

"The Membership Economy is a critical read, and one that should be added to your business bookshelf this year."

—LEYLA SEKA, SVP & GM Desk.com at Salesforce.com



**THE
MEMBERSHIP
ECONOMY**

**Find Your Superusers,
Master the Forever
Transaction, and Build
Recurring Revenue**

ROBBIE KELLMAN BAXTER

FOREWORD BY ALLEN BLUE, COFOUNDER, LINKEDIN

Praise for *The Membership Economy*

“Having seen and experienced the challenges of building long-term sustainable relationships involving membership organizations, Robbie Kellman Baxter offers clear examples and straightforward advice how to achieve success in both the non-profit and corporate sectors.”

Howard L. Wollner, Chairman, NPR Foundation

“There’s a big difference between subscribers and members. From *The Times* to *The Sun* and now at the *Wall Street Journal*, we are committed to building our relationship with our customers around the principles of membership. Members are more engaged, more connected and more profitable. Read *The Membership Economy* to learn how to take your organisation from transactional to relational.”

Katie Vanneck-Smith, Chief Customer Officer and
Global Managing Director, Dow Jones

“As the leader of a major alumni relations office, I understand the importance of building long term relationships with our members. Robbie Kellman Baxter’s practical advice will drive immediate results. If your organization depends on having highly engaged members, you should read *The Membership Economy*.”

Raphe Beck, Director of Alumni Relations, Stanford
Graduate School of Business

“I’ve run a successful membership business for a while now. So I’d like to tell you to move along and not read this book... because why is Robbie Kellman Baxter giving away all our hard-won secrets...? But I won’t tell you that. Because *The Membership Economy* is great perspective on an important topic.”

Ann Handley, Chief Content Officer of MarketingProfs,
and author of the WSJ bestseller, *Everybody Writes*

“Robbie’s book is packed with innovative ideas for pricing, acquisition and engagement of customer. I highly recommend this book for any CEO who seeks to disrupt their industry by putting their customers at the center of everything they do.”

Heidi Roizen, Operating Partner, Draper, Fisher, Jurvetson

“From Netflix to Spotify, over the past few years, subscription models have become a powerful and profitable business model in the digital economy. Robbie has written a unique, well-researched and very smart book for anyone interested in building one.”

David Kirchoff, former CEO, Weight Watchers
International and WeightWatchers.com

“At American Express, we’ve always been committed to putting our members at the center of everything we do. Robbie Baxter’s book provides practical techniques and insightful new examples to guide organizations in building powerful, ongoing relationships with their members.”

Josh Silverman, President, Consumer Products and Services, American Express

“*The Membership Economy* is an insightful, research based look at the strategies and tactics needed to develop, grow and maintain a membership-style program for customers. It is perhaps the best, most detailed source I’ve found on this subject to date, and it has very much changed the way I think about our own growing membership program. I can’t recommend it enough.”

Mark Kupferman, VP, Insights & Interactive Marketing, Six Flags Entertainment Corp.

“Some will read Robbie’s *The Membership Economy* as an entertaining collection of stories about some of the most innovative organizations out there, while, for others, it will serve as a practical guide. It’s a fun insider view that’s also pragmatic.”

Marc Bodnick, CEO, Quora

“*In The Membership Economy*, Baxter explains, illustrates, and advocates for this new way of doing business—you won’t want to miss it.”

Bob Baxley, Head of Product Design and Research, Pinterest

“Salesforce.com has always focused on open, transparent, ongoing relationships with members of our community, from customers to vendors to partners. As a result, we’ve been named for four consecutive years by Forbes. Companies that don’t build this kind of community will fall behind, but Robbie’s book can help any kind of organization leverage these principles and thrive. *The Membership Economy* is a critical read, and one that should be added to your business bookshelf this year.”

