

MEMBERSHIP & SUBSCRIPTION **GROWTH** WEEKLY

**HOW TO SEIZE THE
MEMBERSHIP ECONOMY
TO 5X YOUR COMPANY**

**-A CONVERSATION WITH
ROBBIE KELLMAN BAXTER**

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HOW TO SEIZE THE MEMBERSHIP ECONOMY TO 5X YOUR COMPANY

- A CONVERSATION WITH ROBBIE KELLMAN BAXTER

Just a few years ago we rented movies when we were ready to watch them, and today 6.74 million subscribers pay monthly to access movies on Netflix. When info-marketers introduced monthly continuity, it was a novel concept. Today memberships are widely promoted and customers are a lot more open to maintaining multiple monthly subscriptions. This program looks at the trend towards membership programs, reveals insider secrets of some of the world's largest programs and how you can make your business five times more valuable by seizing the membership opportunity.

ON THIS PROGRAM YOU'LL DISCOVER:

- The value of members over transactions
- The value a customer places in a “forever transaction”
- How to change a company's culture to fit the membership model
- How to build a relationship that keeps members long-term
- Whether free trials should be part of your growth strategy or not

This program features our special guest: Robbie Kellman Baxter

Robbie Kellman Baxter is the author of *The Membership Economy, Find Your Super Users, Master the Forever Transaction, and Build Recurring Revenue*. Her clients have included startups to mid-size venture backed companies as well as industry leaders like Netflix, Yahoo, Oracle, and EBay. And over the past ten years Peninsula Strategies has advised nearly 100 organizations on growth strategy.

HOW TO SEIZE THE MEMBERSHIP ECONOMY TO 5X YOUR COMPANY

Why would your company want a member instead of a customer? Studies show the valuation of companies in the membership economy are anywhere from five to 10 times the size of similar companies which use transactions. That's according to Robbie Kellman Baxter, author of *The Membership Economy*. Baxter is a Silicon Valley marketing consultant whose clients have included Survey Monkey, Netflix, Yahoo, Oracle and eBay.

I recently talked with Robbie about what she calls "the forever transaction," a customer who sticks with you forever. You will learn insights she's gained from advising nearly 100 organizations on growth strategy.

WHY WOULD A COMPANY WANT MEMBERS INSTEAD OF TRANSACTIONS?

Long-term members give entrepreneurs a more predictable cash flow, says Baxter. Also, companies are able to invest more time and money to acquire a new member than they could for a one-time sale.

"So many transaction-based companies invest in acquisitions, and then don't retain the customer," Baxter says. "They're on a constant treadmill, and it's like a hamster wheel. You're always running to keep up with new products or enough offerings, and you have to keep finding new customers."

A membership business lets entrepreneurs get to know one set of customers and continue to serve their evolving needs. Acquisition costs go way down, and profitability goes up.

WHY WOULD A CUSTOMER WANT A FOREVER TRANSACTION?

So why would a customer buy a membership instead of, for example, a course that teaches them a skill one time? It's because a membership can keep solving their ongoing needs, Baxter says. But, it's also important to structure a business that does so.

For example, if a customer takes an online course teaching him how to draw, once he's learned all he wants, he doesn't need the membership anymore. But if the business gets to know its customers, and really understands their challenges, it can continue to expand its offerings. It can teach how to earn a living from drawing, how to use drawing software packages, or how to get into art galleries.

"Then they will stay for life," Baxter says. "Because they want you to solve their problems forever."

HOW DO YOU CHANGE A COMPANY'S CULTURE TO FIT THE MEMBERSHIP MODEL?

To move from a company based on transactions to one based on memberships demands a different mindset. One that's focused on the long-term happiness of customers as opposed to short-term revenue, Baxter says. That can mean weening owners away from over-reliance on the metrics found in quarterly reports.

"Because the transaction isn't as important as retention," Baxter says.

The company should also evolve to focus more on member satisfaction and engagement. Members will expect better treatment than one-time customers. They'll expect to have more of a voice.

“If I buy a Hershey's candy bar, I don't expect to get Hershey's to listen to me. It's a completely anonymous transaction,” Baxter says. “But if I own a subscription to the Chocolate Garage, where my membership lets me buy chocolate every month, if I don't like the selection, they're going to hear about it. The company will need to have customer success philosophies in place to manage that feedback.”

HOW DO YOU BUILD A RELATIONSHIP THAT KEEPS MEMBERS LONG-TERM?

“Onboarding is one of the most overlooked opportunities to engage and deepen valuable customers relationships,” Baxter states. She lists the following three activities that companies are doing to have effective onboarding.

1. *Reinforce the wisdom of the member's decision.* When a customer buys something, he almost immediately wonders whether he did the right thing. “So, if you say right away, ‘Congratulations you're taking the first step toward having the career of your dreams. We're going to help you. You're already better than 99 percent of people who don't even take one step,’ It reinforces their good decision,” Baxter says.
2. *Give some value right away.* Pandora does this well. The customer only has to pick one song, and Pandora starts streaming a radio station.
3. *Tell members how to get the most value from what they've already paid for.* American Express offers loads of benefits beyond simply using a credit card—free admission into airport lounges, global entry, free upgrades to first class. And, the company tells members about those benefits immediately, to make sure they get that value.

