Forecasting Membership

From Sue Froggatt Training & Consulting

An introduction to forecasting membership levels

Preface

This report was produced in July 2009 after a past delegate asked for help to calculate future membership levels.

The request was of particular interest to me because I started my early career as a sales forecasting assistant, working for a leading FMCG manufacturer in the food sector.

When I research this further, I found little had been written on this particular subject for membership associations, yet it is such an important part of planning activity, so I hope you find this useful.

The spreadsheet template that accompanies this document can be found at http://www.suefroggatt.com/Forecasting.html.

Finally you may have noticed that I have put a £10 RRP on this publication. This is optional and payable to a charity of your choice.

Good luck with your forecasting!

With kind regards

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Version 1.4

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1. The Basic Calculation

The three figures that you need to forecast membership are:

1. How many members you have at the start of the year (you should know this)
2. How many new members you anticipate joining over the next 12 months (you need to forecast this)
3. How many members will not renew over the next 12 months (again, you need to forecast this).

Here is an example:

		Total		
	1. Number of Members At The Start Of The Year (A)	1800	Known	
+ New	2. New Members Forecast To Join In The Year Ahead (B)	300	Forecast	
- Lapsed	3. Number of Members Forecast Not To Renew In The Year Ahead (C)	-200	Forecast	
	Members At The End Of The Year (D)	**1900**	Calculated	= A + B + C
	% Change	**+6%**	Calculated	= (D - A) / A
	% Retention Rate	**89%**	Calculated	= (A + C) / A

A "Bottom-Up" Approach

You may find it easier to build the total numbers from adding up forecasts at lower levels e.g. member categories (see below) or other factors e.g. number of years in membership. This is a 'bottom-up' approach.

			Membership Category			
		Total	**1**	**2**	**3**	**4**
	1. Number of Members At The Start Of The Year	**1800**	100	500	900	300
+ New	2. New Members Forecast To Join In The Year Ahead	**300**	50	50	100	100
- Lapsed	3. Number of Members Forecast Not To Renew In The Year Ahead	**-200**	0	0	-50	-150
	Members At The End Of The Year	**1900**	**150**	**550**	**950**	**250**
	% Change	**+6%**	**+50%**	**+10%**	**+6%**	**-17%**
	% Retention Rate	**89%**	**100%**	**100%**	**94%**	**50%**

An Excel spreadsheet template with these two examples in can be found at http://www.suefroggatt.com/Forecasting.html

How you forecast what the number of new (B) and lapsed (C) members will be the subject of the next section!

2. Forecasting New & Lapsed Membership Figures

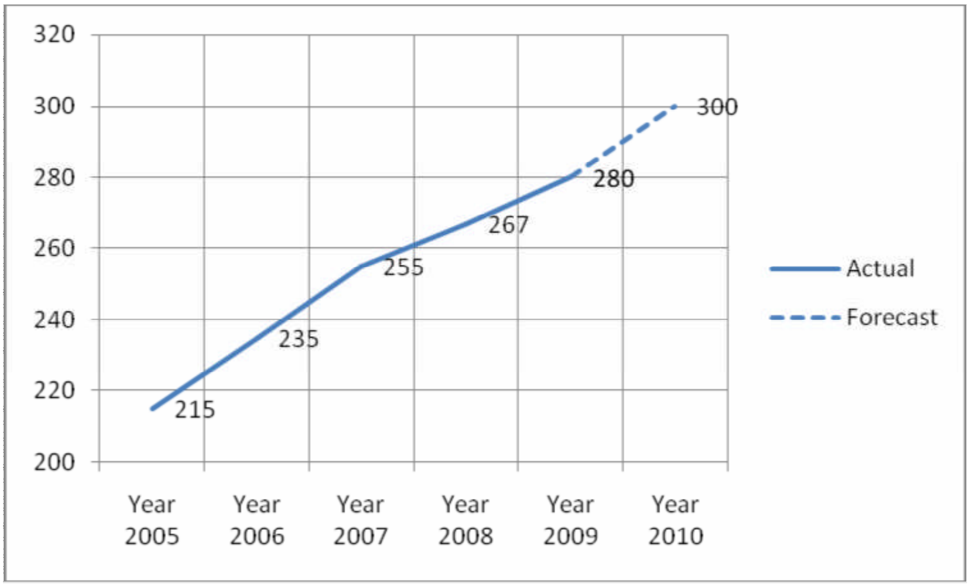
There are a number of methods you can use and my recommendation is that you use a combination of these.

