

# Loyalty: Amazon in Prime position

UPTAKE ACROSS RETAILER LOYALTY SCHEMES



Retailer loyalty programmes have been in the headlines recently, from Sainsbury’s purchase of the Nectar scheme to Amazon announcing 100m global Prime members globally. This bulletin looks at new survey evidence of the appeal of loyalty schemes across the spectrum of retailers.

## Avoid payment, increase penetration... unless of course you’re Amazon

We used YouGov to survey UK households about the loyalty schemes they’re members of. **Figure 1** shows the results for some of the country’s well-known retailers.

**Figure 1** Percentage of households that are members of loyalty and subscription schemes across retailers<sup>1</sup>



Source: Frontier analysis of YouGov survey

Note: Sample size = 2,036; December 2017

Grocery giants Tesco and Sainsbury’s have the highest hit rates, with 71% and 65% of households reporting that they hold the Tesco Clubcard and Nectar card respectively. The popularity is unsurprising given that the cards are free and the two supermarkets account for over 40p of every £1 spent on groceries in the UK.<sup>2</sup> This also reflects Tesco’s and Sainsbury’s appeal as “broad churches”: uptake of their loyalty schemes is fairly constant across age, income, region and household type.

<sup>1</sup> Cost per month is based on a 12-month contract with each delivery scheme. A lifetime Co-op membership costs £1, making the cost per month essentially zero

<sup>2</sup> <https://www.kantarworldpanel.com/global/grocery-market-share/great-britain>

Co-op Membership and myWaitrose also appear to be punching above their weight in the loyalty scheme division. For both, a quarter of UK households say they are members – far exceeding their market share. Like Tesco, their schemes hold wide appeal, albeit with a slight tilt towards the over-50s for Co-op and wealthier households for Waitrose.

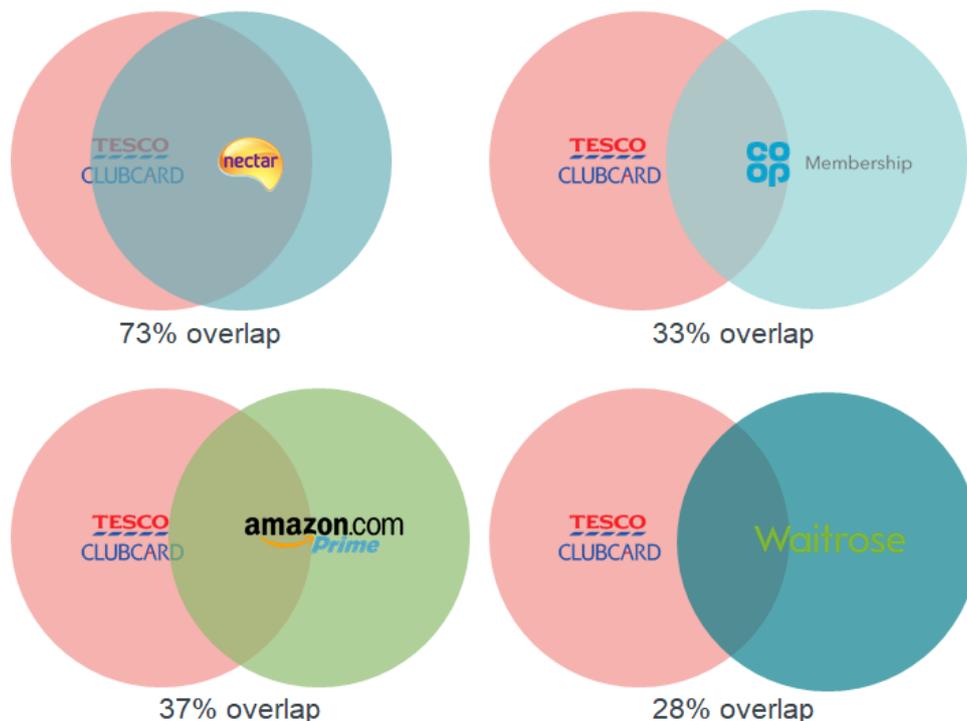
In contrast to the “traditional” loyalty programmes, retailers’ delivery saver schemes (essentially a subscription model providing savings on online delivery) have much lower uptake. Tesco’s Delivery Saver leads the pack with one in 20 households saying they are signed up. Ocado, Sainsbury’s, Asda and Morrisons all offer a similar proposition, with a slightly lower response rate. Cost might play a role, with most retailers charging upwards of £50 a year. Consumer shopping habits also play a part. According to our survey, fewer than one in three households shop for groceries online even occasionally, and fewer than 5% do so all the time.

Amazon Prime, starting at £79 a year, is also a subscription-based loyalty scheme offering “free” next-day delivery in addition to a raft of other benefits. Despite the relatively hefty price tag, over a third of UK households say they are members of Amazon Prime – although with a survey we can never be quite sure how customers interpret the question. Our survey shows that Amazon Prime has fairly wide appeal and is particularly popular among “income rich, time poor” groups, such as relatively young, affluent households with children.