—LEYLA SEKA, SVP & GM Desk.com at Salesforce.com

THE MEMBERSHIP ECONOMY

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Transaction, and Build Recurring Revenue

ROBBIE KELLMAN BAXTER



New York Chicago San Francisco Athens London
Madrid Mexico City Milan New Delhi
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**SECTION I WHAT
YOU NEED TO
KNOW ABOUT
THE MEMBERSHIP
ECONOMY**

Before you invest any time in learning about the Membership Economy and how to apply its principles, you probably want to know what it is, why it's important, and how it can help you. If the transactional model is dying and the Membership Economy is replacing it, what does that mean?

This first section provides an overview of how the Membership Economy fits into the bigger picture, why it matters, and what it looks like.

Membership is a concept that is timeless, important, and powerful. It is part of our innate humanity to gravitate toward community. Once trade economies developed, we proved we were willing to pay a premium for connection, and the Membership Economy was born.

In Chapter 1 you will learn how the Membership Economy fits into the pattern common to most transformative business trends and how subscription—a model we've long been accustomed to—both resembles and differs from the Membership Economy model. Likewise the sharing economy is introduced and compared to the Membership Economy.

In Chapter 2 we delve deeper into the cultural transformation that is underway that is shifting us from an economy based on principles of ownership to one based on access. This swing explains the current interest in and success of Membership Economy business models.

In Chapter 3 we introduce you to six overarching categories of Membership Economy organizational models, categories that I use throughout the book to help you identify your place in the Membership Economy both as a consumer (member) and as a business leader responsible for your organization's strategy.

The three chapters in Section I will help you get the big picture and set the stage for the next sections, which get into specific strategies, tactics, and situations.

1

How the Membership Economy Fits into the Bigger Picture

We hear the stories. Cornered by a passionate friend, we are regaled with stories of a binge-watching House of Cards, or the virtues of the Paleo diet combined with Crossfit, or the new songs discovered by Pandora. A certain type of organization is winning the hearts and voices of their customers, and building the kind of loyalty that traditionally was 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 needs to belong, to be connected, and to be admired, that are focused on relationships over products, are winning in today's economy.

You probably picked up this book because you want to understand how these organizations are building such loyalty, and how many of them have built 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 book 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.

In *Bowling Alone: The Collapse and Revival of American Community*,¹ published in 2001, Robert Putnam shows how we have become increasingly disconnected from family, friends, neighbors, and our democratic structures—and how we may reconnect with them. Putnam draws on evidence including nearly 500,000 interviews conducted over a quarter of a century to demonstrate that we sign fewer petitions, belong to fewer organizations that hold meetings, know our neighbors less well, meet

Membership is timeless, important, and powerful.

with friends less frequently, and even socialize with our families less often than in the past. To use Putnam's bowling metaphor, more of us are bowling more than ever before, but we're not bowling in leagues. We're bowling alone.

The Membership Economy is a reaction to the social trend Putnam identified. The Membership Economy 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.

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.

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 had been linked to a dozen deaths.² 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.

We're not limited today by physical proximity in our associations.

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.³

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.

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.

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 considerable difference between a membership-based and a subscription-based 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.

Many of the most successful sharing economy businesses depend on 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. How to shape an enterprise that meets those needs is the subject of the chapters just ahead.

2

Why the Membership Economy Matters

Try this. Google “membership.” The majority of your results will be museums, churches, and other nonprofits. The term *membership* is owned by nonprofits and a few loyalty clubs—but that’s it. And that’s a shame, because, as I show, the Membership Economy contains many more organization types than nonprofits and loyalty programs. Indeed, when an organization is structured around the customer, with an ongoing and formal relationship between customer and organization, it becomes a membership company almost by default.

From Ownership to Access

In the past, much of our economy has operated on the principles of ownership. Companies sell things, and consumers *buy* them and *own* them. The idea of ownership is simple—if it’s mine, it’s mine. I can alter, destroy, sell, or save my stuff, and I can use it for as long as I’d like. However, it also means that I have the responsibilities that come with ownership.

