SUBSCRIPTION ENTREPRENEUR

HOSTED BY ERIC TURNNESSEN, FOUNDER OF membermouse™

Ep 119: The Essential Guide to Pricing for Membership Sites with Robbie Kellman Baxter

"The first thing that you want to do is, as I said before, be sure that you have something that really has significant value and try to quantify it. What would it be worth if I guaranteed that for the rest in your life you'd stay happily married? What would it be worth if I taught you a set of skills on an ongoing basis that allowed you to outperform your peers in your work? It's very easy to look at the value you're creating for your members and take a very small fraction of what you're creating as a fair compensation."

INTRO:

You're listening to Robbie Baxter, our very special guest on today's episode of the Subscription Entrepreneur Podcast.

If you're not already familiar with Robbie, she is the best-selling author of The Membership Economy, a world-renowned keynote speaker, and an advisor to some of the world's leading subscription-based companies. Robbie founded her company Peninsula Strategies in 2001 and has consulted for a few companies you may have heard of: Netflix, SurveyMonkey, and eBay, to name a few.

Robbie joins us on the podcast today to discuss a topic that is crucial to the success of all membership and subscription businesses: Pricing. We start with the 30,000 foot view of pricing for membership sites and then drill down into some of the most pressing concerns for all entrepreneurs. We look at the essential areas surrounding the topic of pricing, such as:

- How to set the price of your membership
- Assigning a dollar amount to content and information products
- When to use a "freemium model" vs. a free trial
- How to test your prices
- The psychology of pricing
- And so much more

If you've ever felt unsure of the pricing strategy for your membership site, I highly recommend you listen to this episode. Robbie shares enlightening insights, tips, and stories from her nearly 20-year career working with membership and subscription businesses. If you've ever asked yourself, "Should I have both annual or monthly pricing options" or "Does an open or closed membership model work best?", then this episode is for you!

As always, I'm your host, Eric Turnnessen. And this, is episode 119 of the Subscription Entrepreneur Podcast.

Eric: Hi Robbie, welcome to the show.

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

Eric: I'm really excited to talk to you because you're Robbie Kellman Baxter. You wrote the book Membership Economy. You've played a very major part in the space that I've been working in her about 10 years now. I've really enjoyed the Membership Economy. I really appreciate your writing style. It seems like I'm having a conversation with you which is nice. I think one of the one of the things that really stuck out to me when I was reading it is you said two of your passions our business and psychology. I wondered what the backstory was there.

Robbie: I guess I would say that I've always been interested in business from the time I was pretty little. I was always interested and gravitated toward what things cost and how things worked. How they could work better and how companies could talk about things better and make people want to join. Some kids like bugs or soccer. I used to do carnivals and babysitting clubs and catering companies. I loved how business worked. The psychology part is I'm interested in how people think and how they make decisions and what makes people do the things they do - how to motivate people. Then my sister, with whom I'm really close is a psychologist and I've spent lots of time talking to her both about her practice and what she believes and what she's learned, and also psychology as a business. Why people come to psychologists and the different ways of psychologist can treat you, understanding how you make decisions and how you feel about the decisions you make. It's always been really interesting to me. Those are the two places where I think I would continue to study and be interested in even if they had nothing to do with my livelihood.

Eric: Yeah there is so much depth there. I think that I also as a child was interested in business and psychology. I don't remember this specifically, but I know my parents told me I did a lemonade stand when I was young. I had this very specific strategy for getting people to buy for me, which is I put the stand in the middle of the street. There must be a corollary in business to that type of strategy.

Robbie: Right, right. That's like putting a billboard in the middle of the street as a metaphor and making that into a literal.

Eric: Another thing I did was I would often walk down to the bank change coins into other coins, like pennies into nickels and nickels into dimes, package them up and do it again

Robbie: Have you ever seen the Saturday Night Live sketch of the Change Bank. Definitely look for it on YouTube. The whole thing is about "we make change." They have guests come in and say "I have 50 cents. They were both quarters. I needed dimes." Then they would should the teller and say, "Robbie came into the bank and she needed dimes. I had dimes. I helped her out. It feels great."

Eric: Sounds awesome and actually now that I think about it, that's a good lead to what we are going to be talking about which is pricing. Pricing is a single word, but there's so many questions. Why don't we start with a 30,000 ft view? Specifically, our audiences are interested in membership sites and you know a lot about membership sites. What are the initial things that people should be thinking about in terms of approaching their pricing for these types of businesses, as opposed to non-recurring revenue businesses?

