

## Chapter 3

### AIChE Essentials

*By John A. Sofranko*

**T**oo much of a good thing can be a bad thing. AIChE experienced positive financial developments in the late 1990's, which allowed it to greatly expand its services to the membership and society. Shortly after, however, a significant downturn in the economy and the financial investment markets, precipitated in part by the events of 9/11, prompted the Institute to take a series of actions that were, in the short term, difficult on the leadership, membership, and staff. During this very difficult period, many options were considered including a merger with ACS. Ultimately, AIChE made a significant financial recovery, started up new activities, and built back many service functions. The "Essentials" plan, instituted by the Board and staff in 2003, greatly improved the financial balance sheet of AIChE and started new programs of value to its members.

## New Found Wealth

AIChE had cooperatively shared and owned its headquarters building with four other Founder Societies since 1962. The building hosting all the engineering societies was located at 354 East 47th Street in New York City near the UN. This location was so desirable that Donald Trump's development company bought the building from the residents (AIChE, ASME, ASCE, AIME, and IEEE) for a tidy sum of \$53.5 million in 1998. After a serious deliberation the AIChE board decided to stay in New York City for cost effectiveness, staff retention, and tax considerations. AIChE received \$9.6 million from the transaction and decided to move to rented office space at 3 Park Avenue, New York City, along with portions of ASME, IEEE and ASCE.

In addition to the assets obtained from the real estate sale, AIChE also decided to exit a struggling chemical industry exhibits business. This business was sold to International Exposition Company (IEC), owners of the Chem Show, for a sum of \$450K.

The combined gains from these two financial transactions were invested in a very bullish stock market. During the period from 1997 through 1999, AIChE's permanent fund benefited from a strong economy and equity market. Returns on investments were in the range of 20-25% per year during this period. This generated additional revenue to AIChE on the order of \$2-3 million per year. AIChE's investment reserve grew to a peak of \$21 million in 1999.

The returns from the investments were applied to a number of programs that would benefit the chemical engineering community, AIChE members, and society in general. They were funded not only from the investment returns but also from a successful capital campaign called the 21st Century Campaign. From 1995 through 2001 nearly \$8 million was raised from donors which helped support and develop a number of services and products, especially for website and internet/extranet systems, distance learning, database systems and servers, management conference board, and ventures for exhibitions.

The budget to start up and support these new programs was \$2.6 million in 2001, and the staff level grew to about 110.

### **The Events of September 11, 2001 and Their Impact**

The year 2001 had many challenges for the Institute, not the least of which were the attacks on the World Trade Center in New York and the Pentagon in Washington, DC. AIChE had a number of employees whose spouses and friends worked in the World Trade Center complex, but fortunately all of them survived the attacks. The staff had an unsettling view of these horrifying events from their vantage of the 18th and 19th floors of 3 Park Avenue. The weeks following these events were very difficult times for the staff, but they performed admirably. Based on the suggestion from the local government authorities, AIChE had closed its office on September 12, 2001, but the staff was back on the job by September 13th. It took a number of weeks for the effects of the constant police sirens and other emergency initiatives in New York City to settle down to the point where people did not have some level of fear in going to the office. Nevertheless, during this time the staff kept the organization running and moving forward to the next big event of that year, the Annual Meeting at Reno, NV.

The meeting in Reno foreshadowed what the next two years would be like for AIChE. The attacks of 9/11 significantly affected travel in the U.S. Airline travel was disrupted and became much more inconvenient than in the past. In addition, many companies significantly cut back on business travels including attending technical meetings. This was done initially for safety reasons, but ultimately became more of a cost-cutting policy due to a downturn in their businesses.

The meeting in Reno was under-attended compared to the budget for the year. The turnout for AIChE educational programs and courses also saw a significant downturn. In addition, the investment markets faced the beginning of a significant two-year bear market. All of these events, combined with many other negative economic issues, put AIChE's financial position in jeopardy.

