


Reimagining Retail: How the valued benefits of retail memberships have changed and some creative recommendations

Audio



On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss exactly how much of the retail membership market Amazon Prime has gobbled up, whether Walmart+ is even competing with Amazon, and how valued benefits have shifted. Then, for "Pop-Up Rankings," we rank our top four creative recommendations for what retail memberships could offer members. Join our analyst Sara Lebow as she hosts analysts Sky Canaves and Blake Droesch.

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Episode Transcript:

Sara Lebow:

Hello listeners. Today is Wednesday, May 31st. Welcome to Behind the Numbers, Reimagining Retail, an eMarketer Podcast made possible by Adobe. This is the show where we talk about

how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is retail memberships.

First let's meet today's guests. Joining me on today's episode, we have senior analyst Sky Canaves. Welcome back Sky.

Sky Canaves:

Hi Sara. Thanks for having me.

Sara Lebow:

Thanks for being here. You've been a podcast regular recently. Also somewhat of a regular recently, we have senior analyst Blake Droesch. Hey Blake.

Blake Droesch:

Hey Sara. Good to be back.

Sara Lebow:

Good to have you. Let's get started with our first segment, news and reviews where I give the news and our guests tell me their reviews.

Today's story is a May 23rd story from retail touchpoints titled Google Debuts New Tools to Help Brands Harness the Power of Generative AI. This is one of a few things Google is doing to weave Generative AI into shopping, including updating queries, using AI, and tossing ads into its chat-based search. Google wants to gain edge over Microsoft and OpenAI whose partnership has allowed both companies to be the first movers in this space. So Sky, your view of this story in 60 seconds is?

Sky Canaves:

So I see this really as a first step in helping sellers that are already using the Merchant Center for Google Shopping to make use of Generative AI tools directly on the platform. And that's going to mostly benefit smaller merchants who don't have as much access to creative assets or agencies to help them create more content. So in this case, they already have their product imagery there in the Merchant Center and they can use prompts with this new Product Studio to create the images they want and then they tweak them and push them back out onto the listings right there.

So this can really be a cost-effective way to help boost sales. One thing that Google pointed out is that about 40% of product listings on Google Shopping only have one image, but those listings that have multiple images see much more impressions and clicks. So I think it's mainly for smaller merchants who have budget issues and I think we can expect to see eventually rollout of more tools like images to video, they already do image to 3D, and we'll see things like image to text and vice versa for product descriptions on Google Shopping.

Sara Lebow:

Yeah. I also think we can expect to see more integration here so that you don't have to jump between ChatGPT and Midjourney and figure out how to use all those tools. Blake, your review of this story in 60 seconds is?

Blake Droesch:

Yeah. I had largely the same takeaway as Sky. I think these types of self-service tools will definitely be valuable to smaller businesses and upstarts, but the ability to scale this service to attract larger or more established companies is really going to depend on the quality of the tools. I haven't really been very impressed with Generative AI's ability to write a refined copy. So I don't really see this being an alternative to working with creative agencies for anyone other than, as Sky said, a super lean upstart. The same goes for image generation. I don't think it's really going to be able to replace graphic designers, but I do suppose that there is an element of AI that could really be beneficial in helping to repurpose product images or other types of creative to fit different eCommerce platforms, which can be a laborious task for a lot of sellers. However, that would also entail the use case being outside of just Google Shopping and on other eCommerce platforms as well. But it's definitely an interesting use case for selling AI and introducing it to a lot of their smaller merchants.

Sara Lebow:

Yeah. This landscape, this tool, is something that we're going to see, we've seen announcements for, at Meta, at Amazon. I saw a headline today about how Amazon's been pretty vague about what they actually mean and Google appears to actually be putting something out there. So I think that sort of gives them an advantage right now, but you're definitely right. It's going to be a matter of whose tools actually stand the test of driving conversions. Now it's time for our next segment. Retell me this, retell me that, where we discuss an interesting retail topic. Today's topic is retail memberships. This year people in the

US will pay over \$35 billion in retail membership fees. Those are different from loyalty programs and from some subscription product purchasing. Blake, you wrote our recent retail membership forecast report. Can you clarify exactly what we mean by retail memberships?

