



The Membership Economy

Find Your Superusers, Master the Forever Transaction, and Build Recurring Revenue

Robbie Kellman Baxter
McGraw-Hill © 2015
288 pages
Book: getab.li/24269

Rating

8 8 Applicability
8 Innovation
7 Style

Focus

Leadership & Management
Strategy
Sales & Marketing
Finance
Human Resources
IT, Production & Logistics
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Small Business
Economics & Politics
Industries
Global Business
Concepts & Trends

Take-Aways

- A customer-centric company that develops ongoing, formal relationships with customers is a membership organization.
- Online access and cheap data storage feed the “membership economy.”
- The “sharing economy,” typified by Airbnb, is an offshoot of the membership economy.
- Members value affiliation, on-demand access and “drip-payment” plans.
- Membership organizations benefit from predictable revenues, strong customer connections and access to customer data.
- Membership organizations have six business models: digital subscriptions, online communities, loyalty programs, membership companies, small firms and associations.
- The majority – like SurveyMonkey – use a subscription model.
- Membership organizations customize their offerings, track customer satisfaction metrics and continually innovate.
- “Freemium” marketing builds awareness, attracts users and increases membership.
- To create a membership organization, everyone in the company has to live and breathe the culture of membership.

Relevance

What You Will Learn

In this summary, you will learn: 1) What the “membership economy” entails, 2) What characteristics membership organizations share and 3) What strategies make them succeed.

Review

Digital connectivity, communication technology and cheap cloud storage pave the way for an evolved business model that Silicon Valley consultant Robbie Kellman Baxter calls the “Membership Economy.” Some businesses, such as SurveyMonkey or Match.com, are entirely subscription-based. Others incorporate membership options and principles into existing structures. Membership organizations, like Netflix and Spotify, build ongoing, mutually beneficial relationships with members. *getAbstract* – a membership organization itself – recommends this well-researched, organized primer to students and leaders curious about the benefits and drawbacks of this business model.

Summary

“The Membership Economy will have as profound an effect on society as the Industrial Revolution or the spread of the automobile.”

“A membership organization wants – needs – its members to make a habit of stopping by, of participating.”

The “Membership Economy” Defined

Netflix shows how subscription businesses differ from membership organizations. Netflix subscribers gain access to hundreds of movies and television shows, but a Netflix subscription means more than simple access. You can talk about shows with fellow users, you develop a feeling of loyalty about the company and you enjoy being part of the Netflix family. You share personal information with the company in exchange for this connection. Netflix harvests the data and creates personalized recommendations based on your past movie choices.

Any customer-centric firm that develops continuing, formal relationships with customers is a membership organization. Connecting fulfills a human need. The emerging membership economy includes YouTube, news sites like DIGG and Reddit, and photo-sharing sites such as Flickr and Pinterest. Existing businesses of all sizes can incorporate the principles of the membership economy. For example, a California salon offers subscription haircuts.

Mobile technology enables people to participate in membership firms using a range of digital devices, and the processing costs are low. Individuals react with these companies and provide real time input, create content, and build relationships with firms and fellow users.

The “Sharing Economy”

The sharing economy is an offshoot of the membership economy. People capitalize on the inherent value of their expensive assets by “sharing” them with others for a fee, like Airbnb (home sharing) and RelayRides (car sharing). Sharing firms use traits of the membership economy to create communities and forge trust. The traditional “ownership economy” operated on the principles of “rate, transaction size and economies of scale.” The sharing business model works on the access end of the ownership-and-access continuum.

The membership economy builds relationships with customers over time. Members relinquish personal and behavioral data to belong. Members value on-demand access, “drip-payment” plans and relationships with the organization and its other members more than the security, privacy and control that ownership provides. Membership organizations

“Membership is the future of all business models, with an emphasis on formal, ongoing relationships.”

“Humans yearn to be connected and to gain energy, knowledge and comfort from others.”

“It’s possible for just about any type of organization to incorporate principles of membership into their business.”

“The challenge is that subscription models require discipline and consistency, tempered with constant tinkering.”

benefit from predictable, recurring revenue and mutually beneficial relationships with their members, which strengthens the organization’s brand. Companies can tailor offerings to their customers’ needs by gathering data about their behavior and their purchases.

