



## 8 Critical Equations for Membership Recruitment and Retention

How much value will a new member bring? Who are our best members? What's our average length of membership? How does turnover impact our bottom line?

I remember when FastTrac® instructor, Debbie Hallof, told the entrepreneurs in our Chamber program, “Why should you use financial ratios? Because they are snapshots that tell stories about the decisions you made previously.” You could see the ‘insight’ light bulbs go on in these participants’ minds as they got past the perception that financials were boring details that couldn’t serve them in managing the business situation they had today. She helped them realize: If you understand your past performance, there’s a good chance you can influence future performance. And the same is true of managing membership retention.

Membership data linked to financial data is a very powerful tool, and it takes commitment from the top person in the organization down to commit to entering and integrating data for these “snapshots” to be available on a regular basis. But the challenges and strategies around that level of commitment is another article!

To answer the questions cited at the beginning of this article, you’ll need to employ 8 critical equations. If you use all of them, how could you use these insights? Here are some ideas:

- You’ll extend loyalty benefits to your most-valued members
- You’ll meet with staff to explore how you could influence members to invest more in what you offer
- You’ll realize how many new members need to be recruited each year to achieve financial goals
- You’ll invest resources to retain more of your members
- You’ll be able to project the financial health of the organization if sample scenarios play out

Let me know how you use the insights after employing these 8 equations:

1. **Retention formula**—What percentage of members do you retain each year?  $\% \text{ Retention} = \# \text{ of membership accounts at the end of this fiscal year} / \# \text{ of membership accounts at the end of the previous year} \times 100$ . True retention rates include those members who didn’t renew because they went out of business, merged with another, moved out of the area, etc. When comparing retention rates with other organizations, make sure you are using the same equation!

*For example, if you have 1,800 primary member accounts on 12/31/18 and you had 2,000 primary accounts on 12/31/17, then your retention =  $1,800 / 2,000 = .9 \times 100 = 90\%$ .*

2. **Loss formula**—What percentage of members drop out each year? The inverse of formula #1:  $\% \text{ Loss} = (\# \text{ of dropped members} / \# \text{ of membership accounts at the end of the previous year} \times 100)$ .

*For example, if 260 members out of 1,300 members do not renew, your loss rate is 20%.*

3. **Turnover Period (TP)** —How long would it take for your membership base to disappear if you recruited no more members?  $\text{TP in years} = (100 / \text{loss rate expressed as a decimal})$ .

*For example, if your loss rate is 20%, then you would lose your membership base in just 5 years!*

4. **Average Membership Tenure (AMT)** –On average, how long does a member stay with the organization? Although there are different ways to calculate Average Member Tenure (AMT) in years, consider using this one: (the sum of all the years current members have been with the organization + the sum of all the years dropped members had with the organization) / (# of current members + # of dropped members). Of course, you will have a lot more dropped members in the database than current ones.

*For example, let's say you have 1,300 current members and cumulatively they have been members for 12,740 years and you have 5,200 dropped members and cumulatively they were members for 14,820 years. Then your average membership tenure is  $12,740 + 14,820 / 6,500 = 4.24$  years.*

By factoring in all dropped members, you will have a more accurate average. If you look at these two groups separately and run the equation using this example, the AMT for current members is 9.8 years and the AMT for dropped members is 2.85 years. It presents a different story, doesn't it?

Could you use your AMT to project expected membership tenure for new members? Perhaps and keep in mind that each member that doesn't stay until the average will affect overall retention rates and projected revenue.

5. **Lifetime Value of Existing Member (LVEM)** –How much is a member worth? This equation includes both annual dues and non-dues investments made by members and can be calculated to identify the LVEM of each member:  $LVEM = (\text{Total dues investment} + \text{Total non-dues investment [since join date]})$ . The total amount is the worth the member has brought to the organization. To calculate the average worth of the member per year, divide that amount by the length of membership.

*For example, if a member joined in 2005 and has invested a total of \$2,400 in dues and \$6,250 in non-dues, then its LVEM is \$8,650 with an average worth of \$1,730/year.*

Sorting this information on your current membership base allows you to see who the top 20% - 25% of your members are and you may want to celebrate their loyalty with some special perks (like how your preferred airline gives you complimentary upgrades or early boarding privileges)!