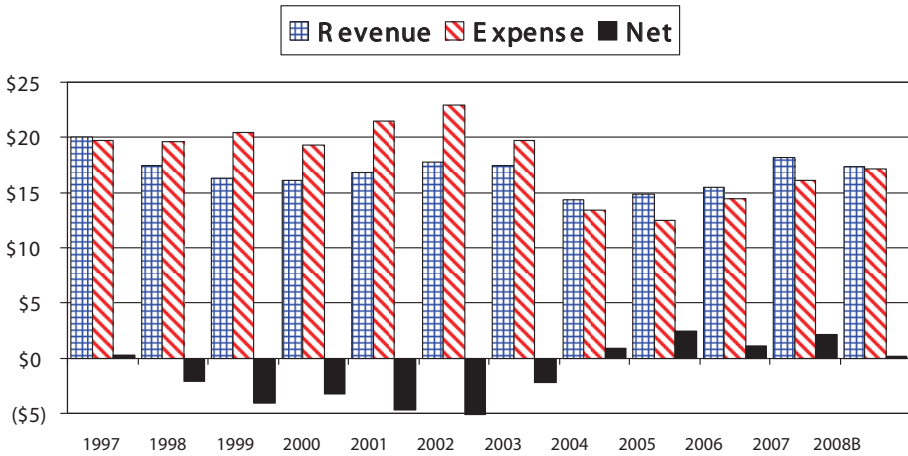


Figure 1. AIChE Operational P&L: 1997-2008.

*Before Investment Returns, Foundation Activities & Special Items (\$ Million)*

Figure 1 shows the change in operations performance of AIChE from 1997 to 2008. In 1998, the negative P&L from operations was more than compensated for by the increased level of Foundation fund-raising, strong returns from AIChE’s investment fund, and sales of the UEF building and exhibition business. Nevertheless, due to the turndown in the investment markets beginning in 2000 and in the economy, AIChE’s net assets began to decline significantly, Figures 2a and 2b.

## AIChE Change in Net Assets

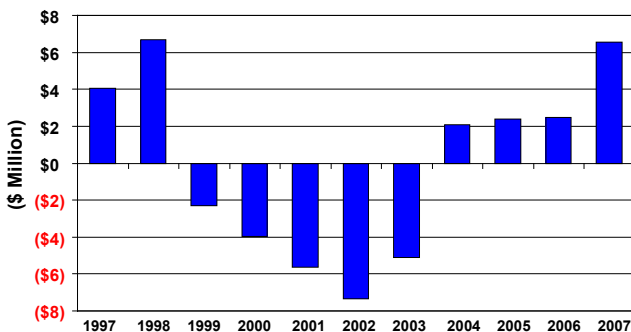


Figure 2a.

## AIChE End of Year Net Assets

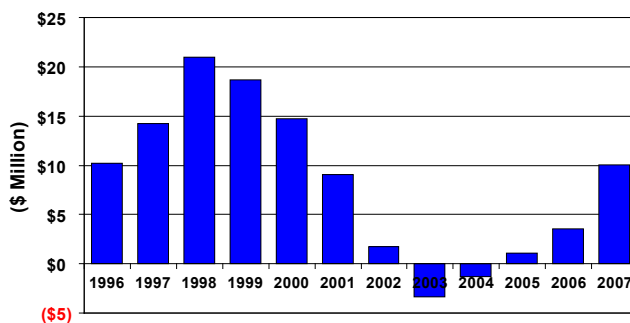


Figure 2b.

### Responses to Financial Crisis

In response to the negative financial performance of AIChE, the Board evaluated three options:

1. Financial restructuring under Chapter 7 or 11 of the Federal tax code,
2. Possible merger with another society, and
3. Significant cost reduction and service restructuring—Essentials Plan.

#### *Bankruptcy*

The Board and staff of AIChE did not think that AIChE would have to file for bankruptcy protection, but for fiduciary completeness, the scenarios for Chapters 7 and 11 filing were examined. Fortunately, the quick actions taken by AIChE did not require anything more than a cursory evaluation of these paths.

#### *Merger Discussions with ACS*

Discussions with the American Chemical Society (ACS) about a possible merger with AIChE began in earnest at a meeting in AIChE's New York offices on October 18, 2002. In attendance representing AIChE were Sid Sapakie (President, 2002), Dianne Dorland (President, 2003), and John Sofranko, Executive Director. ACS was represented by Nina McClelland

(ACS Chair of the Board), Hank Whalen (Director of Industry Relations), Dave Daniel (Director of Operations), and David Schutt (Director of Strategic Planning).

Sapakie stated clearly that AIChE was pursuing a merger “of equals” that might be mutually beneficial to both organizations. AIChE was interested in discussing a merger only if the identity of AIChE and independence of AIChE’s governance could be preserved.

Subsequent to this meeting, both organizations committed resources to discuss the options of a merger in greater detail. Over the period from October 2002 to March of 2004, many meetings occurred between the newly formed Board Task Forces from both organizations. The key staff leaders for the discussions were David Schutt for ACS and John Sofranko for AIChE. After many organizational, governmental and business model options were evaluated, it was clear to both Boards that a merger was not in the best interest of both parties. The “merger” was effectively viewed as an acquisition of AIChE by ACS. This ultimately was the key reason that these discussions were suspended. Under this scenario, ACS would have taken on full fiduciary oversight of AIChE and inherited AIChE’s negative net asset position. AIChE could have had its own Board of Directors, but it would ultimately have been subordinate to the ACS Board.

