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FINDING YOUR FOREVER TRANSACTION

Understanding the Membership Economy

ROBBIE KELLMAN BAXTER
AS TOLD TO KRISTINA TOBER

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Finding Your Forever Transaction: Understanding the Membership Economy

INSIGHTS FROM ROBBIE KELLMAN BAXTER

Almost two-thirds of Americans own a smartphone, and almost half of those people state it's something "they couldn't live without."[i] According to Forbes, the number of "endpoints" where consumers interact continues to grow, with greater cooperation between traditional and emerging devices.[ii] Consumers are quickly morphing from an "I want it now" mentality to demanding more personalized experiences and superior customer service.[iii]

Stating the obvious, technology is changing the way we do business today. Companies have greater access to their customers and vice versa. The trick to success is knowing how to tap into that transformation.

According to HighPoint advisor Robbie Kellman Baxter, companies need to start thinking about how technology is impacting their business and why the customer should be at the center of their business model rather than a product or transaction. Her approach to turning ordinary customers into "members for life," is explained in-depth in her book, *The Membership Economy*. We sat down with Robbie and asked her to share her thoughts.

ROBBIE, EXPLAIN TO US WHAT YOU MEAN BY THE "MEMBERSHIP ECONOMY"?

Membership isn't a new concept. Chances are we've all belonged to a gym at some point in our lives. We've signed up for frequent flyer programs, cashed in on Starbucks points, used Amazon or Facebook.

What's unique about the Membership Economy is that the customer is put at the center of the business model rather than the product or transaction. It's more than just a shift to being more customer-centric— that's nothing new. What's different in the Membership Economy is *how* organizations are building these closer relationships and the expectations of those customers.

Members have a stake in the organization. That stake could be anything from digital subscriptions (as with Netflix or SurveyMonkey), to online communities like Facebook or LinkedIn, even a membership at Crossfit. In all cases, the members understand that the relationship is ongoing and formal, not simply a transaction. Until the member cancels, the first transaction becomes a "forever transaction."

WHAT'S DRIVING THIS BUSINESS TREND?

Technology is a huge driver of this shift.

Even with our dependence on technology, human nature hasn't changed. We still need connection and community. Consider Abraham Maslow's Hierarchy of Needs. Once our basic physiological needs have been met (food, shelter, WiFi), we want to mitigate risk, belong, feel connected and known. We want to be held in high regard by our peers and ultimately achieve our full potential. We want to feel like we matter, that we're a part of something and can make a difference.

Technology has created a virtual infrastructure giving us even more ways to connect. We may have fewer face-to-face interactions, but we no longer rely solely on physical proximity. Membership taps into technology to fill our need for connection, giving us a way to gain energy, knowledge and comfort from others. Technology also guarantees access, flexibility and convenience.

With the declining cost of data storage and processing, companies can store information and gain access to data at a very low price. More importantly, they can get feedback and intelligence on their members' needs and desires, and make decisions that enhance member happiness and loyalty. Take Netflix. The company invested heavily in member research from the beginning, and adjusted offers, messaging and even content in response to the research. Using member data, they could provide customer-specific recommendations, thereby strengthening the customer/company connection.

WHY SHOULD COMPANIES PURSUE THE MEMBERSHIP MODEL?

The Membership Economy is relevant to any business that needs to use marketing as a tool.

One, a membership model can create recurring revenues and revenue predictability through monthly subscriptions. For example, the "personals" industry used to follow a traditional "pay by the ad" model. Match.com completely changed the way people date, giving members access to a huge pool of like-minded members for a fixed monthly fee. Match.com provides exclusivity and has become a destination for members, offering safety, anonymity, and fun. The members get what they want, and the company locks in recurring revenue and predictable cash flow.

Second, through membership,

companies can create more direct, meaningful relationships with their customers. If members get to feel like their voices are heard, they can derive additional value from the relationship, and feel that they are engaged.

Third, the behavioral data that can be gathered through a membership model can help a company to identify how to improve services, and target what's necessary to build ongoing customer satisfaction and loyalty. The secret to a "forever transaction" is focusing on how you can help your members achieve their goals, and tinkering with your offerings to stay relevant.

For example, let's say you joined a gym 10 years ago. At the time, fitness trends drove a lot of interest into Jazzercize and weight systems. Times changed, and you now want to try yoga, bootcamp and other high intensity workouts. Unfortunately, your gym didn't stay on top of what's going on in the market, what's possible or what's needed to maintain customer satisfaction. Most likely, you'll cancel your membership and find a new gym.

What's interesting, I found, is that most companies immediately understand how the Membership Economy benefits their bottom line. They don't always see what's in it for their customers.

CAN YOU GIVE US A COUPLE EXAMPLES OF COMPANIES SUCCEEDING IN THE MEMBERSHIP ECONOMY?