SHOULD FREE TRIALS BE PART OF YOUR GROWTH STRATEGY?

Not necessarily. Sometimes a free trial simply gives a product away to someone who isn't interested in it. But, many companies do grow their businesses with free trials. Baxter lists three scenarios where free trails may work:

1. *To get a buyer hooked on a product they don't understand.* Before Mrs. Fields Cookies became a household name, people thought it was crazy to pay a dollar for just one cookie. Then, they tasted a free sample. “It was literally a delicious bite and they were like, ‘Oh, I understand now. This is not Chips Ahoy,’” Baxter says.
2. *To build a network effect.* One example is LinkedIn—each new person who joins makes it more valuable for those who are paying.
3. *To create new marketing channels.* Survey Monkey will let a buyer do a survey for free if it's only sent to a few people. But, the people who get the survey, may decide they like it enough to buy the larger, paid version.

A membership economy business can bring in lifelong customers and build recurring revenue for companies. To master the business model, marketing guru Robbie Kellman Baxter says you should tailor services to match members' evolving needs, focus on customer retention and happiness, reinforce the sale and help customers learn your service when onboarding. Also, use free trials only when they are likely to create revenue. The customer loyalty and steady cash flow of the membership model will deliver a peace of mind that allows you to truly enjoy your business.

CONVERSATION WITH ROBBIE KELLMAN BAXTER

Robert: There is nothing more valuable in your business that can produce more steady cash flow and give you the freedom to enjoy running your business than a membership program. A membership program could provide that -- there's nothing better, I got to tell you, than starting in the beginning of the month and seeing all the merchant services emails come through where all the members are. You know, the merchant account before you even woke up on the first of the month the system has already billed a few hundred or a couple thousand memberships when you got started in the morning and that's what we're going to talk about today.

We're going to focus all about the membership economy and today my guest is Robbie Kellman Baxter who is the author of *The Membership Economy, Find Your Super Users, Master the Forever Transaction and Build Recurring Revenue*. Her clients have included startups to mid-size venture backed companies as well as industry leaders like Netflix, Yahoo, Oracle, and eBay. And over the past ten years Peninsula Strategies has advised nearly 100 organizations on growth strategy. So, if you're looking for any fast companies, I mean this is the cutting edge of the big venture capital backed membership companies, and it's a real pleasure having you on the program. Thank you, Robbie, for joining me.

Robbie: Oh, thanks for having me. It's a pleasure to be here.

Robert: So in your book, it's a marvelous book, and I certainly recommend everybody pick up a copy of *The Membership Economy* if you've got a membership program. Of course, I've been doing memberships for more than 20 years now and I really enjoy it, because your perspective is from the Netflixes of the world, but I think you go through a lot of sort of social trends and economic trends that you see. Why is membership becoming so popular today as opposed to one-off transactions?

Robbie: Well, you know, it's interesting Robert. Membership has always been attractive to organizations. And you can see that with everything from Charles Dickens selling his books with a subscription model to gym memberships, trade

deals, country clubs, book of the month clubs, it's always been something that's of interest because of that recurring revenue. But historically it's been limited by what I call the infrastructure that enables trusted relationships. And you can't have a relationship if you don't trust the other side, and historically you actually need to know the person on the other side in order to trust them. Technology is enabling us to extend that infrastructure through things like the declining cost to store and serve content which I know that your association's members know a lot about. The ability for members or users to generate their own content and share that with their peers. The ability for peers to have conversations with one another and to give feedback to the organizations, always on technology, the ability to analyze big data, to move beyond just understanding a customer by their demographics and psychographics, actually understanding their behavior in using your product. All of those changes have given us, as entrepreneurs, new tools to create new kinds of models for how we do business with our customers.

Robert: I think it's fascinating that your frame of reference isn't the '80s and the creation of the credit card, but it's Charles Dickens and selling, we read these books and we see them as a book, but in their day, they were sold on a subscription and he would write a chapter and then you bought, similar to like you would sit down and watch different episodes of a TV you would receive the book in chapters as a membership. So, it's fascinating to think that this stuff, you know, while membership has grown substantially over the last several years and really exploded as a business concept it's not even slightly new.

Robbie: Right. Not new at all.

Robert: Why is it valuable to the company to have a membership relationship rather than a customer?

Robbie: Yeah. Okay. So that's a nice softball question that I love.

Robert: You like that?