Blake Droesch:

Yeah. So our forecast that you're referring to refers strictly to membership programs where a retailer offers access to exclusive benefits or discounts in exchange for a recurring monthly or an annual fee. So we're talking specifically about programs like Amazon Prime or Walmart Plus where members get things like free shipping and access to streaming platforms, but it also includes your classic like wholesale club memberships like Costco and Sam's Club. What we don't include in this forecast are delivery memberships like DoorDash Dash Pass or Instacart Plus, nor do we include, like you said, subscription eCommerce revenue. So those are programs like Amazon Subscribe and Save or any type of subscription box where you're paying for a product and not a service.

Sara Lebow:

Okay. So we're talking about Prime, we're talking about Walmart Plus, we're talking about Costco, Sam's Club, those big names.

Blake Droesch:

Right.

Sara Lebow:

So, according to that forecast, some 53% of all US paid retail membership fees will go to Amazon this year making it by far the biggest competitor in that space. That's not really a surprise. In comparison, just one and a half percent of those fees are going to Walmart Plus. My question here is, is Walmart Plus even competing with Amazon right now?

Blake Droesch:

Well, Amazon had a 15-year head start on Walmart in this area, so I wouldn't necessarily count them out just yet. I will say that Walmart Plus has a huge appeal to people who already shop at Walmart because it pairs in-store benefits, things like gas, discounts, and membership rewards, with the online perks more associated with Prime, so like free shipping and grocery delivery. However, I don't think that in its current form its services are really comprehensive

enough to actually steal members away from Prime, but it doesn't necessarily mean that Walmart Plus can't function on its own to really strengthen loyalty with the brand, particularly for moving its in-store shoppers to spend more online with Walmart rather than have their core in-store shoppers go to other competitors like Amazon.

Sara Lebow:

Blake, okay. So it's less focused on competing with Amazon and more focused on getting those extra dollars from its own consumers?

Blake Droesch:

Yeah. I think basically that's Walmart's biggest advantage is the size of its in-store shopping base. If they could convince more of those customers to sort of experience the omnichannel benefits from what Walmart Plus offers, then it's only going to boost their revenue online as well.

Sara Lebow:

Okay. So Walmart Plus obviously has a massive in-store base, but Amazon Prime has a massive online base. Around 65% of people in the US are Prime members already. So Sky, I'll come to you with this question. Can anyone seriously compete with Prime?

Sky Canaves:

Well, Walmart is certainly going to try and it's really aiming to follow that Amazon playbook of building a flywheel with membership at its core. So they already have that huge audience from stores and that's spilled over onto web traffic as well and now they want to draw more sellers to its third party marketplace and that would allow them to sell additional services such as advertising via its retail media network and then fulfillment services and offer marketing and all sorts of other support for retailers and sellers and brands that are on its platform. And that's part of a much bigger trend in retail from just selling goods to services which can yield higher margins. And Amazon's clearly the best example. One thing where Walmart does have a big advantage over Amazon as well as its stores and it's related is grocery.

And I think that's something that's really driving Walmart Plus membership right now. At the same time, grocery doesn't quite lend itself as well to a third party marketplace because you're not going to have third party sellers selling fresh foods or even CPG products necessarily through the marketplace. And stores are really a driver of the grocery business for

Walmart, both from store shoppers and from people who are buying online, picking up in store, doing curbside, and getting delivery as well. But it does give Walmart the opportunity to draw a lot more CPG ad dollars. Though I think in some ways it's push for spending from CPG brands is getting a little bit complicated because of existing joint business plans. So that could also cut into trade budgets. So overall the revenue for Walmart might not be as big a gain.

Sara Lebow:

Yeah. I feel like this has been a big through line for Walmart for all of its recent earnings calls is that its ad business has been doing well, it's grocery business, the way it's been able to keep groceries inexpensive has been doing well at the same time its ad business is not nearly as big as Amazon's.

