



The Membership Economy

Manifesto

ROBBIE KELLMAN BAXTER



We hear the stories.

Cornered by a passionate friend, we are regaled with tales of binge-watching *House of Cards* on Netflix, or the virtues of the Paleo diet combined with Crossfit, or a new recipes and decorating tips found on Pinterest. Certain organizations are winning the hearts and voices of their customers, and building the kind of loyalty that was traditionally reserved for family, community, and church. The secret that these organizations know is that people are craving membership. Organizations that build their businesses around people's need to belong, to be connected, and to be admired, organizations that are focused on relationships over products, are winning in today's economy.

How are these organizations building such loyalty, and, in many cases, building recurring revenue models, the "holy grail" of business?

The good news is that it's possible for just about any type of organization to incorporate principles of membership into their businesses. The Membership Economy is transforming the way organizations connect with their customers, and this manifesto will tell you how.

To understand why the Membership Economy is becoming so vibrant and how it fits into the bigger picture, we have to take a step back.

As a society, we are moving faster and spending less time in traditional communities. This alienation is driving consumers to seek greater flexibility and connection, often from new kinds of organizations, going beyond the traditional clubs, churches and family gatherings of the past.

The Membership Economy is a reaction to these social trends. And it is enabling all kinds of organizations to build social capital and create meaningful connections. Maybe it's not that we're no longer connected, but rather that our connections are popping up in new places, many of which are enabled by new technologies.

“As a society, we are moving faster and spending less time in traditional communities. This alienation is driving consumers to seek greater flexibility and connection, often from new kinds of organizations, going beyond the traditional clubs, churches and family gatherings of the past.”

A shift has begun. Membership is timeless, important, and powerful. People crave it.

My town has a neighborhood of closely packed houses, designed to look like “small town America.” The development forbids tall front yard fences and gates, sidewalks abound, and there’s even a small “neighborhood” park.

A few blocks away, in an equally convenient and prestigious area, is a second neighborhood with bigger yards and bigger houses, but people pay the same amount as they do for the privilege of living in the smaller houses in the stronger community. In other words, people seem to be willing to pay a premium for connection, for a neighborhood. They are willing to give up privacy in exchange for association with others.

A membership organization builds a “neighborhood” for its ideal customer. There’s a cost associated both with buying and maintaining a house in a neighborhood, so the promise of connection, community, and ongoing value must be guaranteed.

The Difference Between Membership and Subscription

Membership is an attitude, an emotion. A subscription is a financial arrangement. It's quite possible for something to be both a subscription and a membership organization. In fact, the Membership Economy is the logical extension of subscriptions. Many Membership Economy organizations don't see themselves as membership. They say, "We have a subscription business," or "We're a sharing business," or, "We're a transactional company with an affinity program," or, "We're a social network." Sometimes they say that membership organizations must be mission-driven nonprofits or about connections among members.

None of this is true. What makes a membership organization is the attitude of the organization and the feelings of its members—not whether members subscribe. Companies' failure to see themselves as part of this bigger trend can limit their potential to build relationships and strengthen their models.

“What makes a membership organization is the attitude of the organization and the feelings of its members—not whether members subscribe.”

A subscription does give access and an array of choices. A transactional customer might own dozens or even hundreds of movies. But Netflix has thousands—from different countries, genres, and more—providing tremendous choice and the latest options. And the monthly price is low which protects the customer's cash flow. Access is so much bigger than ownership, and the subscription model ties customers to organizations in an ongoing relationship with an opportunity for benefits on both sides.

Those are simple subscription benefits. But some of the value subscribers get from Netflix is derived from the other people using it and their comments about movies and TV shows. This value comes from the community. Netflix also created an algorithm that harvests the data it collects in order to analyze its members' behavior. It can use the information it gets to provide recommendations for other films.

Even with all these benefits, many Netflix subscribers may not feel like members, and that's okay because they're still part of the Membership Economy. Even without using the nomenclature of membership and even without investing in the community side, both the company and the customers are benefiting from the application of the principles of the Membership Economy.

What Brought Us to This Point?