Robbie: I know you know the answer to this just as well as I do. But for the purpose of setting up the conversation, we all as entrepreneurs we want predictable cash flow and we want long-term relationships. Anybody that's even reasonably sophisticated now they analyze their business with thinking about why can't customer values be important than the transactions because that's what a customer's worth. That tells us how much to spend to acquire them. If you know that your customer is going to stay for a long time you can afford to invest

more in the acquisition. Also, you know, so many organizations invest in acquisitions and then they don't retain the customer either because their products are not good or because they don't have enough product or enough offerings or enough interest to retain them which means they're on this constant treadmill of acquisitions like I've heard people talk about, you know, the hamster wheel like you're just running and you have to keep coming up with new products and you have to keep finding new customers. If you can get to know one set of customers and continue to serve their evolving needs because you know them and you can observe their behavior your acquisition costs go way down and your profitability goes up.

Robert: That's pretty awesome. Now do you see any comparisons between companies that have a membership model or maybe the value of a member to a company versus a value of a non-member and how much the -- I know there's an Amazon study but I didn't know if you had seen any examples in the companies that you worked with that really illustrate how much more a member spends than a non-member.

Robbie: Yeah. Well, so I haven't seen that study. I'd love to see it. But what I do know is that the valuation of these companies is anywhere from 5-10x a similar size business that is relying on transactions. So, from the perspective of the investment community these businesses are much more valuable. In terms of the value of a member, and you know people use that term differently, but somebody who has a subscription you already have greater profitability and probably greater revenue than somebody who is transactional and every decision is a new decision, but layering on other elements of membership can actually increase the stickiness and loyalty that you have with your members. So, for example, if I have a newspaper and people subscribe to it that's great. The content that they get in the newspaper justifies them making a forever transaction with me and saying, "I'm going to subscribe to your newspaper Robbie and I'll get it every day delivered to my house." But if I can connect them with other like-minded people who get that newspaper for the same kinds of reasons, in other words they want to stay current on what's going on in the world or what's going on in their neighborhood or they want to know about the literature and arts scene, you know, get book recommendations or they just want to look smart at work about business if they can find other people like that and that becomes part of the value of being a member that increases their value and

the relationships of course make it hard for someone to leave. You can't replicate that relationship. So, there's a lot.

Robert: And almost as an aside because there's a lot there that I'd like to touch on, but one of the things that I loved in the book, and this is a little inside baseball, I loved the term "forever transaction." Did you come up with that? Did you swipe it from somebody else?

Robbie: Yeah.

Robert: You came up with that?

Robbie: No. No, I'm proud to say that's all me.

Robert: It's brilliant because see now you're the forever transaction person and I was like, "Ah, I wish I had thought of that." That was very, very smart because you're not, why don't you -- just for the clarification since some folks this is the first time they've met you what's the difference between a normal transaction and a forever transaction?

Robbie: Yeah. So, in a normal transaction that's the finish line, right, so you see like anybody that's taken a marketing class you know that you have awareness and then you have trial and then you convert them hopefully into being a paid customer and then you're done. That's the end of the funnel that transaction. In the membership economy that transaction is the starting line because your customer not only are they conducting that transaction but they're hopefully saying, "I never want to have to make another decision in this area again." So, if you're the organization that is going to teach me how to be a successful consultant I'm in. I'm in. Send me your stuff, you know, charge my credit card.

Robert: And of course when I want to find the person who's going to help me create a business based on creating forever transactions then Robbie Baxter is my person.

Robbie: Right. And what happens with people that come and work with me is they might come in the first time and say, "Okay, I'm here because we're moving from a transaction -- you know, we sell product, we sell DVDs or content chunks and we want to have a subscription." So, I would help them transition their model that way. But then they might say, "Okay, now we want to optimize for acquisition because our model is working really well. People are staying for 36-48 months. We're really happy with that, but now we need to bring in new

people. How do we do that?" Or, you know, "We're finding that retention's not very good because people get to a certain point and they say, "Gosh, I've learned all I need to learn about how to draw cartoons or how to be a good photographer," so I'm done." And we try to figure out how do we continue to build that relationship or is this the right time to let someone go. So, what happens is because I'm getting to know these customers, these members in my community I can keep offering these things to them because I really understand where their challenges are and I can really understand who the people are that are on the cutting edge of what we're doing. So, if you take an example let's say of somebody in your community teaches how to draw cartoons. Right? So maybe the vast majority of people just want to be able to draw funny pictures for their kids or as a hobby, but there's a small group of people that are actually trying to become cartoon artists, right, and they're the ones that are pushing the envelope and they're saying, you know, "How do I use these software packages?" and, "How do I get paid for this?" and, "How do I make a living at this?" and, "How do I get into art galleries?" or whatever, this is not my space so I'm making this stuff up.

Robert: You're doing good.

Robbie: But by listening and saying, "Oh, so I should offer a course for people that want to make money from this." That's a new course. It wasn't what I was thinking of because I was just teaching them how to draw, but now I'm seeing oh they're looking for how to have a business or they're looking for how to be curated or they're looking for how to teach what they've learned to their own students. And because you have this membership model and you're really getting to know your customers you have this ability to create new content for them, at the same time you have an obligation which justifies the forever transaction which is that your customer, you know, you didn't ask this but I'm betting it's the next question which is why does a customer want a membership? And the answer is they want you to solve their problems forever. They want the solution and if you can provide that, if you can't provide that they're going to feel cheated and angry, but if you can provide that you'll have lifetime loyalty.

