Community Growth Strategies

Our growth strategies have a profound effect on whether we end up with a community or a network. In this video, I'm going to use a computer simulation to demonstrate why this is true.

Let me start by making a distinction between an audience, a network, and a community.

The members of an audience are brought together by a shared interest. Think of subscribers to a podcast or a YouTube channel. The patterns of communication are largely in the form of broadcast content. The engagement of audience members is usually independent of each other. Consequently, the requisite level of trust between members is low. It's enough that they trust—or are entertained by—the content provided by the host.

At the other end of the spectrum are communities. Communities consist of members who seek to achieve their personal objectives through collaboration. The emphasis is on one-to-one and small-group conversations rather than content. The requisite level of trust is high.

Networks lie somewhere in between. Members are connected, so it's possible for them to interact. However, member engagement is more cooperative than collaborative, so requisite trust is at some intermediate level.

Networks don't engender the sense of belonging we find in communities.

I'll be focusing on how differences in our growth strategies influence whether we end up with a network or a community.

Fabian Pfortmüller is a successful community builder, an experienced entrepreneur, an acknowledged innovator, and a prolific writer. In his experience, expectations of rapid growth are incompatible with the cultivation of a true community. Fabian notes that in order to weave a community, there must be meaningful relationships, and those tend to take a long time to form.

As would-be community hosts, we ignore that truth at our peril.

Fabian distinguishes between two archetypal growth strategies: growing from the outside-in and from the inside-out.

The outside-in strategy seems to be our default. We seek to reach as large an audience as possible and then push them through a funnel that somehow yields engaged community members.

Alternatively, the inside-out strategy builds on the relationships spawned from a small group of initial members.

An outside-in strategy emphasizes member acquisition through advertising.

An inside-out strategy, on the other hand, emphasizes referral and retention.

The emphasis of each strategy will tend to yield quite different patterns of membership growth over time.

A successful outside-in strategy will exhibit rapid—and quite gratifying—initial growth that diminishes over time.

In contrast, a successfully executed inside-out growth strategy will exhibit agonizingly slow membership growth—often for several years—before accelerating.

I'm going to demonstrate why these patterns are likely to emerge using a computer simulation, and I'll highlight the implications for those of us who seek to cultivate communities.

Here's a simple but useful model of the level of Active Members over time.

The level of Active Members is determined by the Joining rate relative to the Leaving rate.

The rate at which Members leave is a function of the average Membership Duration. For a given level of Active Members, the longer the Membership Duration, the fewer Members will leave each month. Presumably, Membership Duration is a function of the relevance of the community to the Members over time as well as the quality of membership experiences and relationships.

The rate at which Members join is a function of New Members from Advertising plus New Members from Word-of-Mouth referral.

Let me define what I mean by "advertising" and "referral". Advertising is a one-to-many message initiated by the community host. The effectiveness of advertising is a function of the skill, persuasiveness, and budget of the host. We have direct control over those factors, which is why we advertise so readily.

A referral, on the other hand, is a one-to-one marketing message initiated by a community member. The frequency and effect of referrals are functions of the social capital of our individual members, which is largely outside of our control. We can influence referral indirectly by cultivating a community characterized by experiences that are highly valued by our members.

The New Members from Advertising rate is equal to the Advertising Budget divided by the average Customer (or Member) Acquisition Cost (commonly referred to as "CAC"). The higher your budget and/or the lower your CAC, the higher the rate at which new members will join.

It's important to recognize that advertising expenditures are not just out-of-pocket costs. They also include the opportunity cost of the hosts who often invest a great deal of under-compensated effort into cultivating a community.

Describing New Members from Word-of-Mouth is a bit more involved.

Referrals are, in part, a function of the number of Active Members. After all, no members mean no referrals.

The number of Active Members times the average Referral Rate equals the number of Referrals per month. To the extent Active Members feel that a referral to a friend or colleague will reflect well on them, the Referral Rate will be higher than in cases when that is not true. In other words, the referring member usually must perceive a positive return on their investment of social capital that a referral entails.

The Persuasion Fraction means the proportion of Referrals that translate into New Members from Word-of-Mouth.

At this point, our membership model is complete, and we're almost ready to simulate our archetypal growth strategies.

Before putting the model in motion, let me clarify what I mean by active membership.

Active membership implies being more than a passive consumer of content.

It entails the continuing investment of time and, perhaps, money in the form of a membership fee.

Michel Bachman is a facilitator and weaver of planetary communities.

He has proposed that communities consist of three concentric circles of engagement: Committed Stewards, Active Co-creators, and Passive Consumers. In other words, the level of Active Members in this model corresponds with the innermost circles in Michel Bachman's framework.

An outside-in strategy emphasizes advertising in order to reach a broad audience. This tends to attract members who are loosely bound to each other, which is represented by the outermost circles of Michel's model. Consequently, referral and retention are likely to be relatively low.

So, our Outside-in Strategy scenario is initialized with an advertising budget of $10,000 per month, which drops to $4,000 per month after month 5. The Referral Rate is just 0.2 referrals per member per year or one referral every five years. The Membership Duration is assumed to be 12 months on average.

The level of Active Members grows rapidly during the first five months of high advertising expenditures to 172 members. However, you can already see that the rate at which members are leaving is almost equal to the rate at which members are joining due to the relatively low Membership Duration.

If we play the movie forward for the remainder of the 60-month forecast horizon, we see how the level of Active Members flattens out at around 212 members.

Holding the Referral Rate and Membership Duration constant, the only way to sustain membership growth is to commit to more and more advertising.

In contrast, the Inside-out strategy starts with a small group of members represented by the innermost circles of Michel Bachman's model and emphasizes the patient cultivation of relationships and trust. At least initially, advertising is low or non-existent, but high trust yields relatively high referral and retention.

In the Inside-out scenario, the Advertising Budget is just $2,500 for the first month—reflecting the effort it takes to recruit ten core members—and then falls to $0 per month thereafter. On the other hand, the assumed Referral Rate and Membership Duration are four times higher than in the Outside-in Strategy scenario.

Although members in this scenario are willing to make referrals, there just aren't many members early on. Consequently, early growth is very slow. It takes 36 months to get to 83 members, a level that only takes two months in the Outside-in scenario!

However, once the referral flywheel gets going, membership growth accelerates.

In fact, the level of Active Members under the Inside-out Strategy surpasses that under the Outside-in Strategy by month 52.

The differences between these two strategies are primarily qualitative rather than quantitative. My analysis shows that they can be economically equivalent under a wide range of plausible assumptions.

The Outside-in strategy is well-suited to building an audience or a network, where the requisite level of trust among members is relatively low.

Furthermore, the Outside-in Strategy offers the prospect of instant gratification. If you are good at promotion, your membership can grow quickly in the near term.

In the longer term, however, the Outside-in Strategy can be exhausting. That's because you must expend a lot of energy and resources just to maintain your membership in the face of relatively high churn.

On the other hand, the Inside-out Strategy is appropriate for cultivating a collaborative community, and it may be essential to achieve that goal.

Creating an environment in which relationships and trust can develop among members requires patience, persistence, and humility. Early growth is likely to be frustratingly slow.

The good news is that a successful Inside-out strategy need not require a high level of investment on the part of the host. It does need a solid foundation and sustained effort.

It's a marathon rather than a sprint