Many of us own cars, and there are certainly benefits to ownership. If you want to paint flames on the side of your car or lift or lower the chassis or customize your plates, you have to own the car. But if your car breaks down or a fender-bender takes out a headlight, you need to fix it. If it becomes expensive to maintain, you need to decide whether to invest in a new model or live with, and be seen in, unreliable wheels.

Ownership and access are at two ends of a continuum, and right now the pendulum is swinging away from owning.

If you need to use the car only occasionally, don't have a garage, or want to always drive the latest model, ownership may not be your best choice. Other options exist if you want access to a car. You can rent one, lease one, or call a cab. But none of these options has truly taken advantage of the Membership Economy.

Today, technology has provided new models for drivers that were unavailable in the past. These include Zipcar, which provides members access to a fleet of company-owned cars for single-trip usage without requiring "by-the-day" rental; RelayRides, which allows members to rent the cars of other members when the cars are not in use; and Uber, a car service which allows anyone with a luxury car to become a driver for hire.

Ownership and access are at two ends of a continuum, and right now the pendulum is swinging away from owning. As individuals grow frustrated with the burdens of owning, caring for, and storing too much stuff, they are looking for ways to minimize that stress. They are also experiencing a need for meaningful connection and community. The Membership Economy provides a solution to both of these challenges: simultaneously minimizing the burdens of ownership while offering new ways to derive a sense of community.

Table 2.1 charts the key differences between ownership and the Membership Economy.

The key metrics in the ownership economy are conversion rate, transaction size, and economies of scale. In the Membership Economy they are retention and customer lifetime value.

	Ownership Economy	Membership Economy
Key Metrics	Conversion, transaction size, manufacturing economies of scale	Lifetime customer value/retention
Customer Value Path	Cross-sell	Tiers of value and add-ons
Personalization	Customization	Configuration
Sampling	Free sample or trial	Free trial and freemium
Key Organizational Objective	Control	Flexibility
Network Effect	Minimal	Critical
Pricing	Cost-based	Value-based
Product Innovation	The big reveal	Ongoing innovation
Relationship	Ends at transaction	Forever

Table 2.1 Key Differences Between the Ownership and the Membership Economy

From Privacy to Belonging

Some people want to be anonymous, but others are willing to give up some personal information in exchange for the recognition and benefits that come from belonging. There is an ongoing and probably endless debate over the complex concept of privacy. How much private data do you want to share? And with whom? How much should you have to share in exchange for the privileges of membership? One challenge many people face is the desire to access an organization's benefits while wanting to stay independent. Some want to be protected from Big Brother, while others want to avoid superfluous social interactions. Still others are unabashed joiners and simply want to connect.

Cary Rosenzweig and I are both joiners. Maybe that's why we've both been drawn to work in the Membership Economy. Rosenzweig was the CEO for five years at IMVU, one of the first and most successful virtual worlds. According to its website, IMVU is "an online social

entertainment destination where members use 3D avatars to meet new people, chat, create and play games with their friends.”¹ Members can create, sell, and buy virtual goods, using virtual currency they earn through play or buy with real money.

What’s fascinating about IMVU is that it’s a community that encourages anonymity while still providing the benefits of membership—connection, access, and more. “One of the things that surprised me most” says Rosenzweig, “is how real the relationships and the emotions are behind the avatars.”²

Many of the people who connected through IMVU behind the avatar facades developed genuine friendships and even met, and in at least one case married, in the real world. You see this desire to maintain privacy even while enjoying the benefits of community among younger people who use middle names as last names on social networks, or even use an alias altogether. Maybe this is for security, although most membership organizations report very few privacy violations or harassment cases. Maybe it’s to hide wild behavior from schools and employers. Or maybe it’s just a way to test the community before making themselves vulnerable.

A Membership Economy business model may be right for your business, even if it isn’t right for you personally. You might not be a joiner—and that’s okay. Nonjoiners might pay cash and forgo loyalty programs to maintain privacy about how they spend. They tend to stay away from Facebook, not just because they don’t want to post, but because they find their connections’ incessant sharing annoying. Membership is about connection and access over privacy and ownership—and not everyone values these the same way.