Robert: And I appreciate that. One of the things you had said before is that the companies that have membership, that have this recurring revenue model are valued by buyers that 3-5 times would a company that has a transaction model and that is unbelievable because you can build the same company, you can build

a 10 or a \$20 million or \$100 million company, but if the bulk of the revenue is based on recurring revenue it's worth 3-5 times what another company is. So, the payoff for the owner is tremendous. But there's one thing I wanted to really get into in particular and this is something that I saw in your stuff that I'd never seen in business books around membership and around monthly continuity before and that's the culture of the organization and it doesn't surprise me that you actually went to an association example here, but can you talk about the different culture of an organization that's selling memberships versus a transaction organization?

Robbie: Yeah, absolutely. So, every part of the organization is different. It starts with leadership. You have to have a membership mindset which is really about a focus on the long-term happiness of your customers as opposed to short-term revenue, which can be really hard if you're a public company and you're on a quarterly announcement cycle, or even if you're a venture backed company and your investors and board members want you to hit certain milestones. You have to educate your owners. So that's one big thing. So, the metrics change because the transaction isn't as important as retention. And a lot of companies say we value retention, but then you look at how people are compensated and they're compensated on acquisition.

Robert: And or how the members are treated.

Robbie: Yeah, absolutely. Engagement, member satisfaction, members expect to have a voice. I mean anonymous customer if I go buy a candy bar, you know, Hershey's does not expect to hear from me. Right? And I don't expect Hershey's to listen to me, like it is a completely anonymous transaction. But if I own a subscription to the Chocolate Garage, which is in our town here where you can buy chocolate every month and you go to their place and blah, blah, blah, you're committed for the year and it's expensive, if I don't like the selection they're going to hear about it and if I think that they should be doing something differently they're going to hear about it and I expect them to respond so they need to have customer success philosophies in place to manage all of that feedback. And whether they take my advice or not I need to know what they're doing and I need to get a response.

Robert: I also thought the admission based side that you talked about was also interesting how yeah, we got to run a company, we got to make it grow, but the mission is valued very highly by a membership, by a group that's going to create a

loyal following, I call it a vibrant tribe of members that are engaged and growing the organization. In your book you list AARP as an example and talk about how your interaction with them, what was their emphasis on mission?

Robbie: AARP's mission is to improve the quality of life for Americans over 50. And as you can imagine, that's a huge mission and there's a lot of different ways you can improve someone's quality of life, everything from improving their health to improving their financial situation to improving their relationships, to helping them enjoy activities, and there are so many ways to do it and they do a lot of them. They're a big organization. But what I love about them is that they're willing to drop things, drop offerings that are not relevant to their members anymore and add new ones so that they stay relevant. So, one big change that we've seen with the attitudes towards aging is that 30-40 years ago people wanted to retire at 65. They wanted to be done with work. They liked to be called retired. They said they're retired. Today people don't really retire. Right? People, you know, because they have to or because they really enjoy it, they want to keep doing other kinds of work and we live a lot longer and people kind of bristle to be called retirees or mature adults or any of those kinds of euphemisms and so what AARP does is changing. In fact, they don't even use AARP so much anymore, you know, the AARP which kind of takes the emphasis away from what the letters stand for.

Robert: That's fascinating. So, one of the things that you really dedicate a lot of time into which is something in the information marketing world we're so focused on creating new products and selling that very often what we get around to fulfilling on our commitment it's really more about teaching and giving information and giving them full value where you really took a lot of time, and in working with your clients you spent a lot of time on onboarding new members. What are some of the, you know, in your clients and in your work, what are some of the processes and things that folks should think about when they are thinking, "Okay, I'm spending all this time and money getting a new member how do I build a relationship so that I can keep them long term?"

Robbie: I think that onboarding is one of the most overlooked areas for building retention and engagement and the opportunity actually to deepen the relationship with customers. It's your welcome mat and it's your tour of the gym. And what I would say what the best companies do is they do three things. One of them is they reinforce the wisdom of your decision. So, it's like when you go into

a restaurant and you say, "Oh, I'll have the salmon," and the waiter says, "Oh, that is an excellent choice," which makes you feel good about what you did. When you buy something you almost immediately, like let's say you're buying a course for something that you want to learn you're aspirational but even as you're buying it you're thinking, "Am I a dope? Am I going to say oh again? Am I wasting my money?" But if they say right away, "Congratulations you're taking the first step toward having the career of your dreams. We're going to help you. You're already better than 99% of people who don't even take one step," then it reinforces this good decision.

