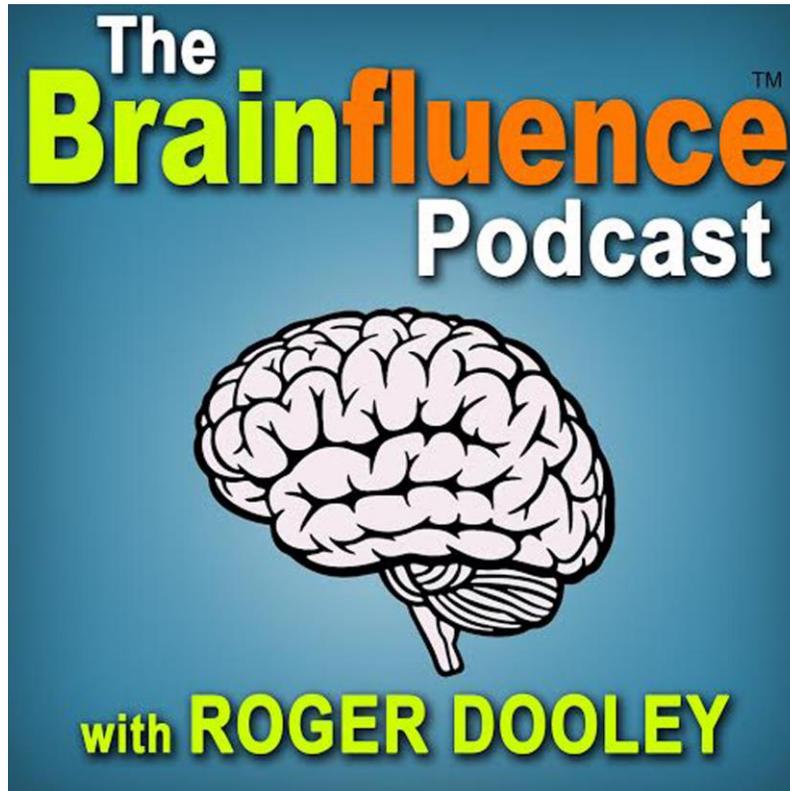


Ep #62: The Membership Economy with Robbie
Kellman Baxter



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Roger Dooley

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Welcome to the Brainfluence Podcast with Roger Dooley, author, speaker and educator on neuromarketing and the psychology of persuasion. Every week, we talk with thought leaders that will help you improve your influence with factual evidence and concrete research. Introducing your host, Roger Dooley.

Roger: Welcome to The Brainfluence Podcast. This is Roger Dooley and our guest today is Robbie Kellman Baxter, the founder of Peninsula Strategies. Peninsula is a consulting firm that's worked with companies ranging from start-ups, to huge firms like Netflix, Yahoo, and Oracle ... Even Ebay. Robbie's new book is "The Membership Economy: Find Your Super Users, Master the Forever Transaction, and Build Recurring Revenue". Welcome to the show Robbie.

Robbie: Thanks so much Roger I'm glad to be here.

Roger: I have to say Robbie I'm really excited to talk with you. I've been involved in quite a few start-ups but probably my favorite of all time was a memberships site in a higher ed. space and to me this was something that was not only rewarding for the members, it was rewarding for me, and the concept of delivering continuous value to keep members engaged and coming back makes a huge amount of sense. I was really excited to both see your book and then read it. That business wasn't monetized by the members as many of your examples are, but by advertising. Even then, I think that are certainly a lot of similarities to the sorts of businesses that you describe in your book.

Robbie: Yeah. I think that membership doesn't require a payment and some of the best communities are free. Whether that's as part of a larger organization where it's a Freemium model and some

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people pay and some don't or whether it's advertising driven or sponsor driven. The important thing is having a real community with on-going formal value.

Roger: Right. One of the challenges in that space was, since we're dealing with students who are transitioning from high-school to college, we had to keep renewing the membership. It was almost like being a high-school football coach or something, you can't count on anybody for very long. First you break them in early and by the time they're productive they're juniors or seniors and then they're gone. So, we have the same sort of issue with our members but it was really a great site and still thriving, still growing.

Anyway, to begin with, why don't you explain what you mean by a membership economy or the membership economy and why it's so important?

