

New AGAIN

In the middle of a cash crisis, a criminal investigation, and a staff shortage, Members re-affirm their support for the mission of SCAA

By Mike Ferguson

The news hit hard last September when, following the resignation of the SCAA's chief operations officer, the association discovered significant accounting irregularities and cash shortages. Immediately, we entered crisis management mode. Our first reaction was to stop all spending until we understood our cash position. Extreme cost-cutting has quickly become part of our culture, and we scrutinize every expenditure very closely before it is made. On the revenue side, we've been trying to get our accounts receivable in order. Our accounting system was significantly compromised, so it's taken time to sort out what we're actually owed and by whom. Unfortunately, there has also been some double billing. Exhibitors are paying off their booth space for Charlotte, despite some mix-ups, which we've taken as an indication of their confidence. Our membership database was separate from the accounting system, so we were able to get a clear picture of dues revenue expected, and members have been sending in their dues at a rate nearly comparable to previous years. Also, because the conference is such an important activity for the association, we've set up a separate bank account for revenue related to the conference. Conference revenue will be spent only on conference. When you combine this with some creative cost-saving (no muffins at the coffee break, for example), everyone is confident Charlotte will be a successful show for both exhibitors and attendees.

Of course, the big story is the amazing response to the First Responder Campaign. Members sent or pledged more than \$250,000 in the space of three weeks to create what is essentially an endowment fund to help secure the future of the SCAA (see page 2). We felt like this was a huge vote of confidence for the association's mission. There are many opinions about our situation—a lot of support and a lot of criticism—but the success of the First Responder Campaign sent a clear message that the purpose of the association is not in question, and the industry wants the SCAA to succeed in the pursuit of its mission. We're keeping the doors open, the lights on, and addressing our debts, slowly but surely.

In explaining the nature of the First Responders Campaign, we can look back to 1981, when 33 companies each contributed \$100 to get the SCAA started. Out of that initial endowment grew a \$4 million dollar business. "Today the SCAA has asked its members to once again help capitalize the organization; this time to replace the working capital that was stolen," says Ted Lingle, the SCAA's chief executive. "The money will be first used as working capital to keep the association operating while preparing for our 18th annual conference in Charlotte. Once the working capital requirements are satisfied, the balance of the money will be used for debt service to restore the full faith and confidence in the SCAA by our vendors. The proceeds from conference, which is a highly successful business

model, will be used to pay back the endowment fund, which will create a cash reserve (rainy day fund) for the SCAA for the first time in our history. So the money contributed by the members for the endowment fund will always remain in the association."

As mentioned, extreme cost-cutting is becoming part of the culture, or tone, of the association, especially for staff, who have set aside old job titles and descriptions to pull together, think creatively about expenditures, and "flow to the work." Right now we have created "staff teams"—Membership, Conference and Training—and we will continue to focus on the basics until the situation is resolved.

The unexpected good news behind recent staff departures is a new attitudes, which I think will have a profound long-term effect on how we operate. One new attitude, which I've already alluded to, is staff emerging from their silos. Even when we had 16 employees, we were still five or six shy of the staff level for the average association our size. To get everything done with such a small staff, we operated like a group of entrepreneurs. Everyone was very self-efficient, but self-efficiency within the programs you are responsible for running doesn't necessarily result in efficiencies for the organization as a whole. Now we have to think in terms of stewardship, not just for our own programs, but all the work that we accomplish together as a team.

Long term, we've already begun to focus on back to basics, which means membership, conference and training. These are the things we're good at, they are programs members count on us to deliver, and they each generate solid revenue. If our programs are going back to basics, our volunteers are going back to the beginning. Right now we are very dependent on the commitment of time, talent and treasure from our volunteers, dependent to a degree reminiscent of the association's early years.

That said, the response from volunteers has been amazing. From the Roasters Guild to our Past Presidents Council, every committee has been involved in trying to create immediate solutions to the crisis. We were only days away from our annual committee planning meetings when the cash shortage was uncovered and an investigation began. The staff was still shell-shocked when we arrived for the meetings. First, the board met in a marathon session (and don't forget, board members are volunteers too), and the next day, with much trepidation, they announced to 125 volunteers what had happened, or at least what we understood to that point and what we could say given the nature of the investigation.

Again, the volunteers were incredible. They rolled up their sleeves and went to work. The Conference Committee and United States Barista Championship Committee started cutting costs without compromising quality. The Roasters Guild was on the phone right there in their committee room starting to raise money for what came to be known as the First Responders Campaign.

The Roasters Guild and the International Relations Council hammered out the details of the endowment fund. Our Training Committee has scheduled several new training sessions at headquarters in Long Beach between now and conference. The Marketing and Communications Committee began to draft the foundations of what would be the board's first public statement. The Sustainability Committee had several very creative ideas that will serve us well down the road ("SCAA Gets Mugged" is my personal favorite). The Barista Guild is very committed to a significant increase in its membership over the next six months. Our Membership Development Committee has some fantastic ideas for shoring up our membership renewal process so we don't have as much passive turnover. The Retailer Committee has introduced us to gorilla marketing and podcasting. The Technical Standards Committee also came up with a number creative ideas that we are looking at very seriously. And the Allied Committee is helping to increase conference revenue with some innovative approaches to selling booths and attracting attendees.

Even with all of this support, one of the burning questions is how this crisis will change the association in terms of its daily operations and its strategic vision. To begin, no one on staff takes anything for granted anymore, and everyone is thinking on three rails almost all

the time—cut costs, generate revenue, serve the members. Right now we're operating at 65 percent capacity, so sometimes you'll get the voice mail system when you call, and it may take us a little longer to get back to you, but the staff morale is high and everyone is still very eager to assist members when they call. More than 80 percent of members will call us for something over the course of the year. We're still in business, so keep calling.

I don't think our strategic vision will change so much as it will become more focused. The vision is right; it's just the program and activities that need to be narrower but deeper. Training is prime example. The SCAA should be training people all over the place all of the time. Being forced to adopt that level of focus will help make that ideal a reality.

Finally, members want assurance that the association has a plan to ensure that this type of calamity never happens again. We've all become students of financial control systems. You don't have to read accounting literature for very long to find caveats about when and how financial controls systems won't work. Under the right conditions, any system of controls can be worked around, and some of those conditions existed here. We have enhancements and greater segregation of duties in place, which definitely strengthen the controls. But, more importantly, we all know what to look for, and we're looking for it everywhere now, to the point of paranoia. We also have a statement of financial controls on our website, and this may be expanded after the current forensic accounting is completed.

One day, everyone now on staff or now on the board, will have moved on, but the association will still be here—I think the First Responders proved that to be true. At the same time, there are those in the industry who are taking a wait and see attitude. They want to see more evidence that controls are adequate and that something like this will not happen again. That's fair. It's a little difficult while we're technically still in crisis, still conducting a forensic (criminal) audit, to be as transparent as we will be when the dust settles. But I'm confident that the skeptics will be satisfied soon enough. Of course, there are some long-time critics of the association who have taken this opportunity to raise their voice, if not say, "I told you so." That's okay too. If we didn't have any critics, I'd be worried.

I truly believe that the SCAA will come out of this as a leaner, meaner operation. I also believe that members have been reminded that the SCAA is their association. It doesn't belong to the staff or the board; it belongs to members. I'd like to think that members having new "pride in ownership" is definitely a silver lining to this very dark cloud.

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