The second thing that you want to do with your onboarding process is give them some value right away. So, like Pandora does it. You only have to pick one song and Pandora starts streaming a radio station to you. If you pick more songs, this is the third thing that you want to do in your onboarding space, they say, "Look and our best customers, the ones that are happiest with our membership actually go beyond picking just one song and if you continue to give thumbs up or thumbs down on each song that we play for you and you add the names of other songs and singers that you like, the performers that you like we can give you your dream radio station that plays great songs both for recognition of old favorites and discovery of new favorites." So those are really the three parts of onboarding. It's the reinforcing the decision that's been made. It's providing value immediately. And it's showing them how your best customers get the most value from what they've already paid for.

So, like I have an American Express account. I'm sure a lot of people on the call do. There is six, seven, eight, nine different benefits beyond just using it as a credit card. You get free admission into certain airport lounges, you get global entry, you get if you buy a first-class ticket you get a first-class ticket for free so it's basically half price first class, so they tell you that when you call to order it. They want to make sure and they actually try to sign you up for a lot of those benefits that you've already basically paid for so that you get the most value. A lot of times people sign up for something, and I know we've all experienced this where somebody pays for your service and then they don't read the materials or they don't call in for the free webinar that comes with the program, or they don't call with their questions and you're thinking, "Why did you spend all the money if you're not going to use it properly?" And if they don't use it properly they're likely to cancel they're not likely to tell their friends about it. So, it's really worth

your while to make sure that people are getting the most value for what they're paying for.

Robert: Well, and I can tell you that's one of our folks' biggest pet peeves are people who join and then quit three months later and say, "Oh, this stinks. It's not for me," but they've done nothing to engage, to get do anything. I loved your example about Pandora rewarding engagement and every engagement comes with a little reward, you get a little payoff for doing something whether it's thumbs up, thumbs down or putting in another artist's name. With American Express, you know, what have you seen your clients do that really works that help members really engage and get value? I can tell you, well I don't know about you Robbie, but I certainly have bought more diet programs than I've ever actually done, you know? You get it and then you kind of maybe read a little bit about it and then, "Oh man, I have to stop going to barbecue or I got to stop doing this or I'll have to change my habits or I like this one restaurant and I don't want to give up that food, or I don't want to..." and I go, "Ah, forget it." Or I mean to, I'll do it next week and then next week I've forgotten about it, and I think a lot of that happens with our own members. They got excited, they were going to create a change in their life, they were going to do something and so they bought and then a couple of moments and they set it aside and then a couple of weeks and they're off thinking about something else and then a month or two later it's, "Oh, what is this? I didn't sign up for this." What have you seen with your clients that has really helped that and get them from sign up to engagement as smoothly as possible?

Robbie: Well, your weight loss example is one of my favorite examples. I did Weight Watchers after I had my second child, I lost 50 pounds, and I was fascinated by their model.

Robert: Congratulations!

Robbie: Thank you. I had gained a lot of weight from that pregnancy and --

Robert: See Robbie, when my wife was pregnant with our first child I gained more weight than she did, so I'm right with you.

Robbie: Way to go. That's very sympathetic of you. Very kind.

Robert: But I interrupted your story. Excuse me.

Robbie: No, I mean what's really interesting is that they choose as the number one way to lose weight is, you know, 80% of weight loss is writing down what you eat, so everybody on the call I just told you the secret to losing weight just write it down. That is the most proven way. You start writing it down and you say, "Oh wow, I eat a lot more than I think I do." And then if you reinforce that behavior that's it. And so what Weight Watchers does is number one they focus on that. They do a tremendous, they're probably the best onboarding company that I know of, especially their physical experience. You come into a place, you know, into a Weight Watcher's storefront, they welcome you, they congratulate you, they weigh you in and they give you a goal, 10% of your current weight, you know they say your first goal is to hit 10% and we'll have a celebration when you get there. They give you some materials and they start to give you tools and they say, "We know that you're not, you know, what's going to happen is you're going to get discouraged but keep coming back because if you keep coming back and you keep writing it down you will lose weight." And then they start to show you all the behaviors of the most successful people and in fact they role model it because they have classes, right, you go and you listen. You can go to as many classes as you want every week and people explain what they did in certain situations, like, you know, "I went to my favorite barbecue place and everybody else was getting my favorite ribs and boy I didn't want to get a salad," and so then you ask at the next meeting and they say, "Oh you know, you could storyboard it and say I know on Thursday I'm going to my favorite place so I'm going to save up my points for that and I'm going to have a big splurge. Or, I know I'm going there so I'm going to eat before I go so I'm not starving and I'm just going to get one rib and a salad so I can enjoy it but not go overboard." So anyway, having those tools in place and knowing what the most successful people do and being aspirational and wanting to be like the leaders that are in the front of the room and your success stories motivates people to do the right thing. And that's why I think that Weight Watchers has such a high success rate with weight loss is that they're rewarding the behavior that needs to happen and they're really focused on engagement as being even more important than sign ups or even results. It's we want people to stay engaged and keep coming back because that's how you lose weight.