What makes a good marketer is an interest in what motivates target buyers, how they buy, and what earns their loyalty.

Even if you are not a joiner, hundreds—if not thousands—of organizations are using the ideas, strategies, and techniques this book describes. You may not have children, but as a marketer you can sell diapers and help other people see the value of this. I have advised

organizations selling high-performance bicycles, databases, and business process management software—products for which I was not the target buyer. Running a business does not mean that you become its target buyer.

What makes a good marketer is an interest in what motivates target buyers, how they buy, and what earns their loyalty. So even if membership is not for you, and you personally feel you are already too exposed, too public, and sharing too much, remember that for others membership is hugely important and worth paying a premium for.

The Membership Economy Matters to the Members

Members love membership models because they fulfill powerful human drives—like needs for affiliation and prestige.

You can certainly get all these benefits through ownership as well. Membership models, however, with their emphasis on ongoing relationships, access over ownership, and drip-payment plans that replace big price tags, are optimized to provide these benefits.

The benefits of ownership center around security, privacy, and control.

The pendulum swings back and forth between ownership and membership. Both models can exist simultaneously, although usually one or the other is typically in a more dominant role for any given industry. The benefits of ownership center around security, privacy, and control. Right now, however, ownership is dramatically losing favor, while connection is becoming critically important. Realtors will point out that key buyer segments today are less interested in big private estates and more interested in the quality of community and shared assets like pools, clubhouses, and proximity to local attractions. Music lovers are tossing their CD collections in exchange for access to digital music subscriptions, peer-influenced discovery, and sharing communities.

Over the past 20 years, many traditional membership models have become less central to people's lives. People are more transient, both personally and in their work, which drives loneliness and vulnerability. Technology enables important connections.

The Membership Economy matters to organizations of all sizes in dozens of industries for at least three major reasons:

- *It creates recurring revenue and removes lumpiness.* Most businesses have to deal with seasonality—some more than others. Having monthly subscription revenue can smooth out the peaks and valleys in annual sales.
- *It builds a more direct relationship* that strengthens the brand, by putting customers at the organization's center. An organization that has a strong, positive relationship with its members is able to use that loyalty to grow as members recommend the enterprise to others and to resist competitive threats.
- *It generates an ongoing data stream* that can be used to improve services and identify opportunities to increase satisfaction. The more the organization understands its customers' needs, wants, behaviors, and attitudes—that is, much more than their raw demographics—the better it can serve those needs.

Virtually any organization can become part of the Membership Economy. Membership strengthens loyalty. Membership strengthens participation. Membership strengthens referrals. And organizations that think about membership tend to focus more on providing long-term value, which ultimately leads to better customer lifetime value. Any CEO who is not thinking about membership is missing a huge opportunity to point his or her organization toward long-term, sustainable profitability.

Remember

There are benefits to ownership, but today's consumers are increasingly interested in access over ownership. Access minimizes the stress of caring

for and storing all our stuff, while offering us new ways to feel part of a community.

To be part of the Membership Economy, people need to face the fact that privacy of personal information may well need to be given up in exchange for the benefits of membership.

The membership model fills powerful human drives—one of the reasons it is growing in popularity among many kinds of businesses. Virtually any organization can become part of the Membership Economy.



ABOUT THE AUTHOR

Robbie Kellman Baxter is the founder of Peninsula Strategies LLC, a consulting firm based in Menlo Park, CA, that helps companies excel in the Membership Economy. Her clients have included large organizations like Netflix, SurveyMonkey, and Yahoo!, as well as smaller venture-backed start-ups. Over the course of her career, Robbie has worked in or consulted with clients in more than 20 industries.

Before starting Peninsula Strategies in 2001, Robbie served as a New York City Urban Fellow, a consultant at Booz Allen & Hamilton, and a Silicon Valley product marketer. As a public speaker, Robbie has presented to thousands of people in corporations, associations, and universities.

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