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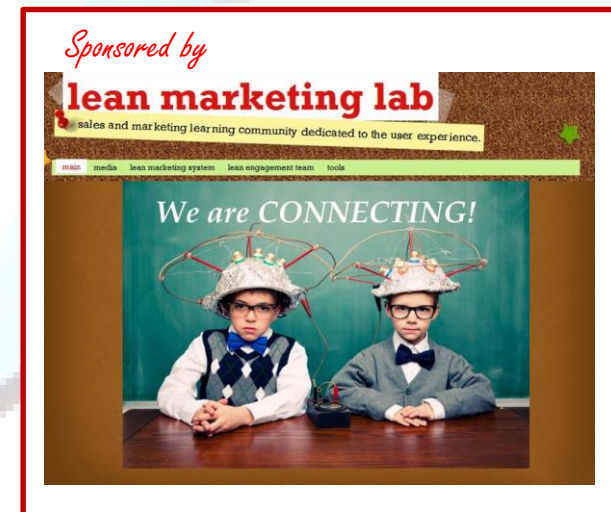
Podcast Transcription
Implementing Lean Marketing Systems



Extending Your Platform to Membership

Guest was Robbie Kellman Baxter

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Note: This is a transcription of an interview. It has not gone through a professional editing process and may contain grammatical errors or incorrect formatting.

Transcription of Interview

Joe Dager: *Welcome everyone. This is Joe Dager, the host of the Business901 Podcast. With me today is Robbie Kellman Baxter. She has over 20 years of experience in advising fast growth companies in Silicon Valley from Netflix, Oracle and Yahoo to dozens of successful ventured-backed startups of the past decade. She has the vantage point of watching the Membership Economy grow from the inside and is perfectly positioned to understand what this trend will lead. She is the founder of Peninsula Strategy, a full-service strategic marketing consulting firm and author of the popular book, The Membership Economy. Robbie, I'd like to welcome you, and somewhere I read that you coined that actual term. Is that so?*

Robbie Baxter: *It is. I coined it to document what I was seeing everywhere I looked. It just seemed so big that it needed a name.*

Joe: *Well can you give me the broad stroke of how to define The Membership Economy?*

Robbie: *The Membership Economy is a massive transformation that is changing virtually every industry. It's about a move from a focus on ownership to a focus on access and moving*

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Implementing Lean Marketing Systems



from a transactional anonymous relationship to a known personal relationship. And finally, it's about having a real conversation as opposed to a one way pushing of content by the organization to their customers. It's about not just two-way communication between organization and customer but actually among the customers or members themselves under the auspices of the organization.

Joe: *One of my thoughts that came out of it is, is this may be the first step in finally becoming customer-centric instead of just talking about it?*

Robbie: Yeah. Right on. I agree with you totally. I mean it's really about and that's the hardest thing when I work with companies, that's one of the very hardest things for them is they want to be customer-centric but when you remind them that that means that they're no longer product-centric, which means that when you have a hard choice to make, you have to do what's right for the customer instead of what's right for your products. It's really hard.

Joe: *Let's say I'm a product type company, can I become this more service orientated type and participate in the membership economy?*

Robbie: Well, I would say it's possible, but it's hard because membership is about a mindset, so it's not like a subscription. A subscription is just a pricing model, right? So you

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can say, okay we're going to have a subscription model now, and that's hard too but having a membership model is really about changing the culture of the organization and that's easy to say and really hard to do. Because like I said, you end up with hard questions and hard choices where you say, hey we invested all this money in a product but it's not really what our customers need. What do we do? The answer should always be you go with what the customer needs as being more important than what your product team needs.

Joe: *You could say we're shifting from a world where we sold the product and then kind of sort of hung on for dear life until the warranty period ended, right? That thought pattern should be disappearing because somehow if I want to be customer-centric, I have to move towards at least that model, right?*

Robbie: It used to be too hard. It used to be virtually impossible to be truly customer-centric for a couple of reasons. One is most of the products were physical products that took a long time to build and sell, so you had to be sure that this was the right thing and then you were kind of stuck with it. Like you can't easily and quickly iterate on a car design for example. With technology, there's a lot more flexibility and the ability to evolve the offerings over time, and the other thing is the relationship with the customer in most industries was not a direct one. It was disintermediated, right? On the consumer side, you have stores, like retailers who kind of keep you at arm's length. You weren't able to have that direct, on-going communication where you were getting that feedback, so it was hard to even know with any

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confidence what it was that your customers needed.