Robbie: The first thing to think about is, number one, are you providing enough value that it's worth more than nothing. That's the biggest hurdle that it's worth more than free because there's so much out there that's available for free. You really have to start by saying "what do I have that's worth paying for?" The second thing to think about is, is my offering optimized for a subscription? For example, if I'm going to teach you how to tie a tie. It probably wouldn't justify a subscription no matter how much you want to tie a tie, once you learn it there's not much more that you can learn. You're probably not going to want to talk about it with other people and you're not going to have ongoing questions. You're not going to get expert status and yet I see all the time that people have one piece of information, one piece of content, something very narrow and they want to do a subscription. Then they're surprised when people cancel. In that case, the cancellation is completely justified because they've taken all the value out of your subscription that there is to take.

Eric: So, step one is to pick a foundation of a business type and an offering that will actually support people paying you month-to-month, or period to period. What type of businesses are those?

Robbie: Anything where the subscriber, or the member, has a what I would call a "forever challenge." Something that's going to go on for an extended period of time and where the organization, or the individual can provide a forever promise to justify a long-term relationship. It's almost easier to tell you what doesn't work with subscription. That's really anything where sales and marketing is irrelevant. That would be things like, I have a patent for a drug and you need that drug to survive and there's no other choice. I'm the last gas for a hundred miles and you can't go backwards. Anything where the customer has alternatives and where they have a long-term need probably can work with subscription.

Eric: Okay. Now assuming that we have a type of business that will support having recurring revenue, how do you even start to think about the value of that in an actual dollar amount?

Robbie: There's a few different ways that I can think of. I usually encourage people to triangulate. Although, there are some bold people who don't. Let me explain what I mean. The first thing that you want to do is, as I said before, be sure that you have something that really has significant value and try to quantify it. What would it be worth if I guaranteed that for the rest in your life you'd stay happily married? What would it be worth if I taught you a set of skills on an ongoing basis that allowed you to outperform your peers in your work? If you are a salesperson, what would it be worth if I taught you things that allowed you to sell 10% more? It's very easy to look at the value you're creating for your members and take a very small fraction of what you're creating as a fair compensation. In most cases there's not a perfect number. I encourage people to think about a range. In some cases, your business might be highly elastic, which means that the more you lower your price, the more customers you get. There are other times, and I think in a lot of membership models, once you get above $0.01 it's highly inelastic. In other words, it's a binary decision. Do I value this experience with this content, or do I not? If it's $10 a month, or $14 a month, or $22 a month, I don't really care because it's that valuable. So, the first thing is what's the value you've created and what's the range? The second thing is, is there any competition or anything that's going to peg me to a price? For example, if I come out with a new kind of carbonated soft drink. There are lots of other carbonated soft drinks. I might say, “this quenches your thirst in an amazing way,” but if I come out with it being $27 for a can, people are going to say, “but we're used to paying between $0.75 and let's say $5.” Sometimes you have a competitive landscape, which makes it really hard for you to break out. That's not to say that you can't. This is where I talked about risk and confidence. If you say, “well my carbonated drink actually helps you lose weight and it tastes delicious.” Yeah maybe I would pay $100 for that drink and I would drink one every day. It's useful to know those different things. The value that you're creating is the first. The second is what your competition, your environment, your ecosystem is doing. The third thing is, what's your cost? If I make that drink that makes it possible for people to lose weight without trying and it cost me $200 per can to make it, then $100, even though that's really expensive to the market, that's not good business for me. What's interesting to note, is that sometimes in the ‘life is not fair’ category, sometimes something that cost me a lot to create isn't valued by the market at that same rate. For example, Breaking News. If you said tomorrow you want to cover Breaking News in your area, it would cost you a lot to get journalists, to get cameras to be where the news is, to get hot tips and all of that, but most people are not willing to pay anything for Breaking News. For many news organizations it's a loss leader. They don't care if they don't make money on the Breaking News because they make money in a different way, you have to ask yourself, what is my cost? Even if you come up with the right price for the market, if it's not a good price for you, it's not worth doing.

Eric: It makes me think of my particular situation, running a software company. It's interesting for me to look at the costs involved in things. There's a lot of costs that go into building, maintaining and improving software. In terms of pricing, you look at people who are specifically just selling content. They are sitting in front of a camera. They're sharing their thoughts to particular audience or a community that's interested in that, but it it seems like information has an interesting perception in terms of price vs tangible things.