Robbie: Yeah, absolutely Roger. It's a term that I coined after I had seen time and again organizations moving to this new kind of way of engaging with their customers and it was about moving from an ownership model to a model of access. It's about moving from a focus on the transaction to a focus on the long-term relationship and a difference in the way that they organization communicates from the kind of one-way, push communication that so many organizations have done for so long, to listening to what the customer has to say and having a two-way discussion and even having a multi-directional discussion among members and customers under the umbrella of the organization. I saw it first at Netflix. I was working with them about twelve years ago and just fell in love with their model and then I started seeing it in virtually every industry with companies big and small and I saw that it was more than just an interesting

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new model. It was really this transformational tidal wave that was changing all kinds of organizations.

Roger: The transition from ownership to access is important but I guess not every company that's doing that is necessarily a membership site. I think of Uber where they're definitely, at least to some degree, about ownership and giving you access to transportation when you need it but they don't necessarily have a fixed recurring revenue model and there's not a lot of community. There's a little bit of community in that drivers can be rated and so on but I don't know of any way of interacting with other Uber users. Perhaps there is some, but I haven't seen it yet. Is it a continuum do you think? Are some of these new organizations very community oriented and some just sort of scratching the surface?

Robbie: Yeah, absolutely. When I started writing the book, Roger, I really felt like there's got to be that one thing, like that quick litmus test to say, "Yes you are a membership-economy company, no you're not." What I found was it was something like a continuum that there are certain attributes of an organization and it starts with the attitude of leadership and if they're really treating the people they serve like members, and there's real difference between members and words like user and customer, and it changes the way that you treat them. It puts it more into a long-term, on-going perspective, and everything else falls out from there. So your example of Uber is a great one, because I do include them in the membership-economy because they have this model of sharing, because you have to join in order to access this marketplace, and because of the kinds of relationships they're forging not just with the end-users, you and me, the people that enjoy the nice rides, but the drivers themselves. The kind of flexibility and community that exists there.

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Roger: Yeah, that's a good point. I wasn't looking at it from the driver's standpoint, but that's another part of the community and probably in many organizations you do have these sort of community subsets that interact with each other, although they don't necessarily have the same members. I think the distinction between members and users is a great one. It seems we've been hearing that a lot lately, but I've been doing that for years since I was involved in community management. I think that the first time I heard that comment was probably back around 15 years old from a community builder Brett Tabke, who in breaking in new moderators for that community, people would always talk about users, and he would always correct you and say, "No. Those are not users those are members." To me, that's such an important distinction. It does get a little bit messy because you talk about user experience and really you can get carried away with ... What you're trying to do is be sure the people have proper interface and so on, but when you think of people as members you really do think of them differently.

Robbie: Yeah, absolutely. Someone said to me ... Actually I think it was people at LinkedIn, they call them members. They were talking about what they call now members and they said, "The only other people besides software people that refer to the beneficiaries of their services as users are drug dealers."

Roger: (laughs)

Robbie: We don't want to be there. We really want to show on-going caring kind of relationship and making people feel like they belong when they're here with us and we're serving them.

Roger: Right. One cultural change that I've seen is the traditional membership organizations by and large suffering somewhat. The sort of old social organizations that people belong to and

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maybe went to meetings or lunch-ins and what not. Those are all under a lot of pressure and I don't know if it's our busy lives or the fact that we're just interacting virtually a lot more, but do you think that these new virtual communities that people are becoming part of are replacing those is there a cause and effect or is it just the way the world is headed?

Robbie: I think you hit on a bunch of really important changes that are affecting these traditional membership organizations. One of them is that they have more choices. If any membership organization exists to provide some kind of on-going value to their members and it's not about the products or the specific services they're offering. It's ultimately about whether they're achieving the goals that they had with that membership. One thing is that people have better options now. They're cheaper and easier. Maybe instead of having to go to a lunch, where you have to get in your car, drive over ... Maybe you can get that same information from Roger Dooley's podcast. Maybe that's an easier way to get the information you want, or from being part of an online community.

I spoke yesterday at a new conference, it's called Subscribed. It's been around for about 4 or 5 years I think, that's put on by a new company Zuora, for subscription businesses ... And, it attracts a lot of people that used to go to professional association annual meetings, for the same benefits ... But now they come to this, because it's more relevant. The content is more relevant. It's not that people don't join, and it's not that they won't pay. This conference was \$1,000. It wasn't cheap. It's about people being aware of the choices that are out there, having easier access to find out what those options are, and the fact that a lot of membership organizations frankly haven't changed their models to meet both the changing demand of their members and to leverage all the changes and technology

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that are enabling much better ways of communicating and sharing information.