Joe: *You bring up a good point there because if I have a distributor or something in the middle, between myself and the user, can I still have maybe a two-fold membership economy or a separate membership economy for each? And maybe economy isn't the right word; maybe I'm just thinking of a membership program or something, but I guess maybe I need you to define that a little more for me, is the economy as a sense of my whole structure and the way I do business, right?*

Robbie: Yeah, I think it's about the way you do business. I think it's your whole economy. But you ask a really good question about when you have a layered organization, so B to B, distributor based, through a retailer – any of those models where there's somebody between you and the end user, there's an opportunity to build a relationship, skipping over the intermediary, so going right to the user, the customer, the consumer which is possible now through the internet.

If you think of like all these brand companies, they're able now to talk directly to their consumers and build relationships even if they continue to sell through distributors. We're also seeing the membership models being built around the distributor. You see that especially in marketplaces. If you think about for example eBay, eBay has people like me who buy stuff on eBay. I'm an eBay consumer or end user, but there's also merchants who use eBay as

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their distribution and transaction platform for developing new relationships with new customers. Those people have actually a very strong community where they share best practices and ideas about how to get more out of eBay and also questions that go beyond their relationship with eBay that just draw on the shared experiences that they have, that they can help each other with.

Joe: *When I think of the platform play, you know the Amazon, do I have to have that kind of a platform to really have and participate in the membership economy?*

Robbie: No, you don't. What I say is membership is about a formal on-going relationship with your customers or members. So if you have a formal on-going relationship where they give you something, it can even be as simple as an email address and they are expecting an on-going promise to be upheld by you; you're going to provide them value in exchange for something forever or for the foreseeable time until they cancel, you have a membership orientation. And so you don't need fancy technology for that. You can have a membership in your church. Your church can be totally offline and people are members, right? You can have it at the gym where the expectation is, I keep coming, I pay on a regular basis, I get something from you. In some cases, there's a big element of community. In other cases like a magazine, there's no community at all. You just have a promise that you're going to get news or entertainment or information on something that's important to you on a regular basis in exchange for paying on a regular basis.

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Joe: *Is there certain industries that will never be part of this model? I mean is there an obvious distinction between someone that is kind of ruled out?*

Robbie: When I first started, I actually thought that it only applied to Silicon Valley tech companies and my whole book was going to be built around that. And then I realized, oh my gosh, this is huge. This is affecting very small businesses, thought leaders like you who are sharing ideas and expertise, it was affecting traditional businesses, retailers, hospitality. I was amazed. And then I thought, well maybe it affects everybody? Maybe every single industry is affected. And what I found is that there's a few that aren't affected, and they're usually the ones that don't do a lot of marketing. So if you're in a business that is highly regulated and you have a regulatory advantage and that's why you make money, or you have a locational advantage, like you're an oil driller for example, and you're selling oil as a commodity, and your big advantage is the locations you've got. Or I gave a speech recently, and there was a guy who said, "I have a fleet of fishing boats, and we sell our fish at market prices each day. How does the membership economy work for me?" I was stumped. You know I think that the places where it doesn't apply are places where marketing is not a factor; where your relationship with your market is not important, either because you're a commodity or because you have a single customer or because you're working with the government and you've got a long-term contract and don't need new customers. Those are really the only cases where membership doesn't matter.

