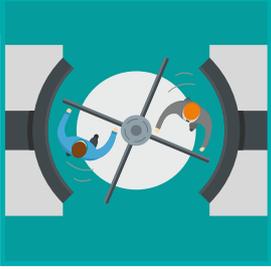


WHY MEMBER  
**LIFETIME VALUE**  
IS MORE IMPORTANT THAN  
**CHURN**

[WWW.THEMEMBERSHIPGUYS.COM/172](http://WWW.THEMEMBERSHIPGUYS.COM/172)



Mike Morrison:

Hello there, welcome to episode 172 with The Membership Guys Podcast. I'm your host, Mike Morrison, this is the place to be for all the things you need to know to grow a successful membership website. How the devil are you? Thank you so much for tuning into the show. If you're a brand new listener, thank you for checking us out. Hopefully, if you like what you hear, you'll hit subscribe on your podcast app to make sure that you don't miss a single weekly episode where I'm delivering proven practical tips, and advice for growing a membership business, and if you are a subscriber, you are longterm listener, you know that I appreciate each, and every second you spend listening to The Membership Guys Podcast. I love you guys. Thanks so much for all your support for the show.

Mike Morrison:

Today, I'm talking about churn, particularly attitudes and mindsets towards churn. Now, this is a little bit of a soapbox episode. Those of you who've been listening for a while will probably know what that means. Normally, week in, week out, we're doing interviews, I'm giving you the rundown on practical tips, and strategies, and all that sort of stuff, but from time to time, I like to pull out the soapbox, and make my feelings known about a controversial topic, an attitude I disagree with, something that's divisive. I may get a little bit passionate, a little bit ranty, but it's all in a positive frame.

Mike Morrison:

So, today's a little bit like that, because I wanna tackle a particular perspective that I've seen being brought up by people who have either run memberships in the past, and then they've changed their mind on the model, and then they've written an article talking about why they don't like the membership model. I've also seen some sentiment expressed by people who maybe a little dissatisfied with how things are going with their membership, so basically where you see people sing something like this, "If a member is going to cancel, with a membership model, if you have members who are going to cancel, they're only going to stay for a certain number of months, then what is the point?"

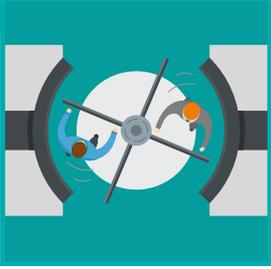
Mike Morrison:

Usually, the context of that statement is in, if a member only stays for X months, then what's the point? Usually, that's followed by, "I might as well do X." So, why would I run a membership, because if members are only gonna end up canceling after 10 months, then I might as well just sell online courses. If a member's only gonna stay for nine months, and I might as well just go back to one on one retainer project, or something like that, so what I really wanna challenge today is the notion that the existence of churn, and the fact that cancellations, and leaving a membership is just a natural part of the member life cycle. The very fact that people who've sign up for your membership are not customers for life somehow makes membership a bad model, and that perhaps selling something like a one off course would be a better option.

Mike Morrison:

So, because there's churn, and because people will leave your membership, you shouldn't have a membership in the first place, because other options are better. Let's break this down, and obviously this is all prefaced by me saying, you're listening to The Membership Guys Podcast, so I shouldn't have to tell you that I'm slightly biased about memberships. I am slightly biased about memberships, but hopefully we're gonna break this down, we're gonna actually dig into that, and explore it, and if you found yourself questioning the membership model because of the very things we're talking about,





hopefully this is gonna provide a different angle to it.

**Mike Morrison:** So, we've talked before on this show about the fact that there is no industry average churn rate for memberships. Quite often you'll hear people saying that the average person will stay subscribed to a membership for three months. Now, several episodes ago, we debunked that completely. There is no industry standard churn rate, and it was actually back in episode 162, so if you go to [themembershipguys.com/162](http://themembershipguys.com/162) you can hear that episode where we debunk the whole myth that industry average churn rate is three months, and we actually debunked the idea of industry average at all.

**Mike Morrison:** Now, if you had to pin it down, and you absolutely had to give a thumb in the air industry average, it's more like eight or nine months. Okay, so let's work with that, so let's say that generally when it comes to churn, and churn is the percentage of members who leave over the space of a given month ignoring any new members who might have come in, so generally, let's say you're gonna be shooting for 10% churn and under every single month, right?