Robbie: Yeah, absolutely. Part of the reason is that there's so much content that's available. So much if it is available for free. The reason it's so much content is free is number one, it's less expensive to create and distribute content than it's ever been before. I can sit here at my desk and I can create video, I can create text, I can create audio file, I can upload them, I can post them in ways. I can advertise them and people can find them all over the world immediately. Everybody can be a content creator. On the other side, many organizations provide content as a as a loss leader, as a marketing tool. They're willing to give away content because it attracts people who will pay for other things, or they're willing to give away content because creating content gives them tremendous pleasure, or does something else for them. When you're competing against people who have different goals than you do, sometimes it's really hard to win your race.

Eric: I would say the majority of people who use our software are running content based businesses. They're selling access to some form of content whether it's courses, training material for health and fitness, stock trading, etc. Is there a way that you think about the value and the range of price for something like that? Am I coming up with that by looking and seeing again your second item, is there competition, how much are they charging? How would you approach that specifically for a content business? Where really, you're cost, number three, what's my cost is pretty much - there may be an upfront capital expenditure for equipment and stuff, but in terms of production that cost is pretty minimal.

Robbie: The cost is my time and it's also my opportunity cost. If I'm up finance person and I have a really clever way for people to make more money, to invest their money. I probably would have some other choices. I could probably go and work privately as a financial advisor and take a percentage of my clients - my clients' profits, or charge them hundreds of dollars per hour for my advice, or go work at an investment firm. I might say I don't want to do this because nobody's willing to join and pay me a very small amount, but I can go do this privately for ten times as much as I'm even asking here. There is an opportunity cost, which I think accrues to the to the entrepreneur. If I do this, I can't do something else with the same expertise. You gave a couple of examples. You talked about finance versus health and fitness. It's just two examples where both of those are very crowded spaces. Where lots of people think they're experts and lots of people are experts and consumers have a lot of choice for free content as well. Both in terms of loss leaders. So, you know Schwab, Fidelity, and Goldman Sachs - they all give away tons of information for free. What you would need to have as a financial advisor or financial coach is something that is different, that they can't get elsewhere. And probably something that is proven. If I were working with an entrepreneur in the financial services space I would say, "what is it that you have, that is different and better than what people can get for free? What is the expected return on their investment?" Then I would say, "how easy is it for you to prove that before they join, and how easy is it for you to prove that after they join?" You're always looking for credibility and relevance. What is the thing offer and how credible are you? If I offer financial advice and I can demonstrate that 95% of the people who pay me end up getting a return of double their money - 95% - I could charge whatever I want. On the other hand, if I say that I have no evidence, but I'm really charismatic, I'm probably going to have a harder time at justifying an investment. All of that is to say that finance is an easier place to get members because you're actually talking about something that has a financial, measurable payoff in contrast to let's say I was giving you advice on relationships. Same thing with health, if I can demonstrate that it's worked for people better than the other three options that they have. Again, if I can say that I can do a one-minute workout, which I know it's been really popular recently - and that one-minute workout is equivalent to an hour of running on the treadmill. I have evidence that it's true and I'm the only person who knows how to do it, people might pay me a lot for that information. If I'm supporting them emotionally, people might be willing to pay me a lot because it's going beyond just access to the routines or the workouts to actually be something that I can't get elsewhere, which is ongoing relationships, answers to my questions, somebody watching my form and so on. For the fitness people it depends what they're doing. If they're doing a live workout where they watch me throw a camera, I'm going to compare it to the cost of my live trainer - my human being that can't actually can adjust my arm. If I'm offering a support network, I'm going to compare it to my other support networks and so on.

Eric: I just had a recent experience where I was looking at DSLR cameras. The first place I went was YouTube and whatever I type it and there's always umpteen number of people doing videos on that subject. I ended up going with somebody who I personally resonated with. I watched a number of their videos and at some point, they mentioned that they are they were selling guides. I ended up buying that guide for a particular camera that I ended up going with. In that situation I was engaged in their free content for a period of time, building a relationship with that person and then once the trust was built, I ended up spending money with them. This is going into the freemium approach. Now what points at which, is it a good idea to do freemium and what times is it not a good idea to do freemium?

