Membership Budgeting

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Determining the Lifetime Value of Members
How Much to Budget for Retention and Recruitment

What is the economic benefit to an association if a member renews for 10 consecutive years? What is the cost of recruiting a new member and how much are you willing to spend? What's the average length of membership in your association?

These are important questions when developing a budget and campaign for retaining and enrolling members. Use these formulas to determine the Lifetime Value of a Member in your association:

Retention Formula

How many members are you likely to retain each year?

		# of Renewals	
	% Retention =	Divided by	X 100
		# Eligible to Renew	

For example, 920 of 1,000 members renew, the retention rate is 92%.

Loss Formula

The adverse of retention: How many members are likely to drop out this year?

		# of Dropped Members	
	% Loss =	Divided by	X 100
		# Eligible to Renew	

For example, 80 members drop out from an eligible renewal base of 1,000, the loss rate is 8%.

Turnover Rate

This is a key to the formula for determining lifetime value. The turnover rate is time in which the entire membership will disappear at the "loss rate" and no new members.

		100
	Turnover Rate (years) =	Divided by
		Loss Rate

Thus, with a 8% loss rate per year, it would take about 12.5 years to wipe out your membership.

Cost of Serving Members

An overly simplified formula to determine the cost per member is to divide the number of members by the total expenses.

		# of Members
	Average Cost =	Divided by
		Total Expenses

For example, in an association with $350,000 in expenses per year, and a membership of 1,000 members, the cost to service a member is $350 each. (It may be practical to remove some expense line items, such as political contributions and scholarships, if they are part of independent programs.)

Lifetime Value of a Member

The lifetime value of a member includes the annual dues and projected non-dues income (i.e. convention registration, book sales, donations, etc.) Using the examples herein, you have determined that the average member stays for 12.5 years and that the turnover rate is 8%.

- **Lifetime Dues Income Formula**

  When you multiply the turnover rate by the annual dues amount you obtain the dues income value of a new member. For example, $400 annual dues x 12.5 years equals results in a $5,000 expected dues income from one new member.

- **Lifetime Non-Dues Income Formula**

  If you don't know the non-dues income value, use this simple formula. Add all the non-dues income line items in your budget and divide it by the total number of members. For example, in an association with $400,000 income, let's say $125,000 is generated from non-dues. Thus, divide 1,000 members by $125,000 and you determine the non-dues income value per member of $125 per member. Multiply this x 12.5 years (turnover rate) and you generalize that the non-dues lifetime value of a member is $1,562.50.

Add the lifetime dues income to the lifetime non-dues income (i.e. $5,000 + $1,562.50 = $6,562.50) which will be anticipated revenue over the 12.5 year expectancy of the member's renewals. Thus, for every new member, approximately $6,562.50 will be received over the lifetime of his or her participation in the association. If you can keep the member longer than 12.5 years, you've improved the value of the member.

Cost of Enrolling Members

Few associations know how much money to budget for getting new members each year. What should you plan to spend on printing, mailing, calls and staff time, for instance? The premise is

that if you know the lifetime value of a member, you are willing to focus additional energy and funds on membership development.

There is a formula for determining the cost of enrolling members.

Enrollment Cost = Lifetime Value minus (Avg. Cost Serving a Member x Turnover Rate)

Thus, in our example, the lifetime value of a member is $6,562.50. It should be subtracted from the cost of serving a member over the 12.5 year period of membership ($350 x 12.5 = $4,200) to determine the "profit" for enrolling the member.

In this case, enrolling a new member who is likely to remain in the association for 12.5 years, the profit is $2,362.50. Naturally, the influences on quality of services impact duration of membership. With a strategy, the association may be able to reduce the costs of serving a member, or increase the non-dues income per member – thus improving the profitability per member.

Knowing the lifetime value of a member allows the association to realistically determine how much should be spent in a membership campaign to enroll new member.

Note: This is only a set of formulas. Caution and conservative estimates are recommended. For many associations the information adds a new perspective for a membership committee to create a budget for retention and recruitment.