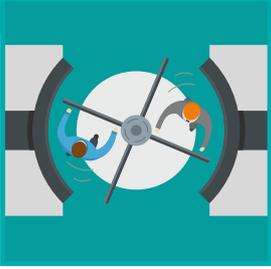
**Mike Morrison:** So, let's say you've got a \$50 a month membership that has a 10% churn rate, so every month 10% of your members leave, not including any new ones who replace them with, so a 10% churn, that means that every member that signs up is gonna stay with you for 10 months. That's what 10% churn works out at on a month to month basis, so every new sign up you get will stay for 10 months, and then they'll leave on average. 10 months at \$50 a month means that, that member is worth to you over their entire lifetime \$500, so that is their lifetime value. \$500 on a membership, that's 50 bucks a month with 10% churn rate.

**Mike Morrison:** Now, let's take a different scenario. Let's say you have a membership that is \$25 a month, and you have a 5% churn rate. 5% churn would be considered very good, so that means that every new person who signs up will on average stay for 20 months. 20 months at \$25 a month comes out to a lifetime value of \$500. The same as the membership that's 50 bucks a month with 10% churn. The churn is better on the 25 with 5%, but the overall lifetime value of every member who signs up is identical.

**Mike Morrison:** Another scenario, let's say you have a membership that's \$10 a month, and you've got 2% churn. 2% churn will be considered fantastic. 2% churn means that people will stay for 50 months. That's what that breaks down as, so every new member who joins will stay subscribed for four years, and two months paying you every single month, \$10, and over that time period, their total lifetime value to you, four years and two months at \$10 a month, their lifetime value \$500, so the point I'm making here is, churn rate in isolation is not a particularly informative metric. It's only a factor in the bigger picture in so much as it affects lifetime value.

**Mike Morrison:** So, first and foremost, we have to ditch this ideal around churn rate, because it needs context, and so, if your mindset is, "Well, I've got churn, my churn's bad, so why don't I just throw in the towel, and sell a course instead, or do something else instead?" It's all about context. You need to think about what that churn actually means in terms of the lifetime value of every sale that you get. Now, there is one other metric that churn





affects, and that is growth rate, so once you take all the new members you sign up in a month, subscribe those who have left, how much is your total member number, or your total revenue gone up by that month? That's your growth rate, and you always want that to be positive.

**Mike Morrison:** However, if you're getting no sales at all, then it doesn't matter what your churn is. Your churn could be half a percent, but you'd be in negative growth, because unless churn is zero, unless you don't lose any members, then without sales you are in negative growth, and that's the same for anything. If you're selling courses, and you don't get any sales, then the money dries up. If you're servicing clients, and you don't get any new contracts, the money dries up. The big difference with memberships is that there's a heck of a lot more cliff to walk back on if growth starts dipping into the negative.

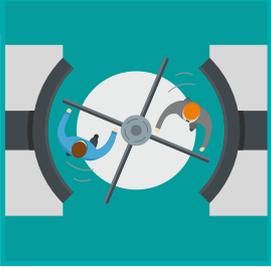
**Mike Morrison:** So again, the context that this whole issue that we're talking about in this show usually comes up in, is when someone is comparing a membership to some other type of business model, or some other type of product you could be selling, whether that's working with clients one on one, selling a physical product, selling an alternative digital product like a high price course, so let's say you have a membership, and your churn rate is 10%, and because you've got 10% churn rate, you're in this mindset where you're thinking, "Well, 10% churn rate means that all this effort I put in to get a new member to sign up, they're gonna leave after 10 months, what's the point? Why don't I just create a course?" Okay? So, again, context is important.

**Mike Morrison:** A lot of courses in the online space are being sold for \$2,000 these days, but, of course, you're not gonna get anywhere near as many sales of a \$2,000 course as you're going to get of a \$50 membership, so again, if your \$50 a month membership has a 10% churn rate, people will only stay in 10 months, their lifetime value is \$500, so what is the alternative? If you wanna sell courses, do you sell a \$500 course to the same amount of customers that you're currently selling your membership to? The lifetime value ends up being the same, right? \$50 a month for members who will stay for 10 months. If you get exactly the same amount of sales or a \$500 course, the end result financially is still the same.