Robert: There are so many very, very smart subtle things there that are really brilliant that incremental goal of getting them from being a prospect to a customer to now having an incremental goal it changes the game. And so like with the Pandora it's like all you got to do is put in one artist, and so that's a little

incremental goal, that's just one thing you got to do. With Infusionsoft, you know, that's a very complicated onboard to get folks into a CRM, well they've got, you know, import your list, send an email, create one opt-in form with a follow-up sequence. And so, there's this goal, there's a definite thing that you're doing that everybody can be focused on and that your onboarding can be laser specific just do this. And that I think was one of the big miracles, what a big breakthrough. I love membership sites, but one of the things that they do is they often have like a big library of stuff where, "Oh yeah, come on in and join and it's monthly and you get to participate in the library." It's like a library. I mean how often do people go to the free library in their town? How do we value libraries in our culture? You don't. That's where the homeless people live and the library isn't helping them any. And what you need is an onboarding that gets them integrated, that gives them an incremental goal that starts them out with, "This is the way we do things around here and we want to create a transformation for you and so this is the first step in creating that transformation." So, I think that having that is just, just beautiful.

Why don't we go through a little bit of like the free trial stuff. I know that's really important and I see it all over staff companies. Have you seen the free trial programs growing? It really seems to be popular, even folks like Trello, folks like Pandora really using free as a growth strategy to try to sell and convert folks into paying. How have you seen that work out for your clients?

Robbie: Yeah. It's a good question and I'm interested in hearing what's been happening to your association members as well because I know you guys track this. I think about free as being one of many tools in your tool chest for your business model and it doesn't work for everyone. Free is really, you know, it makes sense if it's doing something for your overall business model. I think there's premium which you mentioned, which is like what Pandora does which is I get something, a subscription or a membership for free forever no matter what I do and that is usually a light version of a product that can go deeper. It's like getting hamburger instead of filet mignon. It's delicious, you know, people love hamburger, there's no reason to ever, like you can certainly survive without ever eating filet mignon, but there's a real reason that you might want filet mignon. Now what a lot of people --

Robert: Why would you want to survive without it? You'd never want to survive without it.

Robbie: But a lot of people, a lot of companies give a taste of hamburger hoping that the customer will buy filet mignon. And you have to remember if it's a trial, a trial is supposed to be a delicious taste of what they're going to get if they pay for it. Right? So, like one of my very earliest employers was Mrs. Field's Cookies and Debbie Fields started her business of selling these delicious cookies, you know, people couldn't imagine why would I pay a dollar for a cookie? That's crazy. That's so much money. So, she went out in front of her store and broke up her cookies into little pieces and gave people a try on it. It was literally a delicious bite and they were like, "Oh, I understand now why I would pay a dollar for a cookie. This is not Chips Ahoy." So, to take that to what we're doing as entrepreneurs with membership businesses if you're using free because people don't understand what you're offering you should give them a delicious small bite and they'll say, "Oh, I get what you're giving. Now I'm going to pay for it." But if they already understand what you're offering there's no point in giving them a free piece. Right?

Robert: Nice.

Robbie: Once you have one taste of Mrs. Field's cookies you should not have more taste, either you know or you don't know. And you certainly don't need a free taste of a commodity or something that's really clearly expressed. It's what a lot of people do they give a free taste or they give a bigger taste than they need. They give you the whole cookie and then you're like, "Well that was delicious. I don't need a paid cookie." Or, people, you know, the risk that you have with giving a free trial is that people who aren't really interested say, "Oh, it's free. What do they have over there that's free? I'll have that," even if it's something they'd never buy. So those are the risks of a free trial is that you're giving away something where people are like, "Oh yeah, I'll use your free music for two weeks because I'm on vacation and I'll enjoy but I don't really need a free music thing." So, it's kind of tricky.

Now premium work, three situations, one of them is it can sometimes be a way of giving a trial and a chance to get hooked. And then they buy the full price which is either greater volume or more features or a higher level of service and so they're kind of hooked and freemium gives the company opportunity to make a habit for the consumer. Sometimes freemium works because there's a network effect like LinkedIn has that, each new person that joins makes it more valuable for the people who are paying. And a third reason is that your freemium

members are actually a source of new members. They're actually serving as a marketing channel, so that's like what you have with Survey Monkey where I send out a survey to ten people I might not have paid for it, but you're one of the people that I send a survey to and you say, "Oh, I need this for my business. I'm going to pay for it." So, Robbie becomes a marketing channel for Survey Monkey. And that justifies giving Robbie something for free.

Robert: In our environment with the free trial offers what we're finding is that you end up with more members after four or five months with a paid offer than you do with a free trial offer and you skip this whole surge of people, what I call the grab and dashers where they're just coming in getting whatever they want and then leaving, and really not creating any value, taking a whole lot of time with customer service. You can't necessarily follow up with your true customers as well as you'd like because you got all these grab and dashers you got to contend with at the same time whereas by going to a paid offer you end up with more members, they're more valuable throughout the first five months because they're paying the whole time and customer service wise you can follow up with the people who are paying and value what you are delivering. But then I look at Slack and Trello and Dropbox and see, man, there is something else there that is happening that isn't happening and I think that your list really goes in to explain that that there is a network effect, the free users are actually using it or marketing it. You know, I know that I've introduced a whole lot of people to Slack because Slack is more useful to me when I have all my clients on it than it is when they're not.