Robbie: Freemium is hamburger forever and free trial is a bite of delicious filet mignon because you don't believe me when I tell you it's the best thing you ever ate. That's the first thing that I think people think about is do people need to taste to see how good it is? Or, do they need to change their behavior, which freemium does really well. That's it that's about changing their habits and giving them a chance to see if this is going to be part of their new normal. Freemium works really well. I think there's three scenarios where freemium works really well. The first is if you're trying to change a behavior. If people are used to reading the news in print and you want to get them to use it digitally, and you think I'm not going to do that. I don't read enough online on any one publication to justify paying, well if the New York Times or the Wall Street Journal has a freemium model you hit a paywall after some number. You can read ten return articles a month for free and then you hit a paywall. After a while of hitting the paywall you think well I actually am looking at more than ten articles a month, maybe I should just go ahead and subscribe. That's to change behavior. The second reason it if there is a viral component which basically means that even though I may never pay you for my freemium - which is hamburger free forever - the less good quality, but forever. Maybe that's all I need, but in the course of doing business I'm reaching out to other people and letting them know about this product. This is like Hotmail, the email provider, where at the bottom of the email it said "if you want a free account, click here." Their customers, their freemium customers, were their marketing channel. If your customers are your marketing channel, like SurveyMonkey does that, LinkedIn is like that. Lots of sites where you bring in other people. The third one is when you as the freemium member are actually part of the value for the paying members. That works in a lot of communities. I always joke that it's kind of like ladies' night at bars. If you're not paying, you're probably the product. LinkedIn does that really beautifully. Most people don't pay anything to LinkedIn. That's okay because for those of us who are in sales, or are recruiters, or are looking for jobs, the fact that everybody in our professional community is accessible there, is really valuable. Those are the only three reasons: to change someone's behavior in an ongoing way, if your customers are actually acting as your marketing channels, or if the content created by your customers/members is part of the value. Those are the only time to use freemium. The only time to use free trial is if your prospective members are saying either “I don't understand what you're offering, or I don't believe it's as good as you say.” Either of those cases, a little tiny taste will answer their questions.

Eric: Where's the line on that? It seems like there there's a subjectivity there and maybe a confidence - you were saying earlier, confidence in the product. Maybe if you had a little bit more confidence you’d say “no they don't need a taste, it's good enough.” Maybe the psychology of it is a free trial may work against you, in certain circumstances.

Robbie: Yeah, absolutely. For a free trial, you wouldn't want to give somebody a free trial where you had high variable costs. For example, Blue Apron gave very, very generous free trials or, very discounted trials to meal kits. At one point they were making about $1 per customer after all their expenses. The average customer was staying for less than $0.06 and the lifetime customer value with less than $1. Even though it was like $45 a week or $90 a week, or some ridiculous thing. Then they actually got to a point where they were not making any money on their subscribers. My thought when I heard about these very generous - they were trying to change behavior. They were saying, “it doesn’t work to just get one free meal. You have to get a few so you can understand what it’s like to come home and have your meals ready to prep for you. That was a very, very risky strategy. They didn't know how long people would stay. Let's say that they knew that people who got a month's worth of free meals or week worth of free meals would stay for a year. They're lifetime customer value would be much higher and it would justify that generous offer, or if they knew that people who fit a very specific profile could justify getting that kind of generous free trial, but they didn't have evidence that the free trial would convert into valuable customers, valuable members. I think that was a mistake. This brings up this question of when it's too easy to get something for free, you never recognize the value.

Eric: The thought that brings to mind is we can make mistakes in pricing. Then we get some experience and we realize this is what we're hearing, this would be a better decision. How do we recognize if our pricing, or our offer isn't working, and then if we do recognize that how do we go about changing it?

Robbie: If your business isn't flowing as fast as you'd like, and you have a hypothesis that it might be that your pricing too high. It's worth understanding what is turning your customers away. If they say, “I can get the same thing for less over there.” Or, you can experiment and say, “would you buy it at a lower price?” If they say “yes” then maybe it is pricing, but in a lot of cases... I have this one client and they're not growing as fast as they think they should. They have streaming content and they know that a lot of people take advantage of the free trial and never join because they get as much as they need without paying. They know that they have some issues with streaming technology in that sometimes it doesn't work, so it's frustrating. They know that people that are subscribing are often subscribing for a very specific piece of content. Once they watch that piece of content, they don't need it anymore, or they don't want it anymore. If those are the reasons that people are cancelling, or not signing up, none of those justifies lowering the price. You really need to pinpoint why people are leaving, or why they're not signing up. Make sure that you have evidence that it's about your price. You can experiment in a very finite, limited way. Sometimes through just showing prospects your offer in print, or having an ad that runs for a very short time and saying, “would you be interested in this at this price?” Then giving them something to thank them for responding. If your pricing is too high. if your pricing is too low, which I think a lot of people worry about more. You also want to understand elasticity If we lower the price, do more people sign up, or do the same amount of people sign up for less money? If your pricing is too low - again I want to know why do you think your pricing is to low? If you say, “well we're growing so fast we'd like to raise the prices and see what happens.”