Many very positive actions, however, came out of the lengthy and detailed discussions between the two organizations. AIChE and ACS embarked on a new era of cooperation between the two societies that continues successfully at the time of this writing. This new era is best summarized in a letter of April 12, 2004 to AIChE membership from Bill Byers (2004 AIChE President).

*“I am also happy to share with you news of a strategic partnership with the American Chemical Society (ACS). After a year of discussions between working groups from our respective Boards, AIChE and ACS have agreed to pursue cooperative programs in areas of mutual interest. This will not be a merger, and our boards and councils will remain separate and autonomous. However, by working together in some key areas, we can make a greater difference to our members and to the chemical enterprise at large. Areas of synergy include: government relations,*

*sustainability, green chemistry, biological engineering, chemical safety and health, and meeting programming. Moving forward, career development, K-12 outreach, and minority and women's issues provide fertile ground for collaboration."*

This cooperative agreement started a new level of engagement between ACS and AIChE. One of the most significant events was the colocating of our spring meetings in New Orleans in April of 2008. At this meeting there were over 122 cosponsored technical sessions. A "one badge for both meetings" offering was very successful.

It should be noted that all the Founders Societies and IChemE were very aware of AIChE's situation and offered their assistance in many ways. There were informal discussions about alliances with AIChE with all, but none of these discussions took on the depth that they did with the ACS.

### **The Essentials Plan**

While merger discussions were ongoing with the ACS, the Board of AIChE took aggressive steps to put the financial house in order. This plan and the accompanying course of action, was coined "Essentials." It is best summarized in this letter from the 2003 President of AIChE, Dianne Dorland, to the members in June 16, 2003.

*"As you know, I made a commitment to keep you informed as the Board of Directors continues to work through the Institute's financial challenges. I am happy to report that we made significant progress at our June Board meeting. The AIChE Board of Directors passed two important resolutions:*

- *With the goal of keeping the Institute solvent, we support Executive Director Sofranko in aggressively implementing a plan to refocus on AIChE's core values.*
- *AIChE's Board of Directors endorses continued discussions with ACS and other potential partners to create value and growth opportunities for AIChE and its potential partners, the objective of the discussions being a letter of intent for presentation to the BOD.*

*The first resolution deals specifically with cost reductions. By refocusing on AIChE's core values, the Institute is taking steps to restore financial health. Such an effort will not be easy, because support for some AIChE programs and services will be*

*decreased or eliminated. While these reductions may be difficult, the Board believes they are necessary for immediate financial stability.*

*In addition to the financial advantages for AIChE, implementing this program will also present unique opportunities for much broader volunteer involvement and leadership development. Now AIChE members with a particular interest or expertise will be able to volunteer in areas previously handled by AIChE staff. This will position AIChE for future growth.*

*In addition to staff reductions—a suggestion made by many members— John Sofranko is aggressively pursuing opportunities to reduce our real estate commitment by 75 percent. While a number of AIChE members have suggested we move our headquarters to Houston, consolidation at our present location is actually a more sound financial decision for the time being. Naturally, this is subject to review as the economic climate changes.*

*As I have written before, the AIChE Board has been exploring possible mergers, alliances, and joint ventures with other societies. You'll note from the second resolution that we are continuing in this process. This is another suggestion made by many of our members. But whether or not we eventually enter into such an arrangement, we believe strongly that we must first stabilize our Institute.*

*To summarize, our immediate refocusing will result in:*

- *Stabilization of AIChE's finances*
- *Continued viability of our professional home*
- *Focus on core activities from our professional society*
- *New, broader volunteer leadership opportunities*
- *Reduced staff accessibility*
- *Operational changes*
- *Call to greater commitment from all of us*

*I recognize how challenging this situation may seem. But the suggestions and comments from AIChE members from all over the world have proven extremely valuable to the Board of Directors. Many of the efforts that we have put in place are the result of your suggestions. The commitment we have seen in the past few months is very encouraging. Since our success will depend largely on the continued commitment on the part of every AIChE member, I have every reason to feel confident that we will quickly move to a position of stability and then to one of growth.*

*I will continue to communicate with you in this process. Thank you for your continued support of AIChE."*

The Essentials Plan was implemented in the Q3 and Q4 of 2003 and focused on the following changes:

- A significant reduction in staff and the real estate footprint in New York,
- Implementing new, and creative, business models for some of AIChE’s core activities, and
- Greatly enhancing the role of key volunteer leaders.

