

What Associations Can Learn from LinkedIn

Peninsula Strategies' Robbie Kellman Baxter teamed up with Seth Kahan, founder of Association Transformation, to co-write this article, one in a series intended to bring timely thought leadership to CEOs and executive directors who must take vision-driven action to impact their organization's success in the face of turbulent market conditions.

Silicon Valley innovators are leveraging technology to build close, ongoing relationships with their customers and members, and are enjoying growth, predictable revenue and loyalty. LinkedIn is preeminent among these innovators. What can associations learn from organizations like LinkedIn?

LinkedIn's goal is to allow members to establish and maintain strategic relationships based on their professional network.

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Since its launch in 2003, LinkedIn has grown to over 300 million members in 200 countries, representing 170 industries. As

LinkedIn has grown, so has its impact across many industries, especially recruitment and management.

LinkedIn has expanded its services to meet the unique needs of corporate recruiters and HR professionals as well as those of the professional business community in general. It has become the most important talent platform for professionals in nearly every industry to advance their careers. LinkedIn provides recruitment solutions including LinkedIn Recruiter (a platform giving access to its entire database); Jobs Network (highly targeted ads); and Career Pages (branded career websites within the LinkedIn network). By providing corporate recruiting solutions, LinkedIn has

Key Learnings

- LinkedIn is the leading innovator in leveraging technology to build close, ongoing relationships with their customers. As a result, LinkedIn has achieved growth, predictable revenue and loyalty.
- Associations must prioritize environmental scanning to pick up impending impact from transformative technology companies like LinkedIn.
- LinkedIn is disrupting whole industries by applying innovations that leverage several key aspects of the Membership Economy, including Freemium, the Network Effect, and Forever Transactions.
- A Freemium strategy extends an organization's reach through awareness and positive sentiment beyond its dues-paying members.
- The Network Effect creates increasing value as the total number of members grows. Associations have the critical mass, through memberships, to leverage the Network Effect to their advantage.
- When an association adopts Forever Transactions as part of its business model, it captures the value of long-term profitable relationships.
- A market intelligence initiative is the most reliable way to determine just exactly how to deploy Freemium, Network Effect, and Forever Transaction strategies for sustainable growth.

disrupted professional associations, particularly the Society for Human Resource Management (SHRM), the almost 70-year-old membership organization for the talent management field. Corporate recruiters once constituted a significant segment of SHRM's membership, with their Rolodexes reflecting hard-earned networks of



contacts. Those Rolodexes have now been essentially replaced by LinkedIn's recruitment platform. Corporations no longer need to hire recruiters with a Rolodex; they need LinkedIn. While SHRM continues to provide services to these groups, SHRM must find new ways to deliver value to recruiters who must in turn find new ways to get business, now that LinkedIn is providing so much value, often for free, to SHRM's traditional members.

Any association that does not prioritize environmental scanning could miss the impending impact from a transformative technology company like LinkedIn, and find itself in a situation similar to SHRM. In fact, many associations whose primary benefit was around creating directories and databases of professionals are now scrambling to provide new benefits, as their members increasingly look to LinkedIn.

Putting LinkedIn under the Lens

LinkedIn is disrupting whole industries by applying innovations that leverage several key aspects of the Membership Economy, described by

Robbie in *The Membership Economy: Find Your Super Users, Master the Forever Transaction, and Build Recurring Revenue* (McGraw-Hill, 2015).

Several aspects of

LinkedIn's business model have implications for associations. To parse the particulars of LinkedIn's strategy, it is helpful to understand several concepts described in *The Membership Economy*. These include:

- **Freemium:** A tiered pricing model in which some members have a free subscription

while others pay for additional benefits. (Free + Premium = Freemium.) The vast majority of LinkedIn's members enjoy the free offering. Recruiters pay more for access to additional features such as advanced search functionality and introductions to strangers.

- **The Network Effect:** The increase in value for all members that occurs as each additional member joins. The value of LinkedIn membership increased as more people joined.
- **Forever Transactions:** The promise of a symbiotic, ongoing relationship that reaps increasing dividends over time. A professional profile on LinkedIn has value for members from their first job until retirement.

A closer look at each of these Membership Economy strategies follows.

Freemium Pricing

Freemium is a feature of subscription business models in which members can choose a permanently free level of service that provides ongoing value, or select from any number of paid subscription options. LinkedIn delivers considerable value to the millions of professionals who join at the Freemium level. LinkedIn delivers more value via premium account options for job seekers, professionals in sales, and talent managers. LinkedIn delivers even more value to the members who pay its highest subscription prices, Premium for Recruiters, because it gives them access to the millions of Freemium-level members as well as tools to manage the recruiting process. Members paying for premium options are on some level subsidizing the costs of the Freemium subscribers.

LinkedIn is disrupting whole industries by applying innovations that leverage several key aspects of the Membership Economy.