Roger: Right. I think the ones that are most challenged are those that rely on their members for physical services like volunteer efforts and so on because there's ... For some things it's pretty hard to substitute online activity. Also I think that, often, some of the folks in these organizations have not fully made the transition to digital yet.

Robbie: Yes.

Roger: I know ... Years ago I was chairman of a board that was associated with fundraising for a university and I tried to introduce a very private online community just for the board members to interact at times other than the meetings. It was clear that I (laughs) was a little bit too far ahead of the curve with that because it did not go anywhere at all. Robbie you talk about business to consumer companies like Netflix. What about business to business companies? Can they participate in this membership economy too?

Robbie: Yeah, absolutely. One company that I love is Salesforce. Salesforce, from the very beginning, has been about the membership economy, and we see that in a few different ways. One of them is ... The way they initially starting selling, wasn't to the companies. They went directly to the sales-people who were feeling the pain, and priced it in a way, using software as a service model. It was cheaper and the sales-people didn't have to manage the software, or any of the technology, so that they could get that benefit directly. Then they went from there to build ... They, very aggressively, have built out communities, both virtual communities online, and physical communities. Dreamforce takes over San Francisco where tens of thousands

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of people come for a whole week, to talk about Salesforce. People still want to meet in person. The technology piece and the online community is a great side-benefit, additional benefit, but what's important also is the content, and what the actual value is that Salesforce is providing. You made a good point before about the challenge of getting volunteers to give their time.

What's really interesting is that a company like Salesforce has volunteers. This is a for-profit organization, that you have to use the product for your job, and they're getting those people to take time out of their busy days to volunteer for the company. They have a program for them, the NVP program. If you volunteer a lot, and you participate in the forums, like your board members were unwilling to do ... But if you do it with the Salesforce ... If you participate in the forums, if you answer people's questions, if you help people on-board and learn how to use the Salesforce products, if you speak at their events ... They give you status, and it's called an NVP. You get to be an NVP. The prize for being an NVP with Salesforce is you get the privilege of doing more volunteer work for them at a higher level. It's funny right? You get to talk to their senior executives instead of more junior executives. You get to speak at the main-stage at the Dreamforce events, and you get tons of free logo wear to advertise the Salesforce brand.

Roger: That's really interesting and I think it's probably ... A company really has to work to cultivate that culture because people obviously are gonna be kind of suspicious about being asked to do work for free, but if the community is built right, they will. In fact, there are studies out showing that if you pay people for performing those kinds of volunteer activities like community moderation activities and so on, that they are actually less motivated and may drop out because I think one of the things

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that happens is ... Assuming that you're not really paying them a full salary, and so on, but just some sort of honorarium to compensate them for their time, they start running the math and saying, "Gee, I'm not really making very much per hour here." And they tend to get frustrated and drop out. Where, if they weren't being paid for it at all, then it was a volunteer activity and it was fun and they enjoyed helping other people.

Robbie: Yeah absolutely. It's funny but sometimes paying people actually has an adverse effect, and it's definitely the case I think with these user communities that a lot of B to B companies have developed. It's more about the good feelings that come from being an insider and belonging ... And also, frankly, it's the aspirational qualities. Somebody who is an NVP in Salesforce is very desirable as an employment. It's a source of status, it's like a mark on your resume. So, on some level, these for-profit organizations are figuring out how to create a win-win for their volunteers.

Roger: So Robbie, in your book you talk about super-users. Who are these super-users, how do you find them, why are they important?

Robbie: Super-users are people who are good members, but they go beyond that. The first thing that I would say about a super-user is that they use your services frequently, regularly, and well ... And what I mean by well, is that they use your products and services in a way that you'd like others to emulate. So they're not edge cases, they don't use the oldest services that you're thinking of sun-setting. They're interested in the newest things that you have and they use the product well. But then they go beyond that. They spend their own time and their own resources helping people within the organization to be more successful and they do that by helping to on-board new

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members. They do it by speaking and giving feedback to existing members and they do it by giving feedback to the company or organization themselves. Finally they go out and they act as advocates and they actually recruit in new members. Would you like an example of a super-user?

Roger: Oh absolutely.

Robbie: Okay. My sister is a CrossFitter. Do you know about CrossFit, Roger?

Roger: A little bit. I am not a CrossFitter myself.