Start with a 'quantitative' approach (A or B below) which is based on known numbers and then adjust this using a 'qualitative' approach (C) which is based on subjective opinions and judgment about new activity that has not yet been accounted for.

A – Time Series Methods

These use historical data as the basis of estimating what will happen in the future. This could be a straight extrapolation of what membership levels you achieved over recent years. You simply project where the line looks like it is heading:

Number of New Members



If you use monthly figures, you can help smooth out any seasonal highs or lows using a a moving average (or exponential smoothing).

B – Causal (Econometric) Methods

These are useful if you can identify underlying factors that influence what you are forecasting. For example, you would expect rainfall predictions to help you forecast the sale of umbrellas. If the causes are understood, you can predict based on projections of the influencing factors.

Technical explanation: Here statisticians would look at using 'regression' analysis (linear and non-linear) using one or more independent variables. They can also calculate confidence intervals and plot a trend line, which shows the long term movement after all other factors have been accounted for. NB:

In the spreadsheet software Microsoft Excel, the LINEST function performs linear regression analysis, which fits a line using the least squares method.

For example, one Trade Association found that the following quantifiable factors help them determine if a member will stay or leave:

- The number of years a member has been in membership
- The amount of content that member has 'consumed' via their web (how many times have they been to the members only section of their web site, how long did they spend there and how much material was downloaded)
- How many different people in the member's organization they are in contact with (spoken to or invoiced)

Examples of <u>quantifiable</u> factors that affect recruitment and retention include:

- The growth of your community or sector. Is it predicted to grow or fall over the next 12 months, or is it relatively static? How many companies are predicted to open, close, merge or be taken over? How many people are predicted to come into the profession, leave, or become unemployed or be made redundant?
- Membership take-up level by the community or sector. Is it high, so there is little room for growth, or is it low? This is called market penetration.
- Economic indicators i.e. state of the economy or level of disposable income. In general membership is considered 'counter cyclical' i.e. in a recession people turn to their professional or trade association for help, so membership rises.
- The average number of years in membership (the membership lifecycle). For example, a professional association might find that say after 7 or 10 years, membership is not as relevant and people tend to leave.
- The average age of members. Do you have an aging profile which might not appeal to younger members? What proportion of members are retiring (or passing away)?
- For a trade association: The average number of contacts that you have. You will be more vulnerable if you only have one contact.
- The number of leads in your sales 'pipeline'. Do you have many people or organizations interested in joining? How many are in this situation? How many would you expect to convert over the coming months i.e. what is your usual conversion rate?
- Your level of awareness (and image) in the community or sector. Do you have a high or low profile? The higher your profile, the easier it will be to recruit new members.
- Your member satisfaction rating. In your membership survey, how satisfied were members and volunteers with the level of service they received? On a scale of 1 to 5, what was your overall rating?
- Your benefit rating. In your membership survey, how did members rate the performance/quality of your member benefits e.g. quality of networking, sector representation, leadership, etc? Again, on a scale of 1 to 5, what was your overall rating?

C – Judgmental Methods

These incorporate personal opinions based on the knowledge and experience of one, or ideally, several experts. They enable your forecast to take account of new activity that you have planned that has not yet been considered in the numerical analysis.

Examples of judgmental factors that can affect recruitment and retention include:

- Internal resource levels for recruitment and retention activity.

- If you have planned any major new recruitment and retention campaigns or initiatives that will cause membership to grow dramatically.
- If you are launching any new benefits or removing any. Are they unique?
- If you planning to improve your web site or online delivery of benefits
- If you planning to increase or reduce subscription levels
- If any new competitors emerging
- If there are any new time pressures on members. Do they have time to participate?
- If you are planning to improve your new member orientation. Tip: The more you invest in settling in new members, the more likely they are to renew!
- The quality of your renewals follow-up process. How many reminders do you send out? Do you contact them personally by telephone?
- If you are you introducing online payment of renewals.
- The quality of your membership records. If it is poor i.e. out-of-date they might not see or get the renewal notice!
- (For professional members): The level of financial pressure on their employers. One factor that has been shown to be significant is the member will drop membership if their employer stops paying their subscription.
- If there any significant changes ahead that will affect the community. For example, new legislation, a possible crisis or burning issues that they will need help with.

3. Ideas For Improving Your Forecasting

3.1 If this is a new process for you, consider forecasting on a monthly or quarterly basis. This will help you keep a closer eye on what is happening to keep you on track and make periodic adjustments, until you become more confident that the process is robust. Your forecasting skills will improve over time.

