



December 2005

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Four Financial Facts About Professional Certification Programs

By Lenora G. Knapp

"If I'd only known then what I know now" is a sentiment association executives often express after launching a professional certification program. If you're considering whether certification is right for your association, here are some financial facts to keep in mind.

1. Starting a certification program is more expensive than you think.

Developing a professional certification program that is psychometrically sound and legally defensible requires significant financial resources. Start-up costs are substantial, typically a minimum of \$150,000 to \$350,000. Expenses include marketing and market research; consulting fees (for legal, psychometric, and accounting services, for example); travel and meeting expenses for volunteer committees; and staff time and overhead.

And start-up costs are just the beginning. Maintenance typically costs a minimum of \$50,000 to \$75,000 annually.

When evaluating a certification program's feasibility, you should develop a business plan that includes both five-year revenue-and-expense projections and a break-even analysis. Err on the conservative side when formulating these projections; overestimate expenses and underestimate revenue. The business plan will give you and your board a clear impression of the program's potential impact on your association's finances.

2. There's only a one in two chance that your certification program will generate net revenue. In a study of the certification industry that my firm co-conducted with the American National Standards Institute, we found

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that most organizations (79 percent) launched their certification programs with the expectation that the programs would become financially self-sustaining within the first five years of operation.

In reality, however, only 58 percent of certification programs were actually self-sustaining within this timeframe. Moreover, only half of the 229 study participants reported a net gain/profit in the most recent fiscal year. (To learn how to get a copy of the study, see "Recommended Reading for Certification Program Sponsors.")

Bottom line: If you think your certification program will be a cash cow, then you'd better think again.

Even if your association does *not* expect the proposed certification to generate nondues revenue, it is still important to carefully weigh whether the program's benefits will justify the costs. Will the number of members the program serves make it worthwhile? Will the consumers of certificants' products and services—whether employers or the public—benefit significantly from the creation of a cadre of certified professionals?

Associations often end up subsidizing their certification programs for several years, if not in perpetuity. Is your association prepared to take on this additional expense over the longterm?

3. Few associations obtain external funds to cover certification program start-up costs. In the previously mentioned certification-industry study, it was found that the parent organization typically bears the burden of financing program start-ups. Sixty-seven percent of certification programs participating in the study reported that the parent organization simply absorbed the start-up costs, and 20 percent indicated that the parent organization's financial reserves were used to cover costs.

Approximately 10 percent of organizations received loans or grants; however, most of these funds came from the parent organization itself.

Associations have proven to be quite creative in obtaining funds to support their certification programs. When the Construction Financial Management Association, Princeton, New Jersey, announced the launch of its first certification program, one of its local chapters donated \$1,000 to the cause and challenged other chapters to do the same. CFMA raised more than \$70,000. The Institute of Certified Construction Financial Professionals, the separate corporation formed to sponsor the new certification program, recently held a fund-raising karaoke night at CFMA's annual meeting, netting \$30,000 to help pay off the institute's loans.

4. Most organizations set certification program fees too low and do not raise fees often enough to keep pace with expenses. Virtually all of your program revenue will come from fees, so setting the right price is critical to financial viability. Certification program fees should be both market- and cost-driven. Market factors include the perceived value of the credential, the salary of candidates, who will pay the fee (the

association community.

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employer or candidate), and the cost of similar credentials. Cost factors to consider include your start-up and maintenance expenses, payback schedules on loans used to finance program start-up, and the degree to which the parent organization is willing to subsidize the program (and for how long).

Some organizations believe that if they set low fees, more people will seek certification. However, there is no evidence that demand for certification is particularly sensitive to price.

Instead, what seems to matter most is the perceived value of the credential. If the certification is visible in the industry, is highly respected, has a unique value proposition (compared to competing credentials), and is in demand by employers or the public, price is not a determining factor in the decision to pursue certification. In fact, in this situation, the sponsor can set a premium price for the credential.

On the other hand, if your market does not value the certification, a low price will not induce people to become certified, and a very low price may hurt the certification's credibility. Keep in mind that if you set a low fee and do not get the anticipated volume, you will end up digging a deeper financial hole.

A final note on costs and benefits

Developing and maintaining a certification program requires a significant expenditure of financial resources with no guarantee of a financial return on this investment. All this said, there are nonetheless many good reasons to develop a program:

- protecting the public,
- avoiding regulation,
- attracting new members,
- enhancing your association's credibility or prestige, and
- elevating the stature of the profession.

So before making the commitment to develop a certification program, conduct a careful analysis of its financial impact. Be sure that the benefit to your association, your members, and the public justifies the costs.

Lenora G. Knapp is president of Knapp & Associates International, Inc., a management consulting firm in Princeton, New Jersey, that assists organizations in developing and revitalizing professional certification programs. For certification publications and resources, visit www.knappinternational.com. E-mail: lknapp@knappinternational.com

SIDEBAR

Recommended Reading for Certification Program Sponsors

- *The Business of Certification: A Comprehensive Guide to Developing a Successful Program* by Lenora G. Knapp and Joan E. Knapp (2002, ASAE)
- *Certification: A NOCA Handbook* (1996, National Organization for Competency Assurance)
- *Certification and Accreditation Law Handbook (2nd Ed)* by Jerald A. Jacobs and Jefferson C. Glassie (2004, ASAE)
- "Certification Appeal: Consider All the Angles Before Developing a Certification Program" by Lenora G. Knapp and Michael E. Gallery. This is an article from the November 2003 *Association Management*
- *Personnel Certification: An Industry Scan* by Knapp & Associates International, Inc., and the American National Standards Institute (2003). Findings from the first comprehensive scan of the certification industry, presented in a research study report that compiles data obtained from 229 certification sponsors nationwide. Available from Sandro Shelia at sshelia@ansi.org or 202-331-3619.