The shift to a Membership Economy follows a pattern that is common to many transformative business trends. It's brought on by an outside force, ties into a human need, and impacts a wide range of industries and companies. Eventually, the trend becomes part of the new normal is taught in business schools, and is practiced by managers. Let's take a look at each of these:

1 | The shift is brought on as a result of a major outside force.

There are actually two major outside forces combining to drive the Membership Economy: The ubiquity of online access via multiple devices, which connect members with content, services, other members, and the company itself at all times, and the dramatically declining costs of data storage and processing, which enable companies to store and provide access to services at a very low price.

The first phase of online access was a one-way connection in which the organization was able to provide services and content to customers. More recently, however, technology has grown more sophisticated, thus allowing individuals to respond to the organizations, providing feedback and new content while also enabling peer connection among customers.

For example, General Motors recently used its Facebook page to respond to concerns and questions relating to its recall of 1.6 million cars that it has linked to a dozen deaths. Technology enables the transformation from users to members and creates community and interdependence among the users themselves.

At the same time, costs of data processing and storage as well as Internet connectivity costs have been declining, making it easier for organizations to bear these costs on behalf of their customers, and enabling them to think about pricing in a more sophisticated way.

Ubiquitous and inexpensive access has created the ideal conditions for the Membership Economy.

2 | It ties into a timeless human need.

Pundits never get tired of lamenting the decline of face-to-face community and belonging that has been brought about by the advances of the Internet. Yet technology enables us to be connected in ways never before possible. I Skype with clients in South Africa, Greece, and Asia, and I can instantly poll hundreds of other consultants for advice through my online professional network. Without boarding a plane or even changing out of my pajama bottoms, I can strengthen my social network virtually any time I have a few minutes.

Humans yearn to be connected and to gain energy, knowledge, and comfort from others. The communities that are most meaningful and impactful may not be the same as those in the past—neighborhood mothers, religious organizations, and professional associations—but people are still finding ways to stay connected. We're not limited today by physical proximity in our associations.

Facebook, for all the complaints about people posting their mundane breakfasts and breakups, has been instrumental in bringing together families, reconnecting old friends, and even saving lives. In the summer of 2014, the ALS Ice Bucket Challenge, a fundraising campaign to raise money by having individuals challenge their friends to dump a bucket of ice water on their heads or pay \$100 to the ALS Foundation, was the hit of the summer, clogging our Instagram feeds and quadrupling the donations from the prior year.

Through membership, members can be perceived as important, connected, or successful. In short, membership makes us feel good.

3 | The impact can be seen across a wide range of industries and companies.

Examples of how the Membership Economy is transforming industries and companies are limitless. A hair salon in California sells subscription haircuts and encourages socializing at the salon. Organizations like news sites DIGG, Reddit, and News360 are transforming how consumers receive, evaluate, and prioritize news content. YouTube lets us all be stars for professional advancement and personal satisfaction. Photo sharing sites like Flickr, Pinterest, and Snapfish allow photo enthusiasts to connect with one another, and the Association of Personal Photo Organizers (APPO) trains and connects the professionals who assist photo enthusiasts with their images.

Once you start thinking about how the principles of membership can be incorporated into existing business models, you start to see opportunities everywhere. The implication is clear: this model is likely relevant to you.

“The communities that are most meaningful and impactful may not be the same as those in the past ... but people are still finding ways to stay connected.”

4 | Eventually, this trend becomes part of the new normal.

Business schools now teach subscription marketing, and nearly every major company has a team dedicated to building community and belonging around even the most mundane products. Organizations are investing in ongoing relationship-building and customer success, going well beyond traditional tech support cost centers of the past.

The Membership Economy brings together business and psychology because the membership economy gets its energy from deep human needs. We have ongoing needs that are outlined in Abraham Maslow's hierarchy, which lists five human needs from the most basic physiological and safety requirements, to belongingness and love, esteem, self-actualization, and self-transcendence.

The Membership Economy helps people satisfy those needs—on an ongoing basis—since most membership businesses leverage some kind of ongoing subscription. However, there is a difference between a membership and a subscription organization.

