

From the Lab

Membership Clubs and the Pros and Cons of the Third-Party Strategy

When the Club business burst onto the DRTV scene, it appeared as though everyone was making big dough with seemingly no backlash. But, alas, the folly of the Third-Party strategy has caught up with us and reality has shifted. This month, TEST Marketing examines why back then the decision to include a third-party tag was such a no-brainer, and why now there are actually consequences to consider.

Is a Third-Party Tag Right for Your Telemarketing Script?

Before adding a third-party tag to your telemarketing script, consider the following pros and cons:

Pros

- Easy revenue enhancement.

Cons

- Causes caller fatigue and buyer's remorse.
- May interfere with your own continuity.
- Increases customer service calls.
- Cost of telemarketing is your responsibility.
- Higher rate of charge-backs.
- Potentially damaging to your relationship with your customer.

Choosing the Best Third-Party Agency

Finding the right third-party agency can be an arduous endeavor. Here are a few tips that can make your search a little easier, and ultimately help you minimize the risk associated with including third parties in your scripts:

- Make sure the company pays the telemarketing cost associated with its third-party reads.
- Easy, quick, stress-free implementation.
- Weighed against the other membership clubs, is the company among the top paying third-party agencies?
- The company's database logs what callers have been read what clubs, so that a repeat caller is not read the same club he or she was read on a previous call. This minimizes caller fatigue and works to preserve customer relationship.
- Can you count on the company paying on time?

General Points to Remember About Membership Clubs

Lastly, before making that leap into the world of membership clubs, it's important to remember three key points:

- When considering clubs, there are several clubs that may have a higher gross payout based on conversion rate, but not necessarily a higher net profit.
- Potential future trend: the marketer controlling the club by processing the credit cards and paying a bounty back to the club.
- The whole club business is likely to drastically change in the next 12 months, and how? Your guess is as good as ours.

Examining Membership Clubs From Past to Present

	Then	Now
Average Club Conversion	18-30%	8-12%
Average pay-out, Position one	\$4.50 per read to \$35 per yes plus often very lucrative upfront "signing bonuses" for the marketer.	\$2.25 per read to \$18 per yes. "Signing bonuses" are a thing of the past.
Average pay-out, Position two	In general, marketers did not do two reads because it wasn't as vital.	\$13-\$15 per yes, no per-read deals.
Average telemarketing cost per read	\$0.50-\$0.75	\$1.25-\$2
Who pays the telemarketer for club reads?	Third party.	Marketer.
Members the marketer gets paid for	Gross members, less declines, no matter if the member cancelled within 30 days or not.	Net members (members who are still around after 30 days).
Terms of payment to marketer	Net 30-60 days.	Net 30-60 days.
Average # of states banning marketing of given club (not all clubs banned in all states)	None.	4-13 states per club.
Third-party tag scripting	Very aggressive; unregulated; questionable tactics and vague disclosures.	Heavily scrutinized by Hall, Dickler, Kent, Goldstein and Wood as a safeguard against the FTC; offer and obligation must be fully disclosed; recorded by the telemarketer.
Annual renewal fees	None.	Usually \$10 paid to marketer for each member renewal, to help compensate for lesser upfront revenue.



Founded by Adam MacDonald, TEST Marketing Group operates a "Test Laboratory," where campaigns are developed by experts in a controlled environment. The TEST Laboratory is a specialized inbound/outbound phone center. The center is staffed with a group of specially trained marketing agents working on a state-of-the-art platform designed specifically to develop and measure the most profitable sales strategies for DR campaigns. Once determined, the strategy is "rolled-out" through the primary inbound and outbound telemarketer.

The preferred result of this process: massive increases in net profit. TEST can be reached at (714) 546-5555. For Adam MacDonald, TEST CEO, dial ext. 202. For Chris Walshe, TEST president, dial ext. 201.

Many thanks to Joel Margulies, partner, Transactional Marketing Partners, for sharing his extensive membership club expertise with us.