



# How to Build a Membership Program that Drives Recurring Revenue

# What is recurring revenue?

*“The biggest benefit from autopays, is that it allows me to forecast growth as a business owner.” –Josh Boyd, owner and founder of The 12.*

Recurring revenues, also commonly known as autopays or membership contracts, are the portion of your sales you count on every month, with some degree of certainty. They create a stable cash flow, contribute to client retention, increase your client base, and ultimately strengthen your bottom line. No matter what type of business you run, you will benefit from a recurring revenue program.

“In my one-on-one with a business analyst at MINDBODY University, I was informed to lower my autopay rates,” said Josh Boyd, owner and founder of *The 12*, which operates three fitness studios in Orange County, California.

## **After reducing autopay rates in early 2017, *The 12* quickly realized impressive gains, including:**

- An increase in the number of autopays sold from 118 to 781.
- 76.3% growth in autopay revenue.
- A jump in the amount of recurring revenue as a percentage of overall revenue to 57%.



# How recurring revenue works.

In general, businesses that incorporate a recurring revenue model make more money than pay-by-the-class/ service models. The short-term business boost from pay-by-the-class can also have a negative impact on overall client retention because your clients haven't committed themselves—either financially or emotionally—to your business long-term.

*You may ask: "Aren't recurring revenues just for businesses that offer long-term contracts or annual memberships? I provide [insert class/service type here], so this strategy won't work for me, will it?"*

Au contraire! Recurring revenues, also known as autopays, electronic funds transfers or membership contracts, can be structured to work in a number of ways.

*The 12* reduced its autopay rate from \$199 to \$149, creating a lower barrier to entry for new customers to commit. In less than 60 days, *The 12* saw adoption of autopay memberships jump from 118 to 781—a growth of 562%.

Not in the fitness industry? Not a problem. Instead of selling ad hoc appointments or services, create a monthly fee (i.e., membership) for services or classes in that designated time. For instance, spas or massage businesses can offer a facial-per-month or massage-a-month membership. Pilates and yoga studios already offer monthly unlimited class options, but why not pair them with a retail discount or monthly private sessions? Gyms and health clubs do open gym memberships and/or monthly personal training sessions. And salons offer monthly touchups or bi-monthly trims with a retail discount.

# Be sure to price it right.

What about the opposite problem, being too accessible to loyal customers? When businesses like yours offer unlimited plans, it's likely the only people who will sign up are ones that already attend or purchase frequently. We'll call them High Users. To transform your business, you need to price autopays so that both Medium Users and High Users purchase it.

To price the autopay, let's look at the numbers. We hate to be the reality checkers here, but frankly your clients just don't visit as often as you think they do, so you shouldn't price your autopay based on what your gut tells you—or it will likely be too high.

**For a class-based business**, analyze the attendance of your clients and categorize them. (If you can't currently do this, MINDBODY software enables you to run attendance and revenue reports at the touch of a button.)

## Our rule of thumb is:

- **Low Users** attend less than 2 times a month.
- **Medium Users** attend 3–7 times.
- **High Users** will visit you 8–12 times.

To price the autopay for a class-based business, take the number of times the Medium Users attend per month (let's say it's 6 times) and multiply that by your drop-in rate (let's say it is \$15).

*In this example, the autopay would be \$90 per month. (FYI, most MINDBODY clients charge between \$69 and \$129 a month for unlimited classes.)*

One of the first things *The 12* did was to decrease the price of their monthly package from \$199 to \$149, and we saw what happened to their sales, right? (Reminder, it grew by 562%.)

**For appointment-based businesses**, you can set autopays to renew automatically when a session package expires.

Be sure to consider all factors both within your business and around your current marketplace when deciding on price: What is the competition doing? What are other similar businesses charging? If the recently renovated 10,000-square-foot health club charges \$100 per month, you probably shouldn't be charging \$125. Also, you may need to reconsider how you pay your instructors. If you pay them per head, you may need to change your pay structure as class size grows.





# Now, it's time to work.

So, you're ready to increase your sales and meet more customers and now you have the formula, right? But you know these packages won't just sell themselves and you'll need to do some legwork.

Here's what to do: First, create sales targets for you and your staff. For example, try to sell 10 autopays per week at \$90 each for the next four months. If you hit this goal, you've just created a stable monthly stream of \$3,600 and boosted your annual revenue by \$14,400.

One thing we've learned is that the autopays will sell better if you present them as limited-time offers to new students. Get them in, create excitement, and give them expiration dates!

If you're feeling at all hesitant about going all in with this strategy, try it for a month and track results. If you're like *The 12*, you'll be glad you did. "The biggest benefit from autopays is that it allows me to forecast growth as a business owner," Josh explained.

With MINDBODY's integrated credit card payment processing, creating autopay memberships is efficient, effective, and best of all, easy.

**Ready to get started?**

Contact us at [payments@mindbodyonline.com](mailto:payments@mindbodyonline.com).