Most associations haven't offered a free option to anchor the Freemium end of their pricing tier. They may be assuming that overhead costs are too high to permit offering anyone anything "for free," or concerned that a Freemium tier would deflate perceived value. In many cases the Internet has reduced the cost of providing value to almost zero, a fact that transformative technology companies like LinkedIn have leveraged to their advantage. Many associations have been slow to recognize this shift and have continued to keep their price high, either through membership dues or additional fees to access value locked behind the membership pay-wall.

Some early adopters of Freemium have seen the strategy succeed for them. In 2011, the Association of Women in Media (AWM) adopted a membership structure in which the majority of members would pay no dues. This approach "will better fit our rapidly changing profession and our target audience of influential, tech-savvy media professionals," said president Erin Fuller when the change was announced. Following a philosophy of "radical inclusiveness," the organization restructured its programs and services, giving its Freemium tier (labeled "community members") access to the website and all communications, but reserving certain benefits, including voting and premium event access, for dues-paying members.

A tiered pricing structure that begins at "free" is practically guaranteed to extend an organization's reach. The Freemium strategy extends awareness and positive sentiment far beyond an organization's dues-paying members. AWM now relies on celebrity members to keep its profile high, and focuses on keeping its value relevant to its mostly 20- and 30-something members.

LinkedIn's Freemium strategy disrupts membership organizations by radically resetting the perceived value of services and products behind the pay-walls of associations. When your

members can access enough of the relevant content and community they need through their activity on LinkedIn, it becomes much more difficult to maintain a value proposition compelling enough to keep them paying dues to your association. To find that value proposition, associations should consider what they can give away in exchange for registering for a free membership (leading to the Network Effect). You must evolve your offerings to be valuable to members. If what used to generate association income is no longer perceived as worth paying for, you need to find new ways to prove your value. Stepping back to view the value proposition through the lens of value-based pricing might help associations recognize that some members should be paying more, some less, and some nothing, depending on both ability to pay and benefits received.

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The Network Effect

In the Network Effect, value is created by the relationship itself, independent of the services or products delivered by a membership organization. Membership becomes more valuable to each new member, based on the increase in the total number of members. For example, with each new member, LinkedIn becomes more valuable to all existing members. The Network Effect is the driving force behind the many Membership Economy organizations built around online communities like Pinterest, Facebook, or Match.com. In this business model an organization can provide no "product" other than community and the content that community generates.

LinkedIn started with simple “personal websites” for professionals, allowing them to post their current resume. That benefit by itself was valuable. However, membership in LinkedIn became more valuable as individuals became able to manage their professional networks through the site. In early 2014 LinkedIn rolled out an additional member value—the ability to publish member-generated content on the platform, adding a significant benefit to its community.

Today, LinkedIn’s members can self-organize into Groups that are essentially “mini associations.” As a company, LinkedIn merely provides the tools for members to create value for each other—then draws revenue from premium memberships. Because of LinkedIn Groups’ potential to substitute for association membership, they deserve closer examination. These groups, which support threaded discussions and polls, are moderated by the group’s owners and managers. Groups may limit access to members approved by the owner or may be open to Internet users in general to read, though they must join to post messages. LinkedIn Groups may be the incubators from which tomorrow’s full-fledged membership organizations will emerge. LinkedIn Groups are clearly already disruptors, substituting value once delivered for a price by membership organizations. A LinkedIn Group may draw users away from your listserv or forum, deflating their value.

The Network Effect demonstrates that the value of being a LinkedIn member multiplies as more

and more of my professional colleagues show up there. Similarly, the AT&T Friends and Family program exemplifies the Network Effect. My account becomes more and more valuable to me as my friends and family choose AT&T, because the

The Network Effect demonstrates that the value of being a LinkedIn member multiplies as more and more of my professional colleagues show up there.

cost of staying in touch with them drops for me.

LinkedIn Groups are an example of a transformative technology that could make some associations’ functions obsolete. And yet associations already have the critical mass, through memberships, to leverage the Network Effect to their advantage. What is so compelling about having all the members together, that could be valuable to each individual member? What segments among your membership like or need connection? When and why? Associations that can answer these questions will continue to thrive.

In the search for Network Effect value, consider your association’s mission in terms of advocacy. Having a majority of a particular population as members is critical to gaining influence. Legislators prefer to help groups that represent a majority, to avoid potentially being perceived as susceptible to special interest groups. Associations can use Freemium and the Network Effect to increase membership penetration in a target market, and thus increase effectiveness in achieving legislative goals.

Forever Transactions

Customer Lifetime Value—the estimated revenue to be realized from an ongoing relationship with a customer over the life of that relationship—is the driving force behind the Membership Economy strategy of Forever Transactions.

The founders of LinkedIn understand the value of forever. When they met at SocialNet.com, an early dating and social networking site. SocialNet.com’s core relationship with its daters lasted about six months—in fact, their customers’ mission was to no longer need the site. Determined to develop a more enduring value proposition, the founders envisioned LinkedIn relationships that would deliver ongoing value throughout a professional lifetime. LinkedIn is



designed to deliver that value from a member's first summer internship until retirement. Individual members recognize that value and extend it by inviting their friends, classmates and colleagues to join.