Sky Canaves:

But it is growing about twice as fast as Amazon's this year and through our forecast period.

Sara Lebow:

So we have talked about how Walmart Plus really exists to push for those extra conversion dollars, get people online, and sell ads. Why do other retailers have memberships? Are those the three key reasons?

Blake Droesch:

Well, the main reason, other than just recurring revenue, is to build loyalty. Whether you're looking at Costco or Amazon Prime, the model is to basically get access to certain benefits. So when you need the core things that you go to a retailer for, that's the place you look to. And then when you need another product or service that might not be top of mind, you look to that place too, right? So I think an example would be Amazon. They have such a large subscriber base for Amazon Prime, but not necessarily as many people are looking to Amazon for digital grocery. Our forecast shows that Walmart outsells Amazon when it comes to online grocery products, but if you're a longtime Prime subscriber and you never bought groceries online before and you want to try it out, it's a logical next step to go to Amazon Fresh because you are already getting certain benefits through your Prime subscription.

And I think as eCommerce players expand, not just into other product categories, but compete with other retailers for different services, this is why retail memberships are sort of

the glue that can help expose their customers to other sides of their business. It's obviously something that Amazon has done extraordinarily well over the years and it's something that retailers are attempting to do with their own businesses. However, they don't have as many offerings as Amazon does across eCommerce and retail and also media. So these experiences are somewhat limited, but that really is ultimately the goal is to build loyalty not just within your core product offering, but in other revenue streams that retailers are trying to achieve.

Sara Lebow:

Sure. And that push to get that non-grocery eCommerce consumer to buy groceries. The only place I've ever attempted to buy groceries online from is Whole Foods because I was already a Prime member. The entire experience still proved too expensive because of how expensive Whole Foods is, which is where they're losing to Walmart, but that is the only place I've attempted that.

Sky Canaves:

Well, Walmart has the opposite problem. It's trying to get its grocery customers to move into non-grocery. I think in their most recent earnings call, they noted that almost half of their Walmart Plus members are coming from online pickup and delivery channels. So that's really one of the drivers of membership for them and a lot of that is grocery of course. And they've also noted weaknesses in some of their other categories, in more discretionary categories like apparel and home goods. So they really are using the membership to try and expand how much consumers spend as well 'cause I think with both Amazon and Walmart memberships, what we see is that members spend more and they make more frequent purchases because they've already kind of committed to the retailer through the membership.

Sara Lebow:

Sure. You mentioned delivery as a driver for Walmart. It seems like free delivery is kind of table stakes for a retail membership at this point. So how have the most valued memberships of these retail memberships changed over time and what's become an expectation?

Sky Canaves:

I think the fundamentals of perceived savings and getting an extra bang for buck haven't really changed that much. Free shipping is a big one and that's a saving and that's something that, as more retailers look to establish membership programs, they're probably looking to

use membership fees or revenues as a way to offset the cost of offering free shipping. But I think consumers will need to feel that the membership is essentially going to pay for itself. We did this type of cost calculation earlier this year when we joined Costco because we realized our savings just from switching to the private label dog food brand would pay for the membership over the course of a year, more than pay for the membership. And then of course, we go into Costco and spend a lot more on things we didn't know we needed and then we get a hot dog and pizza and feel better about it all because we're saving so much on that.

Sara Lebow:

Love the Costco hotdogs. You're saying that your dog food, switching to private label alone paid for your Costco membership?

Sky Canaves:

Yeah. I think we save about \$30 a month.

Sara Lebow:

Wow.

Sky Canaves:

Yeah. We have two dogs and they eat twice a day. So we did the math and it added up, with the \$120 of Costco membership, was much less than what we were paying extra in dog food.

Sara Lebow:

Okay. More savings tips on this podcast. I think Blake, last week you said that you saved \$18 through having the Target app.

