



The level of Active Members can only go up if the Joining inflow exceeds the Leaving outflow over time. So, what influences the Joining rate?

The rate at which members join your community can be viewed as a function of advertising and word-of-mouth marketing. We show our assumptions regarding causal relationships by linking the variables to the inflow with these arrows. The red color of the arrows indicates that there is a causal relationship, but we've not yet specified the nature of the relationship.

In this case, the rate at which new members join the community is the sum of those who join because of advertising and those who join because of word-of-mouth. Note how the color of the arrows turned from red to black when we specified the formula for the Joining inflow.

By advertising I mean any kind of one-to-many communication. Advertising is initiated by you. Advertising includes paid search, social media, display, broadcast, outdoor, public relations media placement, and sponsored content.

In contrast, word-of-mouth means one-to-one referrals. A referral is initiated by an existing member—not you.

The rate at which new members join due to advertising can be expressed as your advertising budget in dollars per month divided by your customer acquisition cost (usually abbreviated as "CAC") in dollars per member. Let's add the Advertising Budget and Customer Acquisition Cost variables to the model.

Up to this point, we've stipulated that the level of Active Members over time is a function of the Joining inflow relative to the Leaving outflow. We've made explicit our assumption that the rate at which new members join is the sum of New Members from Advertising and New Members from Word of Mouth. Furthermore, we've said that New Members from Advertising is equal to the Advertising Budget divided

by the Customer Acquisition Cost. Next time, we'll put some numbers to our Advertising Budget and C-A-C variables to explore their impact on Active Members.