Robbie: Yes.

Robert: And so, "Oh, it's free. Just sign up." Well, a fair number of those, you know, as soon as we want to do an integration here or there they're now paid Slack account. So yeah, that's really brilliant. I liked how you summarized that.

Robbie: Oh good. Yeah. Yeah, so it makes -- I mean the summary on free is that every entrepreneur should be thinking about, "Can I use free to get people to understand what I'm offering, to get them hooked, to build a network effect or to create new marketing channels and build awareness." And if the answer to all of those is no then don't offer anything for free. And if the answer to one of those is yes then consider building it into your model.

Robert: Nice. And what I also liked about, in your book *The Marketing Economy, Find Your Super Users and Master the Forever Transaction* is that you also break down a lot of different categories of subscriptions, digital subscriptions, online communities, loyalty communities, transitional membership economy companies, small businesses and consultancies, non-profit and show how each of them are unique but yet have some fundamentals. I thought that that was an interesting categorization. Any insights in particular that you see that is really helpful for folks by being able to kind of see the different, you know, I guess this is a little niche of membership but then there is what, seven or six niches within membership.

Robbie: Yeah. I actually, you know, it's funny I have a seventh now which is product memberships, the physical membership economy, so that's like when you do Amazon's 10% off subscribe and save, like you can subscribe to toothpaste or dog food or whatever you like that you consume regularly, or Dollar Shave Club or all of the many subscription boxes that are out there now which a lot of entrepreneurs are getting into.

Robert: Birch Box.

Robbie: Yeah. Totally. Birch Box.

Robert: My wife loves her Birch Box.

Robbie: Yeah. Pop Sugar, I mean there's dozens and dozens of them now.

Robert: And I got to have my Graze every week. Have you done Graze yet?

Robbie: No. The snack food box?

Robert: Oh my gosh. I'm going to change your life. Yeah, like every week they send you another box of snacks. Who doesn't like nuts?

Robbie: Yeah, maybe that's the challenge on the weight loss side.

Robert: Well, but they're kind of small snacks. They're a little bit healthy for you and I do log them Robbie. You'll be happy to know that I use my Fitness Pal membership on my app to log my food and all those Grazes are right there.

With those seven categories, how does that help somebody who's thinking about creating a membership or they're looking to improve the performance. What do you learn there by looking through those categories?

Robbie: Well, so what I hope it does for people is it gives them an idea of how big this trend is and shows them some different tactics that other organizations are doing. So, for example, if you want to understand some of the long-term challenges that face a membership organization look at the ones that have been in business a long time, so the big traditional companies like the Weight Watchers and T-Mobile and American Express. Look at big professional associations and non-profits like AARP and the AICPA and Sierra Club because they are dealing with the fact that they have a mature market. If you're trying to figure out what are the cool technology companies doing you can look at those digital natives, interesting, but I'm just small. I can't do all these things, you know, it can be inspiring to see what these very small businesses are doing. So that's really the goal of mapping out what's happening across different industries and product categories is to share learnings and hopefully cross pollinate.

Robert: Yeah. It's pretty neat. And being able to borrow from one to the other because I can tell you within loyalty programs they think they've invented this whole like membership thing and they're in their own little click and they don't think that they're at all related to like online communities for instance. And I thought that you breaking down those walls within, well from the outside it probably looks totally ridiculous, but if you go within these little clicks they think they invented this stuff.

So, Peninsula Strategies, what type of clients are you looking for and how do you help the folks that you serve?

Robbie: Well, I like to say I'm a consultant that happens to have written a book. I've been working with a broad range of membership entrepreneurs for the last 15 years ranging from solopreneurs who are building their business model where I work more like a coach or an advisor up to companies that are moving into the fast space that are creating their own software app or building their own associations much like you did, you know, with your association who are trying to build out a community of like-minded professionals. And I help them with everything from how to put together the financial model to how to think about acquisitions, how to optimize for retention, to building the culture, you know, as you know because you read the book I have a seven-step process so I work with different clients on different steps toward optimizing their model for revenue and profitability.

Robert: Well, I think everybody, all of us like revenue and profitability.

Robbie: Yeah, me too.

Robert: So everybody needs to get *The Membership Economy*, and if there's an interest in working with Peninsula Strategies is there a website or a Twitter that they should reach out to you on?