**Mike Morrison:** Each sale of that course to you is worth \$500 for the lifetime of your relationship with that person who buys the course in the same way that the lifetime value of every individual person who joins your membership, that's \$50 a month, 10% churn rate is \$500, so it's the same, so yes, you could choose to just sell a course rather than keep running your membership site if you're not happy with your 10% churn rate, but when you're looking in terms of how many sales of that course you're likely to get by comparison to your membership, and how much lifetime value there is for each sale of the course compared to the lifetime value for each sale of your membership, usually it's gonna wind up about the same, so you might be able to sell a \$500 course of the same amount of people you can talk into signing up for a \$50 a month membership.

**Mike Morrison:** But, if your course is a thousand dollars, you're not gonna get anywhere near as many sales, so let's say you price the course at \$1000, and you get half as many sales. The end





result financially is the same as your 50 buck a month membership. If you would sell a \$2,000 course to a quarter of as many people as you'd be able to sell your \$50 a month membership, the end result financially is the same, so if you have found yourself thinking, "I hate having to constantly replace members who leave." Or, "After a year, 100% of our member base who signed up is gone." Then yes, of course, it sucks when you think of it like that, but try reframing it. Reframe it to this.

**Mike Morrison:** Let's say you've got that 10% churn rate. Rather than looking at it as 10% churn rate means that our members cycle out, 100% of our members cycle out after a year. Think it like this, for those people who join after 10 months, we get no more money from them. It's the same thing. You're describing the same situation, but by changing the context in terms of thinking about that lifetime value, rather than thinking about it in terms of, "Oh, I've got to replace people." Thinking about it in terms of numbers, in numbers out, in pure clinical, financial terms, all that means is that after 10 months, 10 months after that initial sale, you stop getting money from that individual.

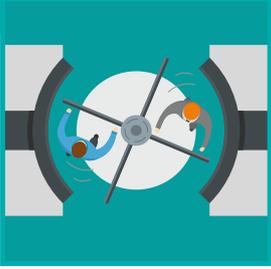
**Mike Morrison:** Now, if you're selling a course, that statement, that alternative is, after one transaction, we get no more money, so with a membership with 10% churn, after 10 months we get no more money from that person. With a course, it's after the initial transaction that one day, that one minute, that one hour the transaction goes through, we get no more money, so the end result is the same, it's only the timeframe to achieve the end result that changes, and actually with memberships, you have more levers to pull when it comes to trying to increase that lifetime value, to increase that end result.

**Mike Morrison:** With a standalone course that you're selling, there's only that one lever. There's the sales lever. All you can do is try to increase sales. With memberships, the sales and retention, so if your course is \$500, then the only way to increase the lifetime value of those sales, that customer is with upsells or selling them more stuff, or putting your price up. You can do those things with memberships, but in addition you can do things to improve retention too. Improving retention by just one extra month can make the difference. One extra month, so a 10% improvement on the amount of time you get people to stick around as a member, taking them from 10 months to 11 months, that increases your lifetime value for every single member by \$50.

**Mike Morrison:** You can't do that with a course unless you increase the price of your course to \$550, or unless you sell an add-on product at \$50 for that product, so you have a greater range of things that you can do to improve the bottom line financially, so again, if you're thinking, "Well, what's the point in having a membership if after a year, the members that I sign up are gone?" What that really means is that after a year, the members that you sign up have maxed out their lifetime value. Courses max out on day one, client projects max out when the work is finished.

**Mike Morrison:** The idea of lifetime value of your customers maxing out is not exclusive to memberships. Now, some courses will allow you to spread payment over 12 months. It's the same principle. After 12 months, the customer's lifetime value maxes out, so it's important to realize that really whatever model you go with for Your business, whatever





type of business you run, it all essentially comes down to customer lifetime value, if we're talking clinically, if we're talking about dollars and cents, the bottom line, which is usually where these decisions come from.

**Mike Morrison:** So, if dealing with churn is something that's turning you away from the membership model, you need to understand that churn is merely a factor in determining what the customer lifetime value will be, and if you really wanna get into an apples for apples, like for like comparison, understand that anything you sell has a churn rate. Churn rate is merely a factor in determining the end point after which you get no more money from that person, so when you use that definition, and that is a very accurate, very appropriate definition of what churn is. When you use that definition, courses have a churn rate, it's just that churn rate is instantaneous, because you get no more money from the sale of that course after the initial sale goes through, so it has 100% churn rate.