Blake Droesch:

Yeah. \$14. Yeah. It was a good day. I will just add quickly, I think what Sky said is totally true is that the benefits haven't really changed. I think free shipping is obviously table stakes for a lot of these services, but I think people still gravitate towards Prime even though they all offer free shipping because they have an association with Amazon as being able to get your packages to you faster than any other service.

So it's about basically latching yourself on through loyalty to retailers that can offer you not only the best value, but also the greatest convenience and I think where Walmart has been

really smart is their offerings that they've rolled out around things like reverse logistics where Walmart Plus members can return packages basically just by leaving them on their doorstep and then the Walmart driver will come and pick them up and return it for them and that's a service that other retailers just flat out cannot offer unless they're doing it through partnerships with UPS or something, but Walmart has the delivery infrastructure to offer that to their retail members in the same way that Prime can offer best in industry shipping speed, even though all of the other retailers might also have free shipping as well.

Sara Lebow:

Sure. What's that stat? That like 80% of the country lives within five miles of a Walmart?

Blake Droesch:

Yeah. 80 or 90.

Sara Lebow:

I may have made up both of those numbers.

Blake Droesch:

Well Walmart always touts two stats. One of them is the one you're referring to and then the other one is like 90% of Americans shop at a Walmart within the course of the year and I always confuse those two. Pretty ridiculous talking points. Ridiculous and low in a way that it's impressive.

Sky Canaves:

Yeah. I think one that I've heard is that they can reach 90% of the population with their stores for delivery. Something like that.

Blake Droesch:

Yeah.

Sky Canaves:

Yeah. And they're aiming to get it to 95% or something in the near future.

Sara Lebow:

Okay. Well that is all we have time for in the first half. We're going to talk a bit more about creative ideas for retail memberships, but first, a quick message from our sponsor, Adobe.

This year, retailers are making ultra personalization a priority. When you're able to create and deliver personalized shopping experiences on your customer's terms in real-time, you don't just define the future of retail, you own it. Visit the Adobe retail industry website, a hub of insights, resources, and success stories to help you scale your personalization efforts like a pro. Go to adobe.com/go/reimagine for more.

Welcome back from the break. Now it's time for pop up rankings, where we take a look at specific examples and we rank them. Today we'll be ranking our top four creative recommendations for what retail memberships could offer their members. So, in no particular order, Blake, why don't you give us our first creative recommendation?

Blake Droesch:

Yeah. My first recommendation would be sort of expanding into a flywheel like I was talking about, but not necessarily mimicking exactly what Amazon has. This isn't a retail membership per se, but I think of the memberships that I pay for a month and one of them is Uber One and it's because I've been using a lot of ride-shares lately and I find that the discounts really help offset the cost that I'm paying for Uber ride-share, but now that I pay for this service, I'm less likely to use restaurant delivery services like DoorDash. I'm more likely to use Uber Eats even though I wasn't using it before. But if Uber could, let's say, expand to partner with more retailers, which they already do, but if they could expand that and say, "As part of your Uber One membership you're also going to get free shipping from Target or another Amazon competitor," then that really starts to sweeten the deal.

"Maybe I do then drop my Amazon Prime subscription and just go all in on Uber," because they're just, like I think Sky said, bang for your buck. That's really what this is all about at the end of the day. So if these different companies can get creative and build flywheels that actually offer maybe even a personalization that can sort of expand beyond what Amazon offers, then I think that could be really valuable. Very difficult to achieve 'cause it requires a lot of partnerships, but I think that would be something that could really be a game changer.

Sara Lebow:

Do you see a world where Uber has its own fulfillment centers?

Blake Droesch:

It's not too far off. Uber's invested in a lot of different, wild ideas.

Sara Lebow:

Okay. Moving along. Sky, can you give us our next creative recommendation for a retailer offering a membership?

Sky Canaves:

So I think as value continues to be top of mind for consumers when considering retail memberships, something that can really keep them engaged will be more personalized savings and personalized offers. So another advantage of retail memberships for retailers is that they yield a lot more consumer data and they really offer the ability to then tailor offers and coupons and promotions to individual consumers based on their purchasing habits or histories. So I think that's a direction that retailers will have to go in to continue to retain members. When they see, "Oh, instead of getting this coupon for something that everybody's getting, I'm getting something for a product that I buy or a category that I make frequent purchases in."