[laughing]

Robbie: You know, you might want to ask yourself the question of, is your original price something that people have pegged to the value? Most broad-based content is now between $10 and $15 a month. That seems to be where things are. You might say, “we are priced at $5 a month and we're blowing the doors off this, we should just go to $10 where everybody else is.” That might be worth trying, but the risk is if you raise prices, you need to have a commensurate message about why you're doing it. As you pointed out, having a relationship is really important. When you raise prices, you cause your customers to remember to take off their blinders and reconsider purchase.

Eric: You mentioned trying it. Are there ways to ‘try out’ new pricing without it being the announcement to all customers “hey were raising the price.” For example, you have your checkout page that people go to. It says a certain price, but maybe you do some offers behind the scenes and then test it out on certain segments and see how it goes.

Robbie: There is a few things. I have a colleague who all he does is pricing. He would say, “yeah you want to do a very, very, very quick sampling and be prepared to make your changes right away because word gets out really fast in an efficient market that you're experimenting with pricing.” What I would say is, number one, you want to know really specifically what your hypothesis is and test against that specific hypothesis. You don't want to say “let's raise prices and see what happens.” Rather, “we think people wouldn't even notice if we raise prices - new people.” You might just experiment with raising prices, but the one thing we're worried about is the people who are already here. We don't want to raise prices for them. So, then you would just raise prices for new people coming in and say that anybody that is with you, is grandfathered in on the old price. That's a pretty low risk strategy. If it doesn't work, you can always drop your price back to where it was. The thing that people are usually afraid of when they raise prices is they are going to realize we priced it too high and now we're losing people, or most people worry that the existing subscribers will be angry at the price increase. That's what happened with Netflix. Netflix raised their prices. They were not completely transparent about it. They said “great news! Instead of getting your three DVDs and streaming for $13.99, now you can either have three DVDs out at a time for $9.99, or you can get our streaming content for $7.99. Anyone can figure out that $9.99 and $7.99 is more than thirty $13.99.

People were really frustrated and they weren't grandfathering in people. Everybody was going to get the price increase. Those were two things I think they did wrong.

Eric: I think they actually just raised their pricing again. Their email was kind of comical. This is what it said: The cost of your standard plan has changed to $12.99. This change takes effect this date. You can view your updated membership details here. Keep watching what you want when you want, and know that we're working to improve the Netflix experience for everyone. Thanks for being a loyal member. I've seen pricing emails from companies that are like multiple paragraphs. This is kind of like the opposite, but there's a confidence to it. It's like, "hey we're bringing the value. Here's our decision. We're letting you know." That's kind of how it reads to me.

Robbie: Yeah. I was just going to say it's a bold choice, but it's also transparent. They're not positioning it in a way that feels inauthentic. It's pretty clear that they're saying "we're raising our prices and if you don't like it you can leave." That shows confidence in the value they are providing relative to competition. I think they're particularly able to do that now because they have so much unique content.

Eric: There's a momentum there. One of our customers had a specific question about pricing that I want to pass along to you. Have you seen a correlation between the price of membership and retention rates? For example, a membership with a lower price point may attract more sign-ups, but there may be a churn in month or two. Conversely, a higher price membership may attract fewer monthly sign ups, but the quality of the member it does attract may stick longer. Is there any correlation here?

Robbie: I have not seen much of correlation between price and retention rates. What I have seen is that the bigger issue is between people thinking that something is valuable and not valuable. They're less sensitive about the actual specific price, unless the pricing is significant outlier well above $5 to $15 that we see most of the time for content. If somebody promises "this is a very high price, but it's going to help you get a job." If the subscriber says "this isn't helping me get a job." They are likely to cancel. If they find out they're not using the content, they are likely to cancel. I haven't really seen a clear correlation between pricing and cancellation. I see a clear correlation between perception of value and cancelling and I see a clear correlation between usage and canceling. That's probably a better thing to track. Are people using it on a regular basis? If they are, they won't cancel.

Eric: A theme that I want to call out that seems to be recurring throughout this discussion about pricing is number one, make sure that you actually have a pricing issue before you start thinking about pricing. I think it could be a jerk reaction to be like "prices are too low, prices are too high." What I hear you saying is look at why people are doing what they're doing before you decide your course of action. It may be that what you need to do is develop your relationship with the customer, make sure that the value proposition is clear and that you're delivering value over time.

Robbie: Yeah, I think that's well said. I would add on the positive side, if you're providing a lot of value, you'll start your things from your customers/members like" I don't really remember how much I'm paying. It doesn't really matter because I'm getting so much value in return." For example, Adobe Creative Cloud, I think a lot of the designers that work with it don't even know how much it costs. It's like a utility for them. They use it so much and it's such a part of their 'business as usual' that they're pretty price insensitive. If it were increased by 5% or 10% or probably even 20%, I don't know that they would look up and consider canceling. On the other hand, hobbyists and weekend moonlighters, they find the pricing very high. They're looking at it in a different way, and they're more sensitive to the pricing.