By taking all of these actions in concert, AIChE was able to capture significant cost reductions in the operation and continue to provide most of the services that were “essential” to the membership.

As Figure 2 shows, the staff reduction that had been started in 2001 was accelerated under the Essentials Plan and was reduced from 110 to 40 in four years.

During the time period from 1994 to 2003, AIChE also saw a significant reduction in membership.

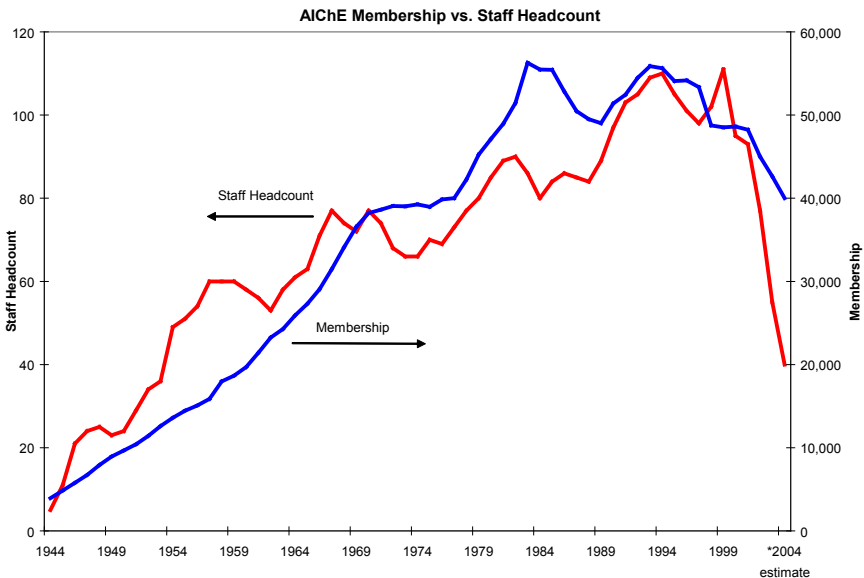


Figure 3. Membership vs. Staff: 1944-2004.

The staff reduction was viable because AIChE took a dramatically different approach for two core operations. For the publication of its journals, the *AIChE Journal*, *Environmental Progress* and *Process Safety Progress*, AIChE entered into a partnership with John Wiley & Sons in November of 2003. AIChE maintained the ownership and control of the editorial content, but the production and distribution of the publications became Wiley's responsibility. This transition went very smoothly, primarily because Wiley hired a number of employees from AIChE who had been working on our journals. This partnership has allowed AIChE to increase its page count on the *Journal* by over 35%, which helped reduce the time from manuscript submission to publication, and significantly expanded distribution. In addition, Wiley took on the task of digitizing and making available all back copies of the journals for online access. Steve Smith, Director of Technical Activities & Publications, worked diligently with the Publications Committee to successfully implement this change.

In addition to the publication partnership, AIChE entered into a partnership with ASME for the delivery of its educational courses, which had been losing over \$700K a year on a fully allocated basis. This partnership allowed AIChE to add its courses into a much larger and complementary, educational portfolio. AIChE members are able to get member discounts when taking both the AIChE and ASME courses. AIChE maintained quality control for the course and the ability to introduce new course via the diligent work of the Professional Development Committee (PDC). PDC's Educational Services Subcommittee received the Gary Leach award in 2004 in recognition of their effort to make this transition and continuation of the educational services program successful.

In addition to the staff reductions resulting from the partnerships with Wiley and ASME, AIChE further reduced staff support for many activities that could potentially be taken on by volunteer activity. Table 1 summarizes these actions.

*Table 1. Essentials Plan Presented at the 2003 Annual Meeting.*

<b>Areas of Continued Staff Responsibilities</b>	<b>Areas of Responsibilities Transferred to Volunteers</b>
<ul style="list-style-type: none"> <li>• Volunteer communication (services and requests)</li> <li>• Career Services Upkeep</li> <li>• Division/Forums</li> <li>• Foundation Administration (Executive Office as primary contact)</li> <li>• Local Sections</li> <li>• Operating Councils &amp; Committees</li> <li>• Student Program</li> <li>• Young Professional Advisory Board</li> </ul>	<ul style="list-style-type: none"> <li>• ABET (E&amp;A Contact on staff)</li> <li>• Awards (Staff responsible for accounting functions)</li> <li>• Government Relations</li> <li>• Industrial Advisory Board (Executive Office as primary contact)</li> <li>• International Membership</li> <li>• Education Services</li> <li>• SBE and I/S</li> </ul>