As I said earlier, there are quite a few types of Membership organizations. The obvious include digital subscriptions, online communities, and loyalty programs that track and reward loyalty and ongoing commitment (such as Starbucks, Caesars Entertainment, and frequent flyer programs).

There are also more traditional Membership Economy companies, e.g., for-profit blue chip organizations designed for membership like American Express, T-Mobile, and Weight Watchers.

Amazon is a great example of a traditional retailer that has experimented in big and small ways with new models of membership. Amazon Prime is a paid membership program, offering members added benefits on top of "free two-day shipping" like the Kindle Learning Library and Amazon Prime Instant Video, to build member satisfaction and loyalty. Amazon is also investing in community, building connection, and communication among its members. Through programs like Amazon Forum and Woot, members can post reviews, comment on deals, and share points of view and, in the process, build pride of place and feed their need for social benefit and status. More recently, Amazon has introduced Subscribe & Save, a program that offers a subscription to frequently-purchased products at a discount.

Likewise, small businesses like car washes and nail salons, as well as solo-consultancies, can build connections through loyalty programs and online communities. And, finally, non-profits, professional societies, and trade associations (including AARP and the Sierra Club) are certainly Membership organizations.

One of my favorite examples of a small business embracing the Membership Economy is Kepler's Books in Menlo Park, California. This independent bookstore was founded in 1955 and has long been a center for intellectual thought and dialogue in the communities near Stanford University. In 2005, the bookstore closed and became another victim of online retailers and mega bookstores. Passionate local citizens and entrepreneurs restructured the company and raised new capital, got a new lease, and introduced a new Literary Circle Membership Program (which provided the funds necessary to cover expenses). Like other small businesses that have authentic connections to their communities and loyal customers, Kepler's was able to tap into the membership model for long-term sustainability.

IT'S PRETTY STRAIGHTFORWARD SEEING HOW A CONSUMER COMPANY CAN BENEFIT FROM THE MEMBERSHIP ECONOMY. IT'S A LITTLE LESS CLEAR HOW IT WOULD BENEFIT A CONSULTING FIRM OR OTHER B2B?

Behind every B (Business) in B2B is a C (Consumer) and really an H (Human Being) who has the same needs that Abraham Maslow described in his Hierarchy of Needs. With people spending 8 to 12 hours a day and more at work, they are looking to get these human needs (like looking smart at work, getting promoted, having less stress, etc.) met in their roles at companies.

The challenge with successful deployment of membership principles in a B2B model is that you might have multiple "members" with different "missions." For example, the person who makes the buying decisions and the consumer who actually uses the product on a day-to-day basis may not be the same person. So you need to build multiple customer journeys and multiple membership experiences.

A great example of a company doing this successfully is Salesforce.com, one of the first to introduce the software as-a-service model. Their product was designed to help the salesperson as opposed to the larger enterprise, so they started by targeting the salespeople themselves (and also eliminated the responsibilities of ownership).

Salesforce.com quickly earned the loyalty of its customers/members. Today, many Salesforce users feel greater loyalty to Salesforce than to their own employers, as a result of the Salesforce investment in online communities, live events like Dreamforce, and a willingness to solicit and incorporate feedback from specially designated members.

Salesforce.com, however, always had enterprisewide partnerships as a long-term strategy, and extending its marketing efforts to reach the enterprises where its consumers worked was a relatively easy next step. Using aggregate data on those companies with the most salespeople using Salesforce.com, they'd pitch the larger enterprise offering price breaks and greater control of what its salespeople were doing. This strategy of finding prospects by providing direct value to the individual users (the salespeople) of the "nonsoftware" was key in its growth and success.

DECIDING TO PUT YOUR CUSTOMER FIRST IS A NECESSARY STEP TOWARD THE MEMBERSHIP ECONOMY. OTHER THAN READING YOUR BOOK, WHAT IS THE MOST IMPORTANT FACTOR TO CONSIDER WHEN HEADING DOWN THAT PATH?

The most important thing is having a membership mindset across your organization. It starts at the top and goes all the way down to your frontline, operational employees who need to be intent on doing what it takes to ensure intimate, long-lasting relationships with members. Think customer *success*, not customer service.

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ii David C. Cearley, "Top 10 Technology Trends for 2016," Gartner, Inc. for Forbes, January 15, 2016. http://www.forbes.com/sites/gartnergroup/2016/01/15/top-10-technology-trends-for-2016/#5aa2bae35ae9

iii Chloe Green, "How advances in technology are changing the business-consumer relationship," InformationAge.com, February 15, 2016. http://www.information-age.com/industry/services/123460940/how-dvances-technology-are-changing-business-consumer-relationship

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