Eric: Of course, of course I'm sure Adobe knew of those two different markets and they made the decision. "Who do we do we want to work with? Who are we more concerned about using our product? We're willing to sacrifice some of our moonlighters to really support the professional market" I personally, as a software company owner, I think the the recurring pricing is a great mechanism because it puts the incentive on the company side in the right place. It puts the incentive on retention and quality of product as opposed to attracting new business.

Robbie: An engagement is a great leading indicator for retention. If people aren't using your content or using your software on a regular basis in the best way, they're probably going to cancel. You can also start to see who's getting the most value in terms of usage. In this case of software, they're using the recency, frequency and depth. When is the last time they logged in? How often do they log in or use your product? Then how deep do they go? Do they use all your features? Do they look at all your content? Do they spend lots of time looking at different things? That's going to show you who's getting the most value. Or, that could be an indicator of who is getting the most value.

Eric: Got it. Now, I have some questions around the psychology of pricing. The image that's coming to mind is that scene in Clockwork Orange where he's got his eyes propped open and he's forced to watch this video. Our subject is in that position, right? What I want to hear is how are they going to react what we flash on the screen? The first one is the most basic - numbers. When we flash a number, what is the difference between $5, $10, $20, $50 to somebody looking at those numbers?

Robbie: It depends who your audience is and it depends what they've anchored it to. This is something that I have to keep being reminded of because you know I'd still often a sample set of one and I'll think well that seems ridiculous. Who in the world would that much money for basketball tickets? It turns out there's a whole world that thinks it's a great deal to see a basketball game for a $100. There probably are studies that say $5 this is how America feels about $5. I could lose a $20 bill today and not notice it and not have it change my life in one day. If you told me that that Diet Coke is $20 I wouldn't buy it. Even though I wouldn't even miss the $20 it feels like too much because I have that product pegged at a certain price. I have a value associated with that. People don't like to be taken advantage of. $5 in a vacuum looking at it on the screen. I don't know, but the minute you tack it onto something that people are familiar with, they try to anchor that.

Eric: That's when you get the reaction. But of course, there's the base reaction. Like, you may not care about $20, somebody may not care about $100, but somebody make care a lot about $1. There is that base psychological reaction, which is who is your audience, like you were saying. Where is their mind in terms of the level of the amount of money? Of course, you may be dealing with split audiences like with Adobe Suite. You maybe have the moonlighters, but then you also the professionals. Professionals are going to be like “well whatever $50 month for this is …” For the moonlighters are like “wow $10 a month, I don't know.”

Robbie: If I make a living from my subscription business, I'm not going to care much at all what the platform costs. If I’m not making any money from it, it's suddenly going to seem…

Eric: I actually have a lot of experience with that one. You'd be surprised. There are people who make plenty of money on their subscription businesses and still complain about $20 a month. It's it's pretty interesting. Then of course it comes down to individual psychology. You can't really make decisions in the aggregate based on that. The next one is annual versus monthly.

Robbie: So, annual is usually more profitable if people take it. It raises the bar for signups. Especially if they don't trust you, or they don't envision using it in the long-term. Back to our Netflix example, if you’re somebody who watches their original content, and it's the primary way that you entertain yourself, you might say “well I can't imagine a scenario where I'm going to cancel in a year and if I can save 20% or 30% by committing upfront - especially if they make me pay it in a contract way. I commit up front but I pay on a monthly basis. That might be a really good deal for me because I'm committed already. I'm mentally committed, but the other side is that it’s a much higher bar, so a lot of companies have looked at only offering an annual subscription. In many cases that's because they lose money on people who only use the products or services for a few months. They will say “we don’t care if we lose volume because they're not profitable anyway.” For organizations that are in between where you say “we're seeing our customers for staying for more than a year and we'd like to encourage that behavior so, we're going to give them that option.” Generally, they find their annual people are more profitable. That would be how I would think about it. The other place where I've seen annual work really well is where you have a product that has a season. You know that they're going to need it every season, but you also know that during the offseason … I worked at this European soccer league. They have rabid fans, but at the end of the season they would cancel their membership think, “I'll join up again whenever it starts again and in January.” But, then they would forget. They would join in March and they would lose those two months of revenue, or they would miss the whole season. Part of what we did is figure out how can we price annual. If you price annual at the cost of eight months and maybe throw in some things for the offseason -like old school games that they can watch or whatever - then they might say “well if I'm going to watch every month anyway, I might as well subscribe and that way I’m less likely to miss anything.” For the league, they weren't losing their biggest fans.