3.2 Use your member exit survey (lapsed members), new member surveys and member satisfaction survey to help understand what are the common and key factors affecting membership take-up and retention.

3.3 Over time, plot the forecast against what was actually achieved and work to understand what caused the differences and how you can change or tweak the process next time to adjust for this variance. What can you learn from your mistakes? (Statistically, you can use this to calculate the forecasting error.)

3.4 Include a pessimistic and optimistic estimate, so people can see the range of possibilities.

3.5 Sales forecasting should be a joint effort so include other people in the process. Ask industry experts, other people involved in recruitment and member retention, the marketing team, your board, associate members (suppliers), ordinary members, your accountant or financial advisor, and other stakeholders to comment.

3.6 Think about the quality of the questions that you are asking. Are there any better questions that you could use?

3.7 Make sure that the numbers are in line with any other related predictions that the association has used in its strategic planning process. Review any stated assumptions.

3.8 If possible base your forecasts of new and lapsing members on facts and evidence. This is because others are likely to query your figures and you need to give them confidence in your thinking and your forecasting process.

3.9 You might start your forecasting with a simple spreadsheet, then later on, consider investing in specialized forecasting software. When choosing a program, make sure it lets you:

- Track current performance against predictions
- Allows several people to input information
- Adjust for special factors.

3.10 Finally develop an action plan for getting others to buy-in to your forecasts. Share your expectations. Explain why the figures are important and how they help them do their work better and how they impact on the bottom line.

4. Comments From Association Managers

I posted this as an on-line question on MemNet's 'best practice forum for membership and association excellence' - http://www.memnet.biz.

"I am looking at how associations predict recruitment and retention levels when planning 12 months ahead. I would be interested to hear from others who can share how they forecast i.e. models used, factors included, the process involved and any other insights. Many thanks, Sue"

These are the replies to date (as at 30.7.09) and I have underlined some of their key comments.

1. **Financial Forecasts** by Lee Allford "We are a company member organisation so we try to assess the organisations we can realistically encourage from <u>our list of prospective members</u> to join in future years. This determines our income and then we base our costs around this conservative estimate. Our major income is from subscriptions but we also raise funds through public conferences. Confounding factors are <u>exchange rates</u> (being a European organisation we invoice in euros) and <u>mergers</u> (two members become one) and potentially VAT levels (which we are unable to recover on supplies). We try to keep a minimum reserve in place from year to year in order to service winding up costs (worst case scenario)"

2. **Forecasts** by Pam Swain "Crystal balls, tarot cards and the I Ching!"

3. **Forecasting recruitment and retention levels** by Mike Bone "The <u>prospect bank of potential recruits</u> must be validated based on current market intelligence and <u>interest levels of those prospects</u> contacted. The current <u>economic climate</u> and the current <u>value of the service</u> being offered (which may have changed for existing members) will also be factors in determining both recruitment and retention levels. The perceived impact of membership <u>subscription rate changes</u> must also be factored in. The <u>resource available</u> to 'manage' any step changes in growth or decline in membership may also influence the targets used as part of the forecast process."

4. **Predicting Recruitment & Retention Success** by James Jeynes "I must admit within both SOLACE and ACE we have a very financial approach to this and look at the income from the previous years to get a feel for the expected retention. However we do try and ensure our recruitment campaigns are scheduled to give as much to the current financial year as possible (we have rolling renewals), we also try and take in to account the current financial climate, the activity in the sector (some years have more burning issues than others which bring in members), how much we are intending to charge and our ability to chase every lead and every renewal (I have found with chatting to members that some only have enough resources to concentrate on either recruitment or retention in any one year). Although this process of prediction sounds very haphazard it does seem to work year on year ... thankfully!"

5. **From By Anne Pollard:** At the CMI this was rather a complex process. In Membership Marketing we looked at our activities during the previous year and the results they brought. We calculated which activities were worth repeating and to what extent we could improve ROI (taking into account any additional resources and channels that might be available). We looked at new activities that we could test or pilot (sometimes gleaned from your seminars and/or networking with other membership professionals). We took into account launch of new services, existing retention rates

and trends, new communications channels, the economic climate, new target sectors and partnerships (but probably in a very unscientific and rather optimistic way), then we calculated what the likely outcome was going to be. Then the Directors told us what they expected us to deliver which naturally bore no relationship to what we regarded as realistic calculations! I too would be really interested to hear of any models and how these are applied. Or is this an area for someone to research?

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