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Joe: *What are some of the pitfalls when I start moving into this model? Is there some obvious that jumps out that you better have this type of person or this type of thought process when you move forward?*

Robbie: Oh, there's lots of things. The first thing is, you have to have a clear promise for your members and that promise or mission needs to be like a guiding north star that doesn't change for you. Here's an example. You've got libraries. Libraries have the same mission as Google, which is to provide the world's information for free to people. Libraries were sort of caught up in this whole books and buildings model. You know you go to the library, and you check out books, as opposed to thinking that's the most efficient way to give people the content of the world? So they kind of missed the boat because they were more focused on their products than they were on their mission, and that's why they allowed themselves to be disrupted. So that's probably the most important thing I think for an organization to focus on is what is your mission, and you better make sure it's not your product.

Joe: *I go to that service dominant logic that value is co-created in the use of the product and service, okay? And that seems to fit right into what you're talking about as far as a membership economy or even the jobs to be done where you're looking at what job the customer needs done from a marketing perspective and that seems to me to be just like putting a hand in a glove, that they're practically one and the same, that they're very akin*

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to each other.

Robbie: Yeah. I mean, here's the thing. You're asking very sophisticated questions, so I'm going to give you the advanced placement answer which is you want to be focused on your customers. Just like you described, once you have a really tight relationship with a customer, and you have this mission, it's a really symbiotic relationship because you keep learning what they need, and you can keep evolving your offering to suit them. But here's the caveat, you don't want to focus too much on customers that are no longer representative of the direction that you need to go to continue to achieve the mission for new customers.

What often happens, I'm getting a little older here, so I can say this, but as people get older, and they've been with you a long time, they have the loudest voices. They're the closest to the company. They're the most likely to be heard because they've been around a long time, and they're pretty comfortable and they know the players, but they're not necessarily representatives. These are the people that tell organizations, "We don't want your magazine to be digitized because we don't believe that the experience is as good online. We want it in print. We want to be able to send our stuff to you by fax..." Professional association communities, I do a lot of work with professional associations and these are those very active volunteers who are often on the board who have a short time left in their career so they're very focused on end of career kinds of services and what happens is the offerings that are created are not relevant for people joining the industry, and so they don't join. The reason

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that the products don't match their needs is because they don't have a voice with the organization because they haven't achieved seniority yet.

Joe: *I think that's a brilliant statement Robbie because you know I just pulled like four or five different people scenarios that I was thinking about right into that mix. Because even when we just go on to the large scheme of things, and we look at government, I mean the people that are over 60 are the people that vote.*

Robbie: That's our own fault; that's the young people's fault. Vote, guys. The people that show up are the people that get their voices heard. But I think with companies and professional associations, there's also a bias on the part of the organizations themselves; that they listen to the customers they know the best instead of looking for customers that are truly representative of the direction they want to go.

Joe: *Yes, yes. I agree because I just received a review the other day on a presentation I did, and they said -- you know, I've been doing this for 25 years and I said, this is not going to be good.*

Robbie: Yeah, well people don't like change and it's really hard because you know, I talk in the book about super users and this idea that they're the people that know your services and products best, and they're close to you, and they're willing to share their time and their

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expertise, and give you feedback, and help bring in new members, and they're so great, but if they're not representative of the direction you want to go, you can end up going in the wrong direction because they are loud and insistent, and powerful.

Joe: *You're saying before I start this process, I really need to know who I want my customer to become.*

Robbie: Absolutely.

Joe: *I just don't give this to the VP over here that's been 20 years. How do I create this within my organization? I know there's going to be a cultural shift, but how do you start?*

Robbie: I think you're right. You don't just give it to one person and say you're in charge unless that one person is at the very top, and that person becomes the voice of membership. And then, it's the attitude. I interviewed several people at LinkedIn for the book, including one of the founders, Allen Blue who is sort of their champion for membership and one of the things that they talk about is when they have meetings, they always feel like -- they say the member is always in the room with us. What would the member say if we made this decision? Is this in the best interest of our members? And you have to build that kind of culture into the organization, which is why your earlier question about 'is change possible' is such a good one. Because while it's possible -- I talked to a venture firm, a venture investor firm recently

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and they have a couple of companies that are trying to move to a membership model and as I was talking to these investors, one of them said, oh my gosh, we have the wrong team.