Robbie: Nor am I. (laughs) It is a work-out program, and the people join, and then they go three times a week to the same sessions every week. Everybody has the same ... They call it a work out of the day, a WOD. My sister goes three times a week, she does her WOD with her group, in her box. That's what they call the gym. There's a lot of lingo that everybody learns.

Roger: It sounds kind of like a cult. (laughs)

Robbie: Yes, a little bit. Days that she can't make it to the box for her WOD, she finds another box ... She's travelling for work, and she does the WOD there. But then she goes beyond being a regular and frequent user and she actually creates value for other members. My sister has got a full time job. She's a psychologist, but she's also got a blog which she does under a pseudonym, that is designed to help people who are the less athletic people that are involved in CrossFit. Many of the CrossFitters competed in National level. And hers is, "View from the back of the pack." Sort of a motivational blog for those people, and she does that on her own time, and she gets no credit since it's under a pseudonym. Then, on days when the CrossFit box is closed, when they're cleaning it, or there's a

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problem ... She and her husband host a CrossFit driveway in front of their house and invite all the members of their box to come to their driveway and get their WOD in. And, if she were on this call, she would probably have recruited you by now, and you would be going to a WOD with her this week.

Roger: (laughs)

Robbie: She would have told you, "I'm the healthiest I've ever been in my life. I'm eating the CrossFit paelo diet. I feel great about myself. I've made so many new friends. These are my people now. You're just going to feel so much better and healthier and more connected if you join." So, she's a member of the church of the holy CrossFit, and she's a super-user.

Roger: Right. How would a business identify these people or encourage them? I can see where CrossFit may have a business component but it's certainly a lifestyle choice, where if you're selling software or something it's not quite that engaging perhaps.

Robbie: Yeah absolutely. So with CrossFit, they do have a monthly subscription model, and it is expensive. Relative to other forms of work-out it is quite high priced and people are extremely loyal and stay with it for years. But there's lots of other cases ... The NVPs that we talked about over at Salesforce ... Those are also super-users, so it doesn't have to be a lifestyle consumer product to build that kind of loyalty.

Roger: How would a business get started in taking a membership approach Robbie? Assuming that maybe they've been selling product all along and they see some kind of an opportunity ... Certain kinds of products I assume don't really lend themselves to any kind of membership or subscription or on-going model. But, assuming they have a product or a service that they think

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they could do that with, how do they get started? Particularly with the community building side, because I know in my own experience with community building ... Boy that first year is by far the toughest. If you can make it through the first year then you've got sort of a critical mass. You've got at least some engaged users who are adding value to the community. If people show up they say, "Wow there's a lot of activity here." But, just getting those first few people engaged and building that critical mass that's so hard. How would a business go about that?

Robbie: Yeah that's a great question. The way to build community ... The first thing that I would say is ... You gave some different examples. If you're going from a traditional model and you're moving to a subscription model, first of all what I would say is that almost every kind of business can lend itself to a subscription model and to a membership model. You have to just think about what's the value that goes beyond the product.

One example ... An organization I've been working with recently. They sell anesthetics to dentists, and they're looking at a membership model because the dentists that use these kind of higher end anesthesia are really a unique segment that are trying to brand themselves as pain management specialists. There are some people that are really afraid of going to the dentist, because it hurts. These are dentists that use basically better products to minimize pain. Some of the things that you want to do when you're moving from a transactional model to a community model is figure out, "What is it about?" It's not just about the anesthesia. It's about differentiating yourself as a source of pain management and as somebody who cares about comfort. Those dentists ... They're a rare breed. It's not like most dentists have these things ... That care about this that much.

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You go to your super-users and bring them together first. That's what I would recommend, and then bring that existing group that has a very strong need to connect and communicate. Bring that group, either online or have events for them. I actually think having the online events and the offline events is pretty important. A lot of organizations that have always been online are now actually moving to have offline conferences and physical events because the need to connect on a human level doesn't go away.

To summarize I would recommend number one, going with your super-users first and building the community around them. Number two, taking that community and making sure that they have opportunities that are both offline and online, and supervising and facilitating that group to create value. You talked about how when you were starting a community ... It's a lot of work to keep it going the first year. Absolutely. Because you need to be seeding the community with value, so that people want to come back. Once you have that core nucleus, it's a lot easier to build on it. It's like a pearl. You start with something tiny and pure and then you grow out from there. I think a lot of organizations make the mistake of just starting from a standing start and then trying to bring in people randomly, so they don't know who they're getting and those people aren't committed and they don't know the culture and they don't know the value. And so, they don't really have much of a reason to bond and help each other.