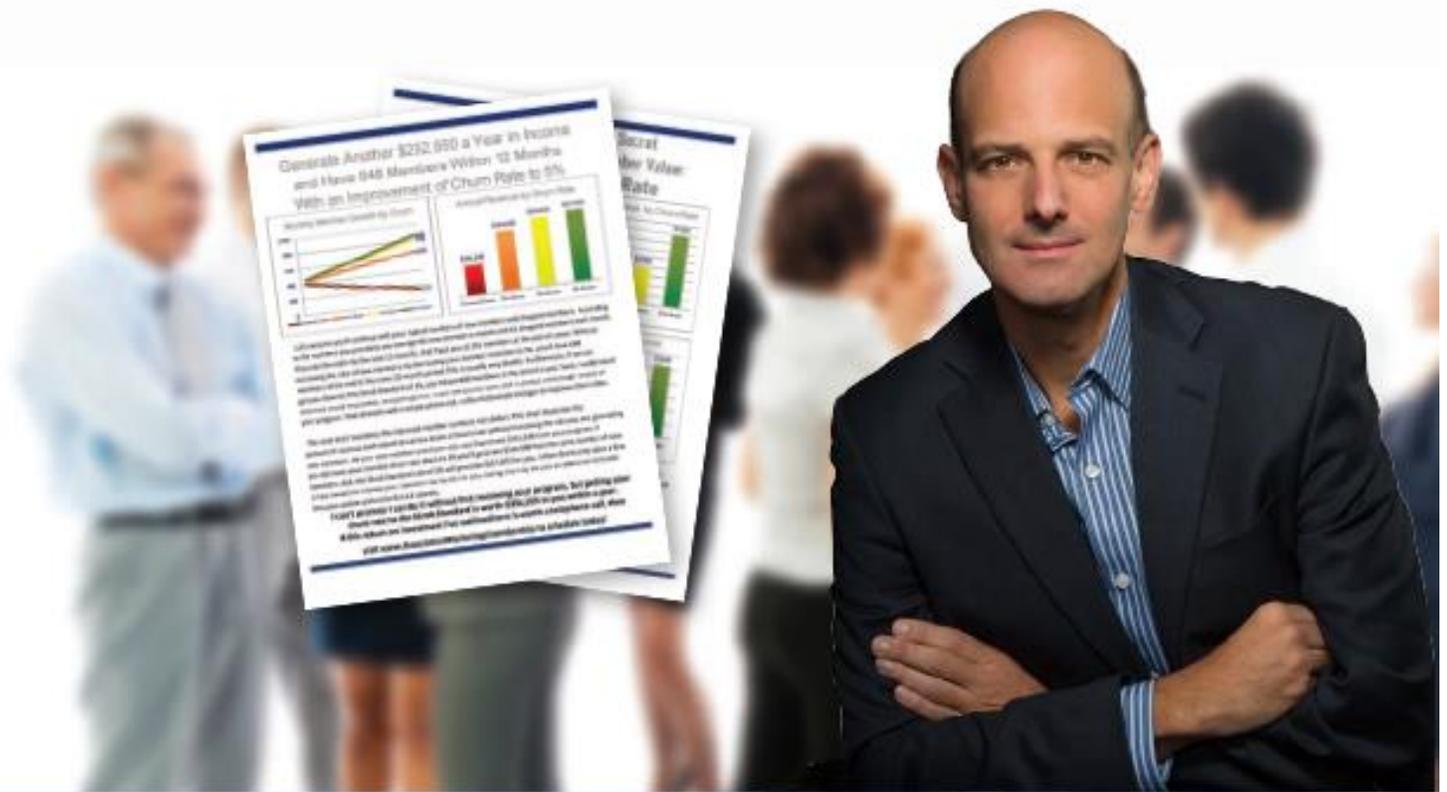
Robbie: Yeah, of course. The website is membershipeconomy.com. And Twitter is RobbieBax, R-o-b-b-i-e-b-a-x. And I welcome the outreach. They can call them. They can send me an email. They can tweet to me. You know, this is a membership economy, so we got to help each other, right?

Robert: That's absolutely right. And give Robbie a shout out on Twitter and certainly if you're looking, if you've got a software as a service program or a large software program that you're trying to grow out as part of your business or looking to really grow your membership and integrate it with some of the latest and greatest, we didn't get to talk about your Netflix experience, but that of course is a pretty -- it's the first story in your book of course and I understand why. It's got to be, if it's not the largest membership it's got to be one of the largest. But how to use the types of benefits and the types of culture that these companies are using, some of the largest in the world within your own then I'd certainly recommend that you reach out to Robbie at Peninsula Strategies and I absolutely recommend the book, *The Membership Economy*. It's a great read and really, I think that going through you talk about the culture, which is something that I haven't seen anywhere else, the structure of the membership, the marketing funnel, onboarding, retention, a lot of neat insights from some of the largest membership companies in the world here. And Robbie, I just want to thank you so much for being my guest today.

Robbie: Oh, it's a pleasure. Thanks so much for having me Robert.

Robert: All right. Till next time. Thanks a lot for listening and we'll talk to you soon.

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Michael Rozbruch, Roz Marketing Group

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