### Loyal customers not that loyal

We saw above that the uptake of most retailers’ loyalty programmes far exceeds their market shares, with customers signing up for multiple schemes. **Figure 2** shows the degree of overlap in households with Tesco Clubcard and a selection of other loyalty schemes. Almost three-quarters of Tesco Clubcard members also have a Nectar card, and around a third also have Co-op membership and a MyWaitrose card respectively.

**Figure 2**      **Overlap between Tesco Clubcard customers and other loyalty cards**



Source: Frontier analysis of YouGov survey  
 Note: Sample size = 2,036; December 2017

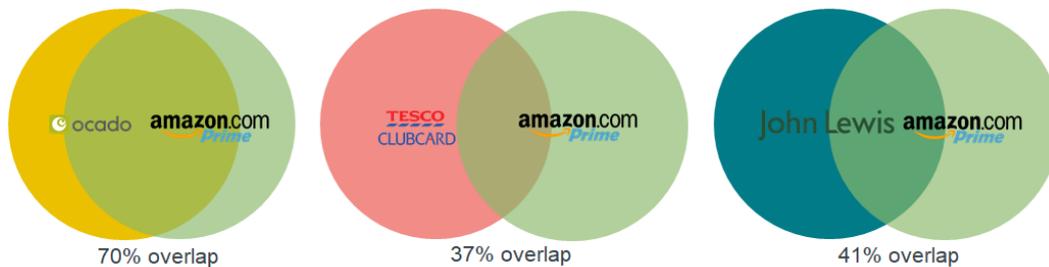
Clubcard holders say they are not alone in shopping around. More than 80% of MyWaitrose customers also have a Nectar Card and nearly 40% say they have Co-op membership.

While customers are undoubtedly more inclined to stick with certain retailers, the extensive overlap suggests that being a member of a reward scheme is a poor indicator of loyalty. Rather than just attracting faithful, monogamous customers, this suggests that free loyalty programmes also appear to attract promiscuous point-hunters who shop around and pocket the discounts as they go. In contrast, we see less overlap in the uptake of grocery retailers' delivery service schemes. With a monthly cost involved, customers are likely to pick their preferred online supermarket and stay with it.

### Amazon Prime: overlap today, domination tomorrow?

An examination of the overlap between different loyalty programmes and Amazon Prime provides an insight into the types of customers using these schemes. **Figure 3** below illustrates how many of the Ocado, Tesco Club Card and John Lewis members also have an account with Amazon Prime.

**Figure 3** Overlap between Amazon Prime and other retail offers



Source: YouGov

- Amazon Prime has an exceptionally high penetration of Ocado customers, which may show that both customer groups have a strong preference for shopping online and for delivery services.
- The overlap between Tesco Clubcard customers and Amazon Prime customers (37%) is exactly in line with Amazon Prime's overall market penetration. The same is true for Sainsburys, further reflecting the 'broad church' brand positioning of both these grocery retailers.
- Perhaps surprisingly, My John Lewis customers also use Amazon Prime broadly in line with the market. Although John Lewis also has high online sales, they are not disproportionately likely to shop in Amazon.

The high degree of commonality suggests that it is not just 'digitally savvy' customers who choose to use Amazon Prime. Indeed, 61% of Prime households never shop for groceries online. The considerable overlap suggests that, for now, customers may view Amazon Prime as complementary to other loyalty schemes.

As the online retail market grows and lines between grocery, non-grocery and online retailers become ever more blurred, customers may start viewing Amazon Prime as an alternative to other loyalty schemes. The extensive overlap today could leave Amazon well placed to take advantage of this trend: customers who already have an Amazon Prime account might be more inclined to use this platform rather than pay for another scheme. Add to this Amazon's leaner online business model and no wonder some retailers are nervous.

## So what?

To sum up:

- The penetration rates of Tesco Clubcard and Sainsbury's Nectar card show that both brands have a wide appeal across households. However, the high degree of overlap suggests "traditional" reward programmes are not generating loyalty. By contrast, customers who sign up to delivery schemes appear to be less promiscuous. Given the price tag, this makes sense.
- Despite costing £79+ a year, perhaps one in three UK households have subscribed to Amazon Prime. In other words, Amazon has persuaded a substantial proportion of the population to pay to be loyal. The attraction of Amazon Prime extends beyond the digitally savvy, and its overlap with loyalty schemes suggests it is well positioned to capitalise on further growth in online shopping. When it comes to 'paid for' retail membership schemes, Amazon is currently in Prime position.



**Hugh van Niekerk**

+44 (0)207 031 7002

[hugh.vanniekerk@frontier-economics.com](mailto:hugh.vanniekerk@frontier-economics.com)



**Michael Owen**

+44 (0)207 031 7055

[michael.owen@frontier-economics.com](mailto:michael.owen@frontier-economics.com)