Roger: That makes a lot of sense. We're getting kind of low on time, but, briefly explain Robbie what you mean by the Forever Transaction.

Robbie: Sure. Forever Transaction is the kind where once you make that decision to go with a particular company or organization,

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you have no intention of leaving, unless they disappoint you or your need goes away. So for example, LinkedIn, when those guys ... This is kind of interesting you were talking about your business with the transition of high-school to college. The business that those guys started before they started LinkedIn was a dating site. I think it was called SocialNet, and the problem with SocialNet was that if it worked, people cancelled after 6 months. You meet the love of your life and you don't need to be on a dating site anymore.

Roger: Right. The more effective you are, then the less successful your financial model is. (laughs)

Robbie: Right, exactly. So they said that when they were thinking about what's the next business that they want to start ... They said, "We want to start a business where if we're providing value, people will stay for a long time." So they looked at people's careers and said, "Okay. That's a good 40 years, maybe, that someone could stay loyal to LinkedIn and get value." The forever transaction is this idea that when I sign up for LinkedIn, I have no plans of cancelling or even disengaging with LinkedIn until I stop working. And, organizations that focus on building a forever transaction ... Their metrics are things that happen after the transaction. There are things like engagement, retention, loyalty, attitudes. And, if you build your model around a forever transaction, ultimately, the big benefit that you'll enjoy is predictable, non-lumpy, recurring revenue.

Roger: And you see, Amazon.com has a membership company.

Robbie: So Amazon.com is a really interesting company, because they started as a retailer of books. Now they have evolved over the last 20 years into one of the most innovative testers of membership ideas of any company that I've seen. They have

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Amazon Prime ... Which I'm sure you're familiar with, maybe you're a member.

Roger: Oh I'm very familiar with it. So it my credit card.

Robbie: (laughs) So you have the big bills to prove it, like I do. It's just too easy. But they use that as an entry-point to introduce us to the Kindle Library, to Kindle Unlimited, to the fact that they have movies and music that you can get from them. So they've been really smart with that test They also have the ability to subscribe to different products. I subscribe to Promax bars because I like to have them in my purse when I'm travelling and I don't like to run out ... And I just get them every two weeks and they're delivered to me without me having to think about it. They bought a deal of the day site called Woot!, which is known for its very, very active community. People talk about the deals online and, they say, "Oh I love this deal this is a great deal." Or they say, "You know what this isn't a very good deal you can buy this product for less on this other website and Amazon is trying to rip us off." Extremely transparent, extremely animated. And Amazon, I give them a lot of props, because they are trying lots of different ways to incorporate membership and build these formal, meaningful relationships with their customers that goes well beyond what a traditional retailer has ever done.

Roger: Yeah. I see them really as transitioning very strongly in that direction. Going from more-or-less a pure e-commerce play, into, even though a lot of their stuff is purely transactional ... You're going to buy something once and be done with it, but they've got all these little community elements. Even reviews are obviously huge as part of their business success and they actively solicit answers to questions, which I find kind of interesting because I every now and then get an e-mail from Amazon, "Hey! Somebody asked a question about this product

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you bought. Can you answer it?" Then, if I do, I might get a note, "Hey, this other member found your answer helpful. Thanks!" So it's really very clever on their part. My personal subscription isn't real exciting. I use a refrigerator water filter every 6 months and basically eliminated the process of having to look it up and order it by saying, "Okay, just send me one then." ...

Okay let me remind our listeners. We've been talking with Robbie Kellman Baxter, the founder of Peninsula Strategies, and author of the new book "The Membership Economy: Find Your Super Users, Master the Forever Transaction, and Build Recurring Revenue". Robbie, how can our listeners find your stuff online and connect with you?

Robbie: They can e-mail me directly at rbaxter@peninsulastrategies.com. They can go to www.peninsulastrategies.com, or the book-site which is www.membershipeconomy.com, or they can follow me on twitter @RobbieBax.

Roger: Great. Well, we'll have links to these and any other resources we discussed along with the text version of this discussion on the show-notes page at rogerdooley.com/podcast. Robbie thanks for being on the show.

Robbie: Thanks so much for having me Roger.

Thank you for joining me for this episode of the Brainfluence Podcast. To continue the discussion and to find your own path to brainy success, please visit us at RogerDooley.com.