If you just want to know the **Average Lifetime Value of Members (ALVM)**, regardless of individual members' investments, use this equation:  $ALVM = (\text{Total dues investments by all members for last year or a specified number of years} + \text{Total non-dues investments by all members last year or a specified number of years} / \# \text{ of members} \times \text{Average Membership Tenure})$ .

*For example, you know there was \$450,000 in dues investments and \$600,000 in non-dues investments last year and you have 1,000 members. Using the AMT calculation from earlier, the average length of membership is 4.24 years. So, your ALVM is  $\$1,050,000 / 1,000 \text{ members} \times 5 \text{ yrs} = \$4,872/\text{member}$ .*

6. **Projected Lifetime Value of Members (PLVM)** –If you know the ALVM, you can realistically determine how much new members might be worth and how much to allocate to a membership campaign.

*For example, based on the ALVM calculation in #5, each new member is worth \$4,872 over the next 5 years or \$974.40/year. Keep in mind that this is based on the average of all members, although some members invest at much higher levels than others. P.S. Of course, you don't have to invest that much to recruit each new member!*

If you'd rather compare PLVM to similar members, you'll need to know the LVEM and AMT of that specific segment of members. For instance, your larger members tend to invest at higher levels and have longer AMT, so their PLVM is different.

*For example, members who have more than 100 FTE (Full-Time Employees) invest on average \$5,000 in dues and \$10,000 in non-dues/year (e.g., sponsorships, advertising, tables at events) and their average AMT is 20 years, then the PLVM for similar new members is \$300,000! Let's face it, some of our members have very high value to our organizations and if we lost even one of them, it has a greater financial impact on us!*

7. **Cost of Serving Members (CSM)** –How much does it cost you to serve each member? You could spend a lot of time figuring out the cost for every single member, knowing that SOME members consume a lot more resources than others! To keep this equation simple, use this formula instead to calculate an average cost/member:  $CSM \text{ per year} = (\text{Total of annual expenses in dollars} / \# \text{ of members.})$

*For example, if your organization has 800,000 in expenses per year and 1,000 members, then the CSM is about \$615/member. You may choose to factor out expenses for PACS or scholarships that are tied to specific programs. Hmmm, some members don't invest enough to cover costs to serve them!*

8. **Cost of Acquiring Members (CAM)** –How much does it cost to bring in a new member? It's nice to know the PLVM and how it could contribute to your revenue. On the other hand, you have to consider the other side of the equation and what it costs to recruit these members. How much will you spend on printing, direct mail costs, commissions, and staff time to 'onboard' new members? This equation requires that you know the PLVM, the AMT, and the CSM.  $CAM = (PLVM - CSM \times AMT)$ . You are assuming that the CSM will be the same each year factored forward for the tenure of those members. You could add a percentage increase to the CSM each year to include increased operating costs.

*Using the outcomes of the examples for prior equations and a very basic CAM equation, if PLVM is about \$974/year per member, and CSM is \$615/year per member, and the AMT is projected to be 4.24 years, then the CAM for bringing onboard each new member is  $\$974 - \$615 \times 4.24 \text{ years} = \sim \$1,522$ .*

If you are targeting to recruit 200 new members this year, you are projecting them to provide \$194,800/year in total investment to the organization (PLVM), \$123,000/year in costs to serve them (CSM), and you expect them all to be retained for just over 4 years, then you can afford to spend \$70,000 to recruit them. Of course, if your retention rate drops more than 80% each year, then these new members won't yield you the expected PLVM and the equation could be seriously flawed!

If we listen to my FastTrac instructor, Debbie, how can we understand our past performance to influence better future performance? Well, first we need to use these equations and identify our membership financial ratios so we have baseline benchmarking statistics to use going forward. Secondly, we need to set goals on what we want to attain for each ratio and how we can achieve them (e.g., strategies, resources, budgets, responsibilities, and timelines). And finally, we need to calculate these ratios on an annual basis and evaluate our performance.

Hope all the math didn't fog your brain and you can see the value of measuring what you want to manage! For additional information or support, feel free to contact us to see how we can improve your performance.

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