Membership Economy Business Models

The initial transaction begins an open-ended agreement. This first exchange might involve a subscription and a user ID or loyalty card. It terminates only when the member cancels. Members provide dues, content or personal information.

1. **Digital subscriptions** – SurveyMonkey, Netflix, Pandora.
2. **Online communities** – Match.com, LinkedIn, Facebook.
3. **Loyalty programs** – Starbucks and airline frequent-flier programs.
4. **Traditional membership economy companies** – Weight Watchers, American Express.
5. **Small businesses and consultancies** – Kepler’s Books, many small entities.
6. **Nonprofits, professional societies and trade associations** – AARP, the Sierra Club.

Building a Membership Organization

Creating a membership organization requires inspiring everyone in the company to live and breathe the culture of membership. Customer retention, rather than customer acquisition, is the top priority. Tailor your offerings to meet the evolving needs and expectations of your targeted customers, and track metrics for customer satisfaction. Tinker with your products, services and consumer interactions to attract new members and retain existing ones.

A membership organization’s transactional sales process is like a funnel. At the top you draw the awareness of your prospects, tapering through the trial and sign-up stages, to a smaller number of loyal members at the base. The funnel becomes like a chute when it maximizes the number of potential customers in each phase. Membership organizations must focus their efforts at the base of the funnel to meet loyal members’ expectations and deliver the brand promise to new ones.

Building Relationships

When the member-to-benefit ratio is high, people stay engaged and satisfied. The marketing challenge is to craft the right message and deliver it to your target audience at the right time. Test your strategies and messages with small sample groups to get your communication and timing right. Constantly monitor the funnel, evaluate the metrics and refine the marketing.

Your corporate goal is to retain new members for at least a month, so they become accustomed to participating and it eventually becomes a habit. If you engage members at the outset, participation becomes routine for them. Make sign-up “frictionless.” Enable people to engage immediately, welcome them and thank them for enrolling. Provide something of value right away. Continue to reward desired behavior. Enhance members’ experiences by using data analytics to customize your products for them. Encourage a two-way process by giving and receiving feedback and asking for referrals. A small percentage of customers will become “superusers,” people with a special attachment to your company. Superusers recruit new members, positively influence other people’s perceptions and help increase other members’ loyalty.

Pricing

Consistent, predictable income is the major advantage of a membership organization. Possible revenue models include:

“Loyalty programs can be powerful, but need to be differentiated or they become box checkers and don’t actually create value.”

“A membership organization needs to till the soil, seed the ground and protect the seedlings from predators, but most of the growth will happen through the community.”

“The transformation from ownership to access results in lower risk, lower up-front expenses and lower maintenance.”

“Pricing is especially tricky in the Membership Economy because, instead of pricing widgets, organizations need to price ongoing experiences and perceived value.”

- **“Subscriptions”** – Most membership organizations follow the subscription model. The frequency of payments may vary, but subscription income is recurring. The decision about how to schedule member payments – annually, monthly or more often – depends on your individual company’s research. Many firms offer tiered pricing and charge a base price with options for upgrades depending on usage and need. Subscribers assume that membership companies will maintain their value and update their offerings.
- **“À la carte services”** – Members purchase one-time-only or specialized services as needed. For example, a health-club member might pay for a fitness assessment.
- **“Ancillary products”** – Offer products related to your company to your members. For example, art museum gift shops offer prints or cards showing the museum’s paintings.
- **“Partnership streams”** – Cross-marketing or providing space or referrals to a business that’s a natural partner can increase your commissions and fees. For example, a hotel might allow a car-rental company to operate a desk in its lobby.
- **“Aggregated analytics”** – The value of members’ personal and behavioral data opens the door to new sources of revenue. For example, LinkedIn compiles data about the employees of a company that the firm can analyze for further insights.
- **“Advertising”** – Specific audiences may find advertisements beneficial. For example, a vacation resort may show ads for local attractions.