Eric: That makes a lot of sense. Number of tiers. I think probably the most common thing I see when I go to checkout pages is three offers. Your low, medium, high. Is there value in having multiple offers? Do you look weird if you only have one price, or is there value in that?

Robbie: When someone is starting out, I say to start with one. Then you have room to add the other two, once you've learned something. Back to our early conversation about not knowing what's going to work until you try it, when you try subscription and you start getting feedback that people are pushing on the edge of what you're offering - they either want more content, more access to you is the expert, more ways to save, or store, or use, or test themselves. You say, “I'm going to offer this and I'm going to offer it as a higher tier to the people that are pushing on the roof.” Or, if you see that people are lighter users, or they come out of a different use case - like amateurs versus professionals for example, or people just getting started versus people that are experienced - you might say “I'm going to offer something at a little bit of lower entry price that will get people into the habit.” I think three is the most that somebody can absorb on a website. As a potential prospective member, if I see more than three things I might be overwhelmed and I might not be able to process it and leave as a result. But, if you can segment well enough and you can present the offers to different groups. For example, if you have offerings for large enterprises and solopreneurs, you might have three offerings for the solopreneurs and three offerings for the large enterprises because they're not going to get confused look at the wrong thing.

Eric: That makes sense. Open vs. closed membership. Open memberships allow registrations all year round. Closed memberships shut its doors for certain intervals so they basically do more of a marketing push once a year, or something like that. Have you seen examples of these two models working not working?

Robbie: When you have a cohort of learners and you want them to go through the experience together because the value f the cohort is a key component of your offering, then having it as a closed membership is really important. I actually think that those are often the most valuable of memberships because the content is somewhat valuable, but having other people who are trying to achieve the same goal, or solve the same problem is priceless.

Eric: You really capitalize on that community aspect, which you do an amazing job of covering and in the Membership Economy.

Robbie: The trigger to get somebody to join is often the content, but the hook that makes people stay is often the community.

Eric: It kind of goes off the bearings of pricing, but what are the top community strategies that people can do within a membership community? Let's narrow it down to - you know we're dealing with MemberMouse customers. These people are typically running 5,000 to 20,000-member membership sites dealing with information products, video training, stuff like that. What approaches from the community perspective can they implement to help the retention?

Robbie: Starting a community is like growing a tree from an acorn. In the early months and years, it takes a lot of effort by the entrepreneur to get going and to make sure that it grows in the right direction. Lots of pruning, lots of amendments to the soil and all of that. A lot of companies think if you just open up the community feature it will just happen, but what I've seen happen is people don't join or engage. You have to populate it behind the scenes and encourage people to ask their questions. They call you to ask a question and you say "can you please post that for me, and I'll answer it that way." There's some of that backroom machinations. Second thing is that you need to set the tone and early on you need to be really rigorous in protecting the tone. What do you do if somebody trolls? What do you do if somebody is rude? Even if they share their name, if they're just harsh or unkind. What do you do if somebody starts to market themselves in the community as if this is a sales channel for them? What do you do somebody purports to be an expert and you as an owner of the community can see that they don't have that expertise? In other words, they're giving advice that is not credible. What do you do with that? There's a lot of things that make building the community hard in the early days and requires pretty heavy moderation. But, once it's flourishing it can almost operate on its own just like a tree where you don't need to water it anymore. I think having trusted moderators that help you to police or manage the community and also make sure that it's populated with interest questions, scenarios, and use cases is really, really important on an ongoing basis. It's also important when we talked about the difference between your beginners and your experts. If you're running a site with content, or software company frankly, you need to always be improving your offering so that the most recent person who comes in has the biggest, largest amount of value of anybody has joined. You want to keep growing by looking at where your most advanced people are pushing to make sure that they stay. You have to keep them interested because they're going to be the most valuable people in the community. You have to give them something that makes them stay. It could be in the form of new content or new features. It can also be in the form of giving them recognition and status within the community for their contributions and achievements. In the case of the software organization, people who been using the software for a while and have pushed on the limits, they often want to share their learnings and their experiences. In the world content there's going to be … if you have a fitness community there are some people who've lost the weight, or gained muscle mass who are going to want to tell everybody else how they did it. Giving the most credible of those people status and recognition within the community is going to keep them engaged long after they've gotten the bulk of their value in terms of achieving their goals.

Eric: I had a recent experience with a customer of ours doing something like that. It wasn't anything complex. They have a Facebook group as part of their community. They have something "wi-fives" where if somebody has a win, or something in their businesses, they are encouraged to post it in the group. Then the people who run this community, Andrew and Pete, they record themselves doing "wi-five," which is just a video of them giving them a high-five and then they post that. Super simple, but so powerful in terms of helping the community.

