

Memberships Are Dead?

Is it still practical for our company offer a membership plan to our customer base?

This question made me immediately react with the with the feeling of opposition.

Absolutely it is practical to offer a membership plan to our customer base. What home services company worth their salt doesn't offer a membership plan to their customers?

But with any business decision, you shouldn't just act based off emotion. Data needs to be interpreted thoroughly before any conclusions are to be made.

If we look at our residential maintenance division P+L for the year 2021, the net loss for the year was \$-140,640.75 from \$958,030.56 in revenue generation. From the division, the new installation sales generated in the same time frame were \$824,720.74. \$60,748 of the completed revenue was billed from the installation department, so we can deduct this from our revenue total which results in an even further loss.

If we made our goal net profit from the installations that resulted from maintenance leads, that would result in \$123708.11 net profit. This is more than erased by the net loss of maintenance and the adjustment revenue.

Not all maintenance revenue is from membership customers, but with a large percentage of maintenance jobs completed being membership customers, these numbers would support that completing a high volume of membership maintenances results in a loss for the company.

To further support this, if we look at the idea of taking a loss on maintenances over a long period of time to create customer loyalty which results in a new system turn in the 15–20-year range, we can use some real-world figures to show either negative or very minimal returns on a new system after years of maintenance. In this example, maintenance is completed twice a year for 15 years with the end result of a new piece of equipment:

Average Maintenance Revenue	Average Cost Per Maintenance	# of visits per lifetime of equipment	Average profit per maintenance
150	200	30	-50
Avg Total maintenance profit	Average Installation Ticket	Desired net profit %	Net Profit \$ avg
-1500	12000	15%	1800
Estimated total profit			
300			

Memberships Are Dead?

For all of our efforts, a new installation after figuring in the maintenance losses made 2.5% net profit.

Once we get to the 20-year mark, we can see that we are operating at a complete loss:

Average Maintenance Revenue	Average Cost Per Maintenance	# of visits per lifetime of equipment	Average profit per maintenance
150	200	40	-50
Avg Total maintenance profit	Average Installation Ticket	Desired net profit %	Net Profit \$ avg
-2000	12000	15%	1800
Estimated total profit			
-200			

All of this debunks the ideal that long term loyalty will result in profit from new equipment. Furthermore, if the customer decides to choose another company for the new equipment installation, then we have taken all of that loss for no end result.

In addition to all of this, how much administrative time do we focus on gaining or renewing memberships? How much time do we spend trying to schedule prepaid services where we most likely are going to take a loss on the visit?

While I don't have the data to create an estimated number, if we figure an office employee spends an hour a day focusing on memberships at \$20/hr., over the course of the year that would cost approximately \$5200 to have one office employee spending a small amount of time each day working on membership sales or visits.

Furthermore, we bonus employees on memberships. The costs continue to build.

If we consider potential departmental referrals to plumbing as a benefit of having a membership plan in addition to new installation sales, we could add support to justifying maintenance as a loss leader.

Next, we need to look at the benefits that the customer receives with a membership:

- Peace of mind
- Discounts
- Priority Service
- Comfort
- Energy Savings

Memberships Are Dead?

I ask myself why we can't offer all of these as a company standard? Why don't we promise this to all of our customers, without the requirement of paying for a monthly or annual membership? The general population would be much more likely to call on us if these were our standard guarantees.

More worries come to mind:

Would a customer be as likely to use our services if they could go elsewhere for a membership that includes these items? Would a customer call us for maintenance without having a plan tying them to the services? Would our phones stop ringing without the membership?

With modern marketing strategies, it is easier than ever to become a household brand name. If we focus on the concept of being the only one invited to the party and market effectively, it could be suggested that regardless of a membership, a customer is going to call us over anyone else because of the value that we bring to the table.

The last factor to consider is having year-round work for our staff. This is the factor that scares me the most. If we didn't have a membership base to fall back on during our shoulder months, would trucks be rolling? Would leads be set and would new installations still be happening?

With the right marketing strategy, I believe it would be possible to effectively schedule work during this time of the year. Our Service staff would most likely require some serious refinement to operate under this model, but we would essentially be removing a huge loss generation strategy from our company and working strictly towards profit generation with effective marketing.

To sum everything up I ask the question: **Could our company potentially be more profitable without offering a membership?** While it is scary to suggest this, I do believe that operating without a membership could be the way of the future. It would all come down to proper marketing, planning, staffing and execution.

Are memberships dead? If they aren't dead yet, then they are knocking on death's door.