Membership organizations often offer a “freemium” – something of value at no charge. This builds awareness, attracts new users, entices people to give your offering a try and adds participants to the community. However, a freemium is a just marketing technique with the end goal of earning revenue. The freemium strategy does have downsides. For instance, users grow to expect a free service and paying members resent that other people are getting a free offering.

Membership Economy Organizations

SurveyMonkey is an online survey platform that follows the subscription business model. It was one of the first companies to offer “Software as a Service” with a freemium structure. Customers use the basic service for free or opt for a premium, fee-paying subscription. In 2008, SurveyMonkey earned more than \$20 million in revenues using this simple model. It charged premium members \$200 annually for unlimited surveys and operational support. In 2009, the founders sold the company to an investor group. The new management revised the pricing to add multiple tiers aimed at professional users, while keeping the familiar \$200 per year option available. They invested heavily in research and product development to keep their offerings up-to-date. The company released its application programming interface to the public, enabling outside developers to use the SurveyMonkey platform.

Match.com became one of the first online communities to use the membership model. Co-founder Fran Maier drew from her experience working for the AAA motor club to develop a membership model. Match continues to introduce new sites targeted at specific groups of singles, such as BlackPeopleMeet.com, and it hosts events including singles bowling nights and cooking classes.

Loyalty Programs

Loyalty programs are commonplace, and many people have several cards stuffed in their wallets. While most loyalty programs give away a free product after a certain number of purchases, many companies use their programs as marketing tools and vehicles for collecting customer behavioral data. Starbucks expanded its loyalty program to resemble a membership organization. Users who register their rechargeable gift cards online gain access to discounts and customized offers, and they get to try new products first.

American Express is a traditional membership economy company. Its slogan from 1986 to 1991 was “Membership Has Its Privileges.” American Express offers members various services, a range of products and a tiered membership structure.

Kepler’s Books was a small retailer but it changed to a membership business model to stay relevant. Competition from online booksellers drove the once successful Kepler’s to close its doors in 2005. Locals who loved the bookstore formed the “Literary Circle Membership Program.” The reopened store now hosts community events and activities. The platform is so successful that independent booksellers worldwide use “Kepler’s 2020” program as a model.

Nonprofit organizations such as museums and environmental groups have used the membership business model for decades. For example, the Sierra Club, founded in 1892, currently has more than two million members. To increase engagement and donations, it is establishing programs to offer benefits and discounts to its environmentally conscientious members.

The Evolving Membership Company

The first challenge that membership economy start-ups face is attracting enough members to create value and offering full benefits from the first sign-up. Begin with a simple concept, test continually while you’re still small and capitalize on viral growth. For instance, LinkedIn kept its initial offering simple, just providing members with a place to share résumés. As membership grew, it added services and benefits. Other companies, such as RelayRides, used a regional strategy and established services in one market before expanding to the next.

Regardless of which growth approach you choose, establish a culture oriented toward membership from day one. Reinforce it with the language, titles and procedures you use throughout your organization. Some initially successful membership start-ups, such as MySpace, experience a crash when people no longer consider them cutting-edge, so start your company with a long-term view. For example, Pandora founder Tim Westergren never tried to offer an edgy product. Rather, he set out to make his company mainstream by offering a free version of its service to build growth and then moving to a tiered pricing model. In this phase of growth, concentrate on remaining relevant by providing new benefits in a setting of constant innovation.

Some people are becoming less interested in ownership and are more open to obtaining the products and services they want on an as-needed basis, often as members of provider organizations. Some companies have successfully made the transition from an ownership model to a membership model. Adobe originally operated on the ownership model, selling disks of its software. In a move that surprised and, in some cases, enraged users, Adobe switched to a cloud-based subscription model in 2012. The company has made this model extremely successful.

“Many of the best membership businesses have a free offering that drives awareness and trial while simultaneously creating a community.”

“Technology is the underlying major enabler of the entire transformational shift to membership.”

“Members, more than any other kind of customer, need to feel connected to the organization and to one another.”

About the Author

Robbie Kellman Baxter founded the Silicon Valley consultancy Peninsula Strategies LLC; its clients include Netflix, SurveyMonkey and Yahoo.