All of these changes together allowed for a staff reduction to a level just below 40. AIChE's rented office space at 3 Park Ave. was capable of holding almost 150 employees. This had been a reasonable projection for space requirements when the move was made in 1998. AIChE, however, was now presented with an opportunity to greatly reduce its real-estate footprint several years later. Through much hard work, due diligence, and tough negotiations, AIChE was able to find a tenant, the New York State Society of Certified Public Accounts, to take on the remainder of AIChE's lease commitment. In exchange, AIChE was able to sublease about one quarter of the original space. This significant real-estate change was negotiated primarily by Rick Cain, who later became AIChE's Director of Finance and Strategic Programs. The annual savings on the real estate for AIChE was a significant portion of its financial recovery and saved AIChE roughly \$1.2 million per year.

Since its peak in 2002, including the effects from outsourcing the Technical Publications and Continuing Education businesses, the Essentials plan removed almost \$10 million per year of costs from AIChE's operations. This had a dramatic benefit to the organization's P&L, as can be seen in Figures 1, 2a and 2b. By 2005, it was clear that

AIChE was well on its way to recovery from the previous years financial challenges. These changes can clearly be seen in Figure 4.

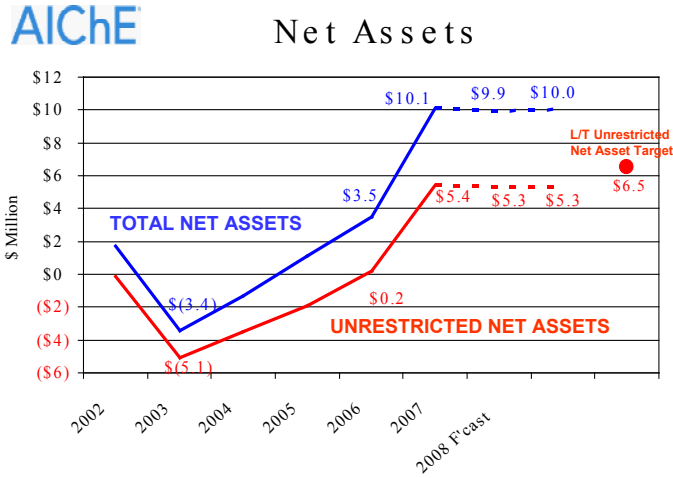
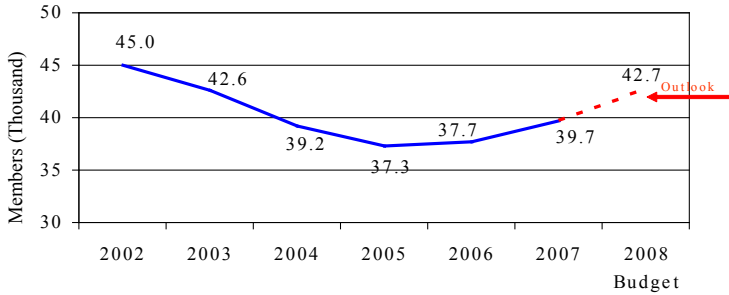


Figure 4. AIChE's Total Net Assets: 2002-2008.

With the financial recovery successes of the Essentials Plan, the Board and staff turned their attentions to rebuilding the services and offerings of AIChE to its members. As a result, the roughly ten-year decline in membership was reversed, as shown in Figure 5. This was primarily due to a new program, Student Membership Initiative, which was dedicated to increasing undergraduate AIChE members. This program, fully sponsored by corporations, greatly enhances the value of AIChE membership to students and pays for their annual dues. More detail about this program can be found in Chapter 9. A longer view of the history of AIChE membership may be found in Appendix.



## Membership



Includes impact from the Student Membership Initiative

Figure 5. AIChE Membership: 2002-2008.

### Solid Foundation for the Future

AIChE went through a difficult financial period from 2001 through 2003. This was a difficult period for many associations because of the events of 9/11 and the subsequent downturn in the global economy. The Board of Directors of AIChE and the staff took quick and decisive actions that put AIChE on a sound footing for growth into its next century. With the improvement in the net assets of AIChE, it was able to judiciously add back some of the services and functions that were put on hold during the Essentials Plan. At the time of writing, renewed activities have been started in Government Relations, including the sponsorship of three WISE interns. The SMI program has helped triple student membership in two years. The career services and employment search help for members were greatly increased. AIChE was able to spend over \$2.5 million in capital and operating expenses to upgrade its database system and web delivery capabilities. These investments will likely be the basis for many more enhanced services for AIChE members in the future.

