
The Economics of Membership

Presented by
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Our Plan for Today

- What you will learn from this session
- Theory of Membership Economics
- Application to your Client Associations
- Group Practice and Strategy Implications

Key Membership Calculations

- Response Rate
- Cost to Obtain a Member
- Renewal Rate
- Average Tenure
- Lifetime Value
- Maximum Acquisition Cost
- Steady State Analysis

Response Rate

Response rate measures the number of prospects who responded to a marketing effort.

- Total number of responses / Total number of prospects contacted X 100.
- Example: $(250 / 50,000) \times 100 = .50\%$

Cost to Obtain a Member

The cost to obtain a member can be viewed as the additional cost for each new member or as the cost impact of each additional new member on the running average cost of acquisition.

- Incremental Cost – Will limit the number members obtained, but maximize net revenue.
- Running Average Cost – Will maximize the number of new members obtained, but minimize net revenue.

Where Do You Stop?

Incremental

\$10.00

\$20.00

\$30.00

\$40.00

\$60.00

\$90.00

Running Average

\$10.00

\$15.00

\$20.00

\$25.00

\$32.00

\$41.66

Renewal Rate

Renewal Rate measures the number of members kept over a given period of time -- usually during a fiscal or calendar year. To determine how many

- Total Number of Members Today (minus 12 month new members) / Total Number of Members in Previous Year
- Example: $(105 - 15) / 100 = 90\%$

Average Tenure

Defines how long on average do members stay with an association.

- Reciprocal of Renewal Rate - .10
- Divide Reciprocal into = $1 / .10$
- Example: $1 / .10 = 10$

Lifetime Value (LTV)

Defines the economic value produced by a typical member.

- Assume \$100 / Year Dues and \$50 / Year in Non-Dues Revenue
- $(\$100 + \$50) * \text{Average Tenure} = \text{LTV}$
- $(\$100 + \$50) * 5 = \$750$

LTV Analysis -- Special Considerations

- Lifetime/Tenure Calculations
 - Year-by-Year
 - Tenure Times Average Transaction Value
- Revenue Estimates
 - Membership
 - Non-Dues
- Cashflow
 - Constant Dollars
 - Discounted Dollars

Maximum Acquisition Cost (MAC)

Defines the theoretical maximum investment that can be made to acquire a member or customer at a profit.

- Assume Incremental Servicing Costs (Cost of Goods Sold) = \$20 and Cost of Goods Sold = \$25
- $((\$100 + \$50) - (\$20 + \$25)) * 5 = \text{MAC}$
- $((\$100 + \$50) - (\$20 + \$25)) * 5 = \$525$

Steady State Analysis (New Member and Renewal)

Defines the equilibrium of total membership where members gained will offset members lost will be equal.

- Annual New Member Input / Lapse Rate = Steady State Membership
- Example: $1,000 / .20 = 5,000$
- 90% Renewal Rate = $10,000 (1,000 / .10)$
- 60% Renewal Rate = $2,500 (1,000 / .40)$
- 90% Renewal Rate and 200 New Members = $2,000 (200 / .10)$

What's the best strategy?

- Focus on acquisition by prioritizing the membership-marketing budget to maintain the current 75% renewal rate and add 8,000 new members each year.
- Focus on renewals by prioritizing the membership-marketing budget to achieve an 85% renewal rate and maintain the current level of 2,000 new members who join during the year.
- Focus on a balanced approach by prioritizing the membership-marketing budget to achieve an 80% renewal rate and adding 5,000 new members each year.

Strategy Impacts Outcomes

- The first option with a 75% renewal rate and 8,000 new members per year will achieve a total membership of _____ members over time.
- The second option with an 85% renewal rate and 2,000 new members per year will achieve a total membership of _____ members over time.
- The third option with an 80% renewal rate with 5,000 new members per year will achieve a total membership of _____ members over time.

Case Study

The ABC Association last year had 100,000 members. This year 15,000 new members were added to the association. 10,400 of these new members were attributed to direct mail campaigns of 800,000 pieces. Membership acquisition mailings cost \$750 per thousand pieces mailed. The membership now stands at 105,000. Membership dues are \$75 a year. The average non-dues revenue is \$50 a year per member. Incremental servicing costs average \$15 per member. On average, the cost of goods sold is 25 percent of the sales price.

What are the key economics for your association?

- Response Rate
- Cost to Obtain a Member
- Renewal Rate
- Average Tenure
- Lifetime Value
- Maximum Acquisition Cost
- Steady State Analysis

Exercise 1 - Numbers

Please determine the following for ABC Association:

- Acquisition Response Rate
- Association's Renewal Rate
- Cost to obtain a member
- "Lifetime Value" of a Member
- "Maximum Acquisition Cost"
- "Steady State" Membership of ABC Association

Exercise 1 -- Strategy

- Based on the member economics, what would you recommend as a strategy going forward for this organization? Some possible recommendations are:
 - Move monies from acquisition to retention.
 - Increase member acquisition.
 - Stay the course. Don't change anything.

Group Exercise Instructions

- Ask for help if you do not understand
- Appoint a table reporter
- Allow each person in your group to share
- Report out the consensus answers from your group.
- Report out the strategic directions that the numbers would indicate you should go with your marketing.

Extra Credit -- Exercise 2

Please determine what response rate would be needed to “breakeven” on marketing costs ABC association?

What gross response rates do we need to achieve breakeven given the following offer options made available by ABC association?

Exercise 2

- **ABC Association Acquisition Offers**
 - Hard Offer (100% Pay-Up)
 - Bill-Me Offer (80% Pay-Up)
 - Free Trial Offer (50% Pay-Up)
- **Additional Facts**
 - Price of Membership (\$75 ea.)
 - Cost of Bill-Me Series (\$4.00 ea.)
 - Cost of Trial Benefits (\$9.00 ea.)
 - Package Cost (\$750/M)

Answer Key – Exercise 2

- Answer

$\$75 \times 1.00 = \75.00 (Breakeven paid response rate 1.0%)

$\$71 \times .80 = \56.80 (Breakeven paid response rate 1.32%)

$\$62 \times .50 = \31 (Breakeven paid response rate 2.41%)

Extra Credit – Exercise 3

What response rates does ABC association need to break even on each of the following acquisition lists?

If response rates on all of the lists are 1% and all non-list costs come to \$600/ M, rank order the lists from best to worst.

Extra Credit – Exercise 3

- ABC Association Acquisition Lists
 - List A \$150 / M with a net merge-purge keep rate of 40%
 - List B \$0 / M with a net merge-purge keep rate of 10%
 - List C \$300/M with a net merge-purge keep rate of 90%
 - List D \$100/M with a net merge-purge keep rate of 80%

Answer Key – Exercise 3

- **Answer** -- ABC Association Acquisition Lists

- List A -- Answer $1/.40 = 2.5 \times 150 = \$375/\text{M}$ list cost
- List B -- $\$0/\text{M}$ list cost
- List C -- $1/.90 = 1.11 \times 300 = \$333/\text{M}$ list cost
- List D – $1/.80 = 1.25 \times \$100 = \$125/\text{M}$
- Since the response rate and package costs in this case are the same, no additional calculations are needed.

Questions

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