This group of senior leadership is not going to be able to make this transition. It's going to be too different in the way that they're very transactional, they're not interested in getting to know people, they're not interested in the messiness of having on-going relationships.

It's almost like the difference -- I don't actually know your personal life or anything and I hope I'm not offending anyone but it's the difference between a guy who has been in a committed relationship for 25 years and says, it's messy and it there are bad days, and there are days when I'm frustrated, but I'm in..." that's a relationship. And there are people who are like, "I just like to date because it's really fun to go on dates, and there is no stress, there is no muss and fuss..." Moving from transactional which is like dating and dating lots of people to really being in a relationship with somebody which is what membership is about, requires a totally different attitude and there are some parts about it that are hard.

Joe: *Membership is much deeper than this loyalty program out here.*

Robbie: I think loyalty programs are like the gateway for membership, but I think that a lot of the organizations that have developed loyalty programs aren't thinking big picture about really building loyalty. All they're thinking about is electric fences that keep people in

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by offering discounts. I mean effectively, most loyalty programs are discounts for volume or frequency of purchase. They're not really about loyalty at all. In fact, you might hate United Airlines but you continue to fly in it, not because you feel loyalty but because you get effectively a discount on your upgrades if you fly consistently on one airline.

Joe: *Should I have an acquisition plan, an acquisition -- I hate to use the word funnel, but an acquisition plan to create memberships at the very start of engaging with a customer or a prospect?*

Robbie: Yeah, I mean I think so. I always encourage organizations, not just membership models but any organization, before you start investing in acquisition, make sure that once you acquire a customer, they're going to stay and they're going to behave in the way that you need them to which is they're going to engage with your offering, they're going to get good value, they're going to be able to pay you, they're going to say good things about you or not say anything; because if you're not retaining the right kind of people, if you're not bringing in the right kind of customers, then you're wasting your money. And it's much cheaper to fix retention than it is to increase acquisition.

Joe: *We as much want to create this model of membership not ignoring the transactional value of it but the transaction becomes part of the membership and maybe not everybody needs have to be all exclusive because the membership economy is over and above just*

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transactional action. The transaction should be just part of the whole membership thing. It shouldn't be -- let's say membership should be after the transaction.

Robbie: Right, exactly. And so this brings us into the whole idea of a freemium model, which is the idea that you can have a free subscription or a page subscription, and they work in concert together. We talked about LinkedIn; they use a freemium model. 95% of LinkedIn customers never pay a nickel, but that's okay because they're a membership. They get value for being members, and they're creating value for the LinkedIn ecosystem. So there are three ways that you build a freemium model that is valuable for the organization. One is if the freemium experience serves as a source for awareness or trial. So in other words, "Hey, what is this LinkedIn thing? I think I'll give it a try. I'll sign up. It's free. I'll see what it's got and maybe I'll upgrade if it's good..." So, that's reason number one.

Reason number two is a network defect; meaning that each new person that joins LinkedIn for free is increasing the value for the existing members and for the paid members. Because if you're a recruiter or sales person, you're paying for your LinkedIn subscription, it becomes more valuable the more people that are part of it. The third reason is if those free members, those freemium subscribers are actually serving as channels for acquisition. They call this a viral, right? The example, the first one to really talk about this was Hotmail, which was the free email accounts probably like 10 years ago where it said you will sign up for a Hotmail account to have private email that wasn't related to your company. At the bottom of every

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email it said, "Would like your own private email address for your personal contacts? If so, click here for a free subscription." And so the person who sent me an email had nothing to do with the fact that there was a little attachment at the bottom that invited me to join, so that person that sent me the email is actually a channel for marketing to new people. So those are the three reasons when freemium really makes sense.

Joe: *As a small company, can I really do something like this? I mean because it sounds great for the big guys, for the eBays and the LinkedIn but as a small company, can this be effective and can it be affordable?*

Robbie: Absolutely. In the book, and I work with a lot of small businesses, both bricks and mortar, so retailers and hospitality companies that are single locations or small businesses that sell a single product, and also thought leaders. So individuals that are selling their expertise in the form of video, and blogs, and podcasts like this one. You can build your model around membership, and it actually allows you to get predictable recurring revenue.