LinkedIn recognized and packaged something professionals lacked—a convenient way to maintain a current professional profile and network of relationships. The founders knew they could keep a member for life—forty years or more—if that value was clear. LinkedIn chose the word “member” over “user” early on, as a way to describe the relationships they wanted to establish with the beneficiaries of LinkedIn. The word “membership” transforms a purely transactional feeling into a lasting relationship with an entity. Options for ongoing connection—Forever Transactions—are emerging everywhere, and smart organizations are leveraging principles of membership to capture the value of those long-term profitable relationships.

Too many associations fail to set the stage for Forever Transactions, in spite of having a long-established membership model. Many find that members of Gen X and Gen Y simply don't expect to be lifelong members of professional societies or trade associations the way previous generations did. They seek demonstrable return on investment. This forces associations to do a better job of demonstrating ongoing value.

The explosion of information and networking opportunities available via the Internet has fundamentally challenged the value proposition of membership organizations. The offerings that once made members loyal year after year are no longer enough—not because members' needs have changed, but because their access to information has changed, and as a result, their expectations are higher.

The Eight Steps of a Business Intelligence Effort*

Because outcomes, scope and circumstances vary, every business intelligence effort is different. However, every effort should include the following eight core steps in sequence:

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| 1. Define Scope | 6. Iteratively Share Results and Receive Direction |
| 2. Determine Goals | 7. Due Diligence for Controversial, High Value, and High Risk Issues |
| 3. Consult Data Sources, News Media, and Trend Experts | 8. Format and Present Results for Maximum Impact |
| 4. Conduct Interviews with Key Stakeholders | |
| 5. Secret Shopping to Test Quality from Customer Perspective | |

*Getting Innovation Right: How Leaders Leverage Inflection Points to Drive Success, Jossey-Bass, March 2013

Forever Transactions are grounded in the assumption that both the member and the organization will grow and change over time, but also that both will continue to share the same expectations. This challenges organizations to evolve how they deliver on their value propositions as the world changes around them.

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When an association adopts Forever Transactions as part of its business model, member retention becomes more important than new member acquisition. Net-new acquisition is much more costly than retention anyway. Consider Stanford University's alumni association, which encourages purchase of a lifetime membership for \$595, compared to the yearly fee of \$95. Why? Because Stanford Alumni Association members are more engaged in other important Stanford activities.

Conclusion

We have now examined three strategies of the Membership Economy with a focus on LinkedIn's use of Freemium, the Network Effect, and Forever Transactions. Hopefully these insights will help you innovate new value for your members—value that only your unique organization can provide.

“The best defense is a good offense.” For associations dealing with seismic shifts in market conditions, member expectations, and in some cases even the role of the association itself, this could not be more true. Associations today need to defend their future viability by staying in tune with the evolving needs of their members. The times call for innovation; intelligence improves

innovation by validating or voiding hunches, identifying weaknesses, targeting opportunities, providing market insight, and drawing valuable input from customers. In his 2013 book, *Getting Innovation Right: How Leaders Leverage Inflection Points to Drive Success*, Seth identifies three areas of focus for intelligence gathering: customers, market conditions, and organizational capabilities. He goes on to describe eight steps of an intelligence effort, the benefits of tapping a neutral outsider to conduct the effort, and guidelines for working with an external provider. A market intelligence initiative is the most reliable way to determine just exactly how to deploy Freemium, Network Effect, and Forever Transaction strategies for sustainable growth.

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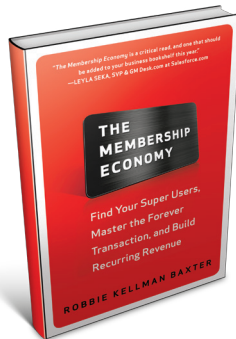
Her clients have included large organizations like Yahoo!, American Geophysical Union, National Restaurant Association, Netflix, SurveyMonkey and Yahoo!, as well as smaller venture-backed startups. Over the course of her career, Robbie has worked in or consulted to clients in more than twenty industries.

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.

Robbie has been quoted in or written articles for major media outlets, including CNN, Consumer Reports, The New York Times and the Wall Street Journal.

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Seth is a change leadership expert who consults for CEOs and senior leaders. He is the founder of AssociationTransformation.com, a community for visionary association leaders. Seth's client list includes World Bank, Shell, NASA, American Geophysical Union, Endocrine Society, Regulatory Affairs Professional Society, Peace Corps, CIA, American College of Cardiology, National Apartment Association, Project Management Institute, and over 100 others. He is the author of Fast Company's expert blog, Leading Change (SethFast.com).

Kahan received the designation Visionary by the Center for Association Leadership. The Society for the Advancement of Consulting has recognized him as a Thought-leader and Exemplar in the field of Change Leadership.

Seth Kahan's book, Getting Change Right, was a Washington Post bestseller, a Denver Post bestseller, and named on American Express Open Forum as one of the Top 20 Business Books. Seth's latest book, Getting Innovation Right, is a companion volume that focuses on the seven activities necessary to consistently and successfully introduce new products and services in the market.



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