped five percent that year, then another 16 percent the following year. Since then, there has been a steady decline to where membership is about half of what it was in 1995. This has resulted in large losses of potential income from memberships, magazine advertisements and educational programs. Magazine advertisements have been declining the past few years. Just look at those in our sister magazines. Magazine advertisement placements and rates depend upon circulation.

Since 1999, the stock market has been dropping. This has meant less income from investments that could have been used to shore up operating income. During the past year this has recovered significantly. However, during the loss-years, rather than selling off stocks and depleting the reserves, loans were taken out against the reserve fund. This is a sound, normal business practice, except that this resource for cash was maximized. Eventually the loans must be paid.

The Society has been in a government relations program with the Metal Finishing Suppliers' Association (MFSA) and the National Association of Metal Finishers (NAMF) since 1993, which was eventually handled by the Surface Finishing Industry Council (SFIC). The Society's cost for this program is approximately $150,000 per year.

In the beginning, this was mostly paid by contributions. As the program got older, however, contributions began to fall because of some of the factors cited above, and from going to the same wells too often. This resulted in the Society being obligated to pay more and more from general funds. This, in turn, has added more to the Society's deficit.

It is not the purpose here to argue against the program, because it has made things more liveable for the finishing industry. Think of what it would be like now if regulators would have had their way with regulations based upon unscientific information and overreaching demands. Just think of its detectable, banned type of mentality winning.

More on this next month. In the meantime, ask someone to become an AESF member. *P&SF*