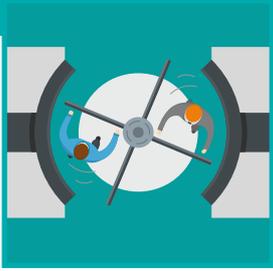
**Mike Morrison:** Client projects, or if it's paid in three installments, client projects have a 33.3% churn rate, or if payments are spread over six months, than it has a 16 point whatever percent churn rate. Everything has a churn rate, because everything has an end point, a maxing out point in terms of customer lifetime value, so don't let the prevalence of churn as a KPI in the membership model when churn usually isn't talked about. It's not talked about with courses, it's not talked about with client stuff, but don't let that fool you into thinking that you should switch to a different model, because with courses, or with clients, you don't have to deal with churn.

**Mike Morrison:** Churn is merely a factor in determining what the overall lifetime value will be, and what the timeframe for hitting that total lifetime value is going to be. It's not the main metric you should focus on, so when you understand, and embrace that mindset, and that perspective then the question of whether you should be running a membership, or whether you'd be better off selling courses, or client services, or whatever else, really that question then comes down to other factors like, which do you enjoy more? Which facilitates the type of lifestyle you want? Which is better suited to your market? To your audience? Which best fits with your skillset?

**Mike Morrison:** However, if the answers to those questions lead you towards courses being a better ... Type of product, or a better business model for you than memberships, or providing one on one client services being better for you than running a membership, then so be it. Those are all important questions, and it is very important that whatever route you go down in terms of how you serve your market, and serve your audience is in line with the answers to those questions.

**Mike Morrison:** But, if you have ever found yourself sitting there thinking, "I'm just so sick of dealing with churn, I'm just so sick of the fact that we put in all this time, and effort to bring new members in and then ultimately they leave, so I would be better off doing this other thing, or better off doing that other thing because then I wouldn't to worry about churn." Hopefully, what we talked about today will have helped change those attitudes, and really help you to understand that the grass isn't greener in other types of business models.





Mike Morrison:

Churn on its own in isolation is not the thing you should be thinking about, if making the decisions between one type of business, or another, If thinking about whether memberships are really suitable for you as a business model, it all comes down at the end of the day to member lifetime value, customer lifetime value. Churn is just a single factor in determining what that lifetime value is, and actually the fact that memberships take longer for that lifetime value to hit its peak, gives you more breathing room, gives you more maneuverability, more flexibility to actually improve upon the tipping point, the maxing out point of that lifetime value compared to other types of business models.

Mike Morrison:

So, hopefully you've followed me, hopefully you've stuck with me through this episode. This was very much a pullout, the soapbox kind of episodes. Of course, these are only my opinions, and as I said right at the top, I am biased towards memberships, but I really do hope this has given you a different perspective particularly if you've maybe considered a membership, maybe you're thinking right now about membership, maybe you don't run one, but you're considering it alongside a few other different options, or if you've been having a conversation with someone, maybe you've got a business coach who's telling you, "You know what, you really shouldn't be bothering with a membership, because people leave. You've got churn, you've got to constantly replace people."

Mike Morrison:

Well, yeah, you do have to constantly replace people, but you also have to constantly get sales, if you sell courses. That's no different with memberships, so yeah, I'm gonna wrap it up there. Hopefully, this has been useful. I'd love to hear your thoughts on the matter. Do you agree? Do you disagree? Have I opened your eyes to something, or do you think I'm just talking complete nonsense? Let me know on Twitter, hit me up @membershipguys, or if you are in our free Facebook group, then let me know in there.

Mike Morrison:

If you're not in the group, it's a great place to be. There's about \$10,000 membership site owners in there, and it's totally free. Search for Membership Mastermind on the Facebook app, or type talk memberships into your browser, and it will redirect you to the right place, and, of course, if you are a member of Member Site Academy, which is our membership, about memberships, you just know that we're going to be digging into this subject inside the member only community forums too.

Mike Morrison:

That's it from me for this week. Hopefully, you've enjoyed the show, whether you agree, whether you disagree, hopefully, it's been entertaining to hear me on my soapbox regardless. I'll be back again next week with another episode of The Membership Guys Podcast.