Robbie: It's great for recognition and appreciation. What's really interesting to note is that in that case, the wi-fives, they're not getting paid anything. There's no financial value to the recognition and that's not necessary in most cases. It's really about being seen for your contributions and feeling like there are people who support you and admire or appreciate you.

Eric: Exactly. As we are coming to a close here, I have a final question for you. You wrote Membership Economy, I think four or five years ago?

Robbie: I did.

Eric: You're currently working on a new book and it's called Forever Customer, correct?

Robbie: Forever Transaction.

Eric: Forever Transaction, ok. What would you say is maybe the major shift in perception as you're writing this book versus when you were writing the Membership Economy and how you're approaching it?

Robbie: When I wrote a Membership Economy I was convincing people that this trend existed, was real and was relevant for most business people. Whether you're in a small organization, or a large one, when it's been around a long time, or something that's entrepreneurial, for-profit and not-for-profit - if you care about building long term relationships with the people you serve, think about it using a member-mindset and you'll build better business models. That's what I was trying to say. Now, when I tell somebody what I do, or I tell them about my book, they don't argue with me anymore. They don't say "that's not a thing, that's not relevant to me." They say, "our company is doing that, thinking about that, trying to fix the mess that we made by trying to do." They're in there, they understand it. They're thinking about how do we do it. There are more specific questions, more sophisticated questions about how to do it. Large organizations that are trying to transform from transactional to relational … there are entrepreneurs who go beyond what we've been talking about which is media and software who are now thinking about subscription boxes. There are physical product that are now being sold on subscription, like Peloton Bicycles…

Eric: Clothing for men, like here is your clothing of the month.

Robbie: Exactly like Stitch Fix, Trunk Club, Le Tote which is like Netflix for clothing. You can keep as long as you want. When you return them, they send you five more items. There are so many models now that use physical product, so it's different. Also, it's a global phenomenon now. When I wrote the book, I was very US centric, but I get calls all the time - and I'm sure you do to - from companies in Asia, Latin America, Europe and Africa who are trying to apply these principles in their own markets. Lots has changed. People have gotten more sophisticated, but the problems I think are harder now.

Eric: Yeah and then to scale. It's one thing to deal with five people. It's another to deal with thousands of people in different countries and different currencies in different cultures. It's crazy how complex everything is to challenge. Or, it's an elegant puzzle.

Robbie: It's an opportunity. The idea that you could launch your membership business here on a Tuesday at midnight, your third customer might be reaching out from Nepal,

Eric: I know, right?

Robbie: Or, Zimbabwe. It's crazy. Membership is truly global.

Eric: I love the idea that the title of the book encompasses your two passions: transaction is business and forever is psychological, relational.

Robbie: Yeah, exactly.

Eric: When is this expected to be released?

Robbie: Its due to a publisher in July.

Eric: I love how you put it that way. It's due. This is what they set for me. Hopefully I make it.

Robbie: Right, right. You have no idea the anxiety that that day produces in me. It's due July 1st and it's scheduled for release on February of 2020.

Eric: Awesome. I wish you the very much best of luck with that and, minimal amount of stress as possible in getting to the objective. I very much appreciate you taking the time to the talk with me. Is there anything else that I missed out? Are there any other ways that our audience can learn more about you?

Robbie: I think the best thing is read the book. LinkedIn has tons and tons of articles that I've written, courses and all kinds of good stuff as well. I'm easy to find and also happy to connect up with people. If you have specific questions that come up later, please let me know and I'm glad to try to do my best to answer them for MemberMouse.

Eric: Read the book, but I'm actually listening to it. The audiobook is pretty good. The audiobook is on Audible. Again, thank you for coming on. Really appreciate it.

Robbie: Thanks for having me.

OUTRO:

I'd like to extend my sincere thanks and gratitude to Robbie for her willingness to share and engage so deeply on such an important topic. And many thanks to you for listening! I hope you enjoyed this episode and now have a new perspective on pricing for membership and subscription businesses.

To learn more about Robbie, you can visit her LinkedIn page where she has dozens of articles and trainings. You can find her at: @robbiekellmanbaxter. Or, you can visit her website at peninsulastrategies.com.

We also have links to all of these resources and more at subscriptionentrepreneur.com/119. There you'll also find the show notes for this episode, a complete transcript, and some additional resources from Robbie. If you've enjoyed this episode, please subscribe to the podcast on iTunes, Google Play, or Stitcher.

We'll see you next time!