The Difference Between Membership and Sharing

Because of my expertise in the Membership Economy, I am often asked to comment on other “new economies.” One of those, the sharing economy, is closely related to the Membership Economy.

The sharing economy is a model based on sharing (or renting) assets not currently being used—a car, a spare bedroom, a vacation home. While there is a lot of interest in the sharing economy right now, the idea itself is not new. “Sharing economy” is a relatively new term and is very trendy. But you can point to older instances—vacation rentals by owner (VRBO), for example. They’re based on the principle that there is stored value in expensive assets and by making them available to others when we don’t use them, we can unlock that value. It’s a sustainable economic system built around peer-to-peer sharing of underutilized assets. Examples include Airbnb, RelayRides, and Napster.

Many of the most successful sharing economy businesses depend on the Membership Economy. A feeling of membership infrastructure is needed so that people can extend trust beyond the people in their physical communities. In my view the sharing economy is a subset of the Membership Economy.

When people talk about the sharing economy, they’re talking about people sharing stuff that belongs to other individuals and not to an organization. For example consider RelayRides.

You might come to San Francisco where I live and need to rent a car. Meanwhile, my car is just sitting in the driveway most of the time because I can walk to work. You can rent my car for less than the cost of a traditional rental.

In contrast, Netflix has a membership business where consumers share access to a wide selection of content, but the content belongs to the company and not the individuals. It's not me sharing with you—it's Netflix providing access to its content to all of us.

Changes in technology have enabled sharing to take off. What enables a large-scale sharing business is trust. The Internet makes it possible to build trusted systems. Always-on mobile devices that enable us to connect at any time make it more efficient to share. Ten years ago if you and I had wanted to share a car and didn't know each other, it would have been hard to impossible to broker that situation. But with today's technology—big data evaluating in real time your trustworthiness and mine as well as locating my car—it is relatively easy to identify my unused asset and your unmet need.

Sharing makes the most sense in areas where the assets are expensive, varied, and underutilized. Vacation homes, cars, collections of content, and special-occasion clothing are all assets that are generally underutilized and are, not surprisingly, some of the early successes of the sharing economy.

Remember

The Membership Economy has come about and is growing because of massive social trends and developing technology. The computer and the Internet are changing human lives in ways as profound as the mass production of the automobile, which changed everything from the way we courted to the way we shopped. In the midst of this change, however, **human needs remain constant, and organizations that respond to those needs best will be the winners.** 📌

Info



BUY THE BOOK | Get more details or buy a copy of [The Membership Economy](#).

ABOUT THE AUTHOR | Robbie Kellman Baxter is a consultant and speaker who has been providing strategic business advice to Silicon Valley companies for over 20 years. She is the founder of the consulting firm Peninsula Strategies LLC, and regularly presents to professional associations, leading universities, and corporations.

→ **SEND THIS** | [Pass along a copy](#) of this manifesto to others.

→ **SUBSCRIBE** | [Sign up for e-news](#) to learn when our latest manifestos are available.

This document was created on April 15, 2015 and is based on the best information available at that time.

The copyright of this work belongs to the author, who is solely responsible for the content. This work is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs License. To view a copy of this license, visit [Creative Commons](#) or send a letter to Creative Commons, 559 Nathan Abbott Way, Stanford, California 94305, USA.

Cover image from [Veer](#). You are given the unlimited right to print this manifesto and to distribute it electronically (via email, your website, or any other means). You can print out pages and put them in your favorite coffee shop's windows or your doctor's waiting room. You can transcribe the author's words onto the sidewalk, or you can hand out copies to everyone you meet. You may not alter this manifesto in any way, though, and you may not charge for it.

About ChangeThis

[ChangeThis](#) is a vehicle, not a publisher. We make it easy for big ideas to spread. While the authors we work with are responsible for their own work, they don't necessarily agree with everything available in ChangeThis format. But you knew that already.

800ceoread

ChangeThis is supported by the love and tender care of 800-CEO-READ. Visit us at [800-CEO-READ](#) or at our daily [blog](#).