It allows you to have a natural and organic way to bring new people into the fold through your freemium model. It allows you to have the cash flow that makes it easier for you to invest in the future, and there're lots of ways to do it. I mean a store can do it with something as simple as a punch card or a monthly fee for access, as you think of a gym, and a thought leader can do the same thing. There're nail salons that use a membership model; there're

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restaurants that use a membership model. My local bookstore has a membership model. So it's definitely possible for even the smallest of businesses.

Joe: *How does technology play a role, not so much in subscription models and things that you just talked about there and joining the freemium model, but is there an App that I can press and create a membership model with?*

Robbie: I wish. I wish it was that easy. I mean this kind of the Wild West right now in terms of technology that supports membership. There are plug-ins on WordPress that allow you to charge an automated, automatic monthly fee for the access to content. There is the equivalent of digital punch cards. In fact I think one of the companies is called Punchcard, where you can have an App on your phone that allows you to check in at a retailer every time you go and get credit and earn prices. There are things like Vimeo, which is a video service where they can password protect and charge for different things. So there's a lot of technology out there, but it's not quite easy to just say I want the membership technology package. You still have to kind of put these things together. It depends on the size of your organization. It depends on all of the sophistication and what you want to be. It's all out there, but it's not all fully integrated into an easy package.

Joe: *Of course the first step to learn more is to read your book, but how would someone get started? Tell me a little bit about the book. Does it outline and give me a certain model*

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to follow or at least raise some questions for me to answer to get started?

Robbie: Yeah, I mean I think that was the goal of the book. So the book is divided into four parts. The first part talks about what the membership economy is, why it matters, why it's happening. It's kind of big, global. The second section has seven chapters that each dig into a specific tactic that an organization can apply to be successful in a membership economy. So it goes into great detail on things like what should your organizational structure be, what should your pricing model be, how do you incorporate free stuff into your overall model, how do you onboard customers in the first 30 days, what are the risks of a membership model.

The last two sections of the book are just full of examples. So I have a whole section that talks about different kinds of organizations that participate in a membership economy from non-profits to small business, to big traditional companies. I think I have six different categories. And then the last section talks about what I call the points of inflection. What is hard in the membership economy? What are those transition points? So it talks about things like going from an idea to a startup entity. What do you need to do if you're just thinking about a membership model? What do you need to do if you have a really strong community in the physical world and you want to bring it online? What do you do if you have a transactional model and you want to make it into a membership model? How do you do that? I really tried to make the book as practical as possible and to help people see what they can learn from other kinds of businesses while giving them very specific things that they can

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apply to their own kind of business.

Joe: *Tell me a little bit about your Website and you have some interesting resources on your Website to get someone to help them get started in the membership model, or the membership economy.*

Robbie: Absolutely. www.membershipecconomy.com has links to lots of content and information about the concepts that you and I have just been talking about. I'm pretty active on Twitter, robbiebax. So my name Robbie Baxter, but without the t-e-r at the end. My email address is at the back of the book. I'm very easy to reach and really happy to talk to people about their challenges.

Joe: *Your Website is PeninsulaStrategies.com is that your consulting Website, correct?*

Robbie: Yes. I'm pretty accessible and really interested in hearing what people's experiences are like.

Joe: *I would like to thank you very much, Robbie. This podcast will be available on the Business901 iTunes store and the Business901 Website. Thanks, everyone!*

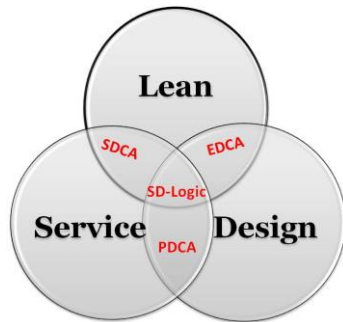
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Joe Dager is President of Business901, a firm specializing in bringing the continuous improvement process to the sales and marketing arena. He takes his process thinking of over thirty years in marketing within a wide variety of industries and applies it through Lean Marketing and Lean Service Design.

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