

KSAM Briefing Note

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ESTABLISHING A NEW TRADE ASSOCIATION

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This paper sets out the issues that need to be considered in establishing a new association and provides some tools to help in this task.

The need for an association

A trade association can be established only if there is a demand for its services. It is not sufficient for there to be a large number of individuals or businesses in a particular sector. People and businesses will join a trade association only if it can provide benefits that they are able to recognise. These benefits come under three headings -

1. To influence the regulation of the sector by a government agency or in some cases by customers or suppliers. A new statutory regulatory regime or even a significant policy decision may lead to the need for a new trade association in a specific field.
2. Provision of services that cannot easily be provided by anything other than a specialist organisation. These services include information relevant to the sector, training, education, events and insurance.
3. Helping to grow the business through either or both of expanding the market or providing a competitive advantage to those in the association.

In regulated sectors the representation function is the most valuable but is not generally recognised by members and, in any event, those who do not pay for the service are able to benefit from it. More tangible benefits such as provision of services at a lower cost than those that can be obtained elsewhere and business leads are more likely to be a selling point. Each association needs to understand the demand for its various services and to structure its activities accordingly.

Size of an association

An association needs a critical mass to be viable. There can be a temptation to spread the association's remit too widely to get in as many members as possible. Typically, businesses and individuals want to join an association of people or businesses like themselves although, in practice, a wider grouping is often essential. It is important to limit the scope for competing interests, as opposed to different interests, within an association. Horizontal expansion is therefore preferable to vertical expansion although, as will be explained later, customers and suppliers can play a vital role in helping to make an association viable.

The approach

Establishing a new trade association should be viewed in the same way as launching any new business product or service. New associations are established by individuals not by committees and an entrepreneurial approach with clear leadership is needed. The stages in establishing an association are -

1. Research the market that it is intended to serve and existing associations and other organisations (such as journals and consultants) in the market.
2. Design the service that will be offered to potential members.
3. Fix the pricing, that is the subscription scale. Here, there is a difference from normal business activities in that what is being offered is a whole package, parts of which will be of little or no interest to many of the members. Offering a menu of services does not work in practice to more than a very limited extent.
4. Develop a marketing strategy geared towards a specific launch date and which must include marketing literature to potential members, a high quality website and ideally some media support.

Momentum is important otherwise people quickly lose interest.

These various aspects are considered in more detail in the following sections.

Identifying the market

Every trade association needs a core market and ideally a number of peripheral markets that both enhance the association's value to the core market and provide it with much needed income.

The product

The package of services to be offered will need to be developed over time. It must be borne in mind that most members will only want a few of the services. It is also invariably the case that some services fail while others are successful more than expected. Some experimentation is needed here. Services typically included in a package are -

- Representation as necessary to any government departments and agencies and also customers and suppliers.
- Model contracts.
- Specially tailored insurance to meet any requirements of customers or regulations.
- Information on legal and health and safety requirements.
- Training, ranging from basic training for new staff to more advanced training. This can be arranged with commercial suppliers or done in-house.

- Networking opportunities.
- Assistance in marketing, for example model advertisements or help with websites.
- Discounts for particular goods or services.
- Taxation and legal advice, which can be arranged through relationships with professional firms.

Pricing and membership

The association will need clear membership criteria and within these criteria should not erect hurdles to those wishing to join. Full membership should be available to any business providing the relevant goods or services.

Associate membership should be offered to other businesses with an interest in the sector, such as suppliers or consultants.

Setting the subscription fee is partly a matter of trial and error, and the usual marketing techniques might be used including discounts for early joining, offering 15 months' membership for 12 months' subscription and also some unofficial differential pricing where it is particularly important to get certain individuals or businesses involved. Initially, the Association must be underwritten by the founding members. If there is sufficient concern in the industry about an external threat this can be a good opportunity to market membership.

Marketing strategy

The marketing strategy needs to cover -

- Selection of a name that immediately indicates what the association does.
- Choosing a suitable website address and registering the domain name.
- Developing marketing literature setting out why businesses should join.
- Seeking backers for the association whose names can be used in the marketing literature as a selling point. These could include government ministers, major suppliers and recognised names in the industry.
- Seeking favourable media publicity in the trade press likely to be read by potential members. (Some relevant market research – either existing or new - can help here – something guaranteed to attract a headline.)
- A launch event.

Building members' business

In the longer term the success of the association may well depend on its ability to help members build their businesses. Where people are looking for a supplier and have little knowledge of the sector, other things being equal they will go to members of a trade association and they will find that business either through the Yellow Pages or through an internet search that leads them to the trade association's website.

An association can help grow the business in total terms and the share of the business going to members through -

- Publicity.
- The website must include a directory of members with links to websites or contact details. A search facility based on town or postcode and specialism can be particularly useful, depending on the sector.
- Members can be expected to use membership of the association in their own marketing.

Finances

The association has to be run as a start-up business offering an ongoing service for an annual fee. To get the association off the ground the founder members must provide the start up capital, preferably guaranteed for two or three years. Ideally, members should be persuaded to sign direct debits as this will not only ease administration but will also significantly help retention. Subscriptions are tax deductible, a point that needs to be emphasised to potential members. Subscriptions are not VAT-able, because trade associations are regarded as providing services only to their members. Where other services are provided, some complex issues arise in respect of VAT which may need professional advice.

Governance

The association can be established as an unincorporated association in which case it does not need to be registered and no legal costs need to be incurred. However, it is sensible to consider the company limited by guarantee model because of the protection that this gives both to the members and those running the association.

The association should have a formal governance structure in the form of a board or an executive committee of between five and 12 members. The composition must include industry leaders and should be such as to help "sell" the association.

The chairman of the association should normally be a leading industry figure. Options for management include an individual employed for the purpose, a trade association in a related field or an association management company.

It would be sensible to join the [Trade Association Forum](#), the trade association for trade associations. This is a valuable source of information and advice. Listing on the Forum's Directory (which is available to non-members) helps put the association on the map.