Sara Lebow:

This will be one of Walmart's advantages as it expands its membership, right, is that Walmart doesn't have as much data because people pay with cash there more. And so having these memberships allows it to collect more data and be more personalized with ads.

Sky Canaves:

That's true, but I think they have a good share of credit card and debit card spending as well and one of their savvier partnerships recently has been with Amex to credit the Walmart Plus fees back to Amex platinum members. So that's drawing a much wealthier, more affluent clientele to Walmart Plus where if it's free, people are going to say, "Why not? Might as well try it."

Sara Lebow:

That's a great point. Okay. Blake, can you give us our next creative recommendation for a retailer offering its members?

Blake Droesch:

Yeah. I think product partnerships could be an interesting angle as well. I think actually Sky and I talked about this on the podcast a couple of months ago, but Walmart partnered with Oreo to sort of have an exclusive pre-release of a limited edition flavor for Walmart Plus members and we were kind of discussing like, "Okay. Is this really going to move the needle with Walmart Plus memberships at all?" And obviously a one-off isn't really going to do much, but Walmart could really leverage its relationships with CPG companies to create sort of a network of product partnerships that could only be available to Walmart Plus members and it wouldn't have to just be limited edition sort of exclusive access. It could also be things like sampling. A lot of CPG brands are looking for ways to sort of mimic in-store sampling online and I think if you position that as sort of free gifts for subscribers, that could go a long way in terms of building memberships and then also benefiting brands as a vehicle for marketing and then also subscriptions.

Amazon Subscribe and Save is doing really well right now. If Walmart could create partnerships that would give Walmart Plus members exclusive discounts for recurring subscriptions on some of these everyday essentials that Walmart is really a go-to destination for a lot of its customers, then I think it could also add a lot of value for the Walmart Plus membership in a way that some of its media partnerships haven't really achieved yet.

Sara Lebow:

Sure. Its media partnership is with Paramount Plus right now, right? Discovery Plus?

Blake Droesch:

Yeah. Paramount Plus, almost in a way that a credit card company does. You can get a free trial period to Sirius XM or maybe Spotify, but Paramount Plus I think is the big video streaming one.

Sara Lebow:

Yeah. Free gifts have long been a staple of Sephora's loyalty program that I know people get excited about. Having Walmart do that with CPG products could be pretty cool. That Oreo flavor we mentioned we did talk about a few weeks ago, blackout cake flavor cream Oreo. Before we get into our last creative recommendation, did any of you get a chance to try it?

Sky Canaves:

No. I did-

Sara Lebow:

Okay.

Sky Canaves:

I did not.

Blake Droesch:

No. I guess I got to sign up for Walmart Plus.

Sara Lebow:

No. It was early access. You can probably access it now. The-

Blake Droesch:

Oh.

Sara Lebow:

The deal was that you got early access-

Blake Droesch:

Early access.

Sara Lebow:

To the flavor. It wasn't even an exclusive flavor. And it didn't sound good.

Sky Canaves:

I'm not such an Oreo super fan that I have to try all the new flavors. I know some people collect them.

Sara Lebow:

Okay. So what are you a super fan of then in terms of, this is my long-winded segue, into our last creative recommendation for what retail memberships could offer.

Sky Canaves:

So I think content will continue to be a big one. Blake, you mentioned Walmart's Paramount Plus benefit and that's one that they're really touting quite heavily as a hook to draw people into Walmart Plus or maybe even just for the trial and then they would see the other benefits from the actual retail membership and want to continue with it. I think nowadays as consumers are being a lot more conscious about their subscription and in particular streaming subscriptions and looking to budget there, getting these in addition to a retail membership can be a value driver.

Sara Lebow:

Amazon has the advantage of owning its content subscription it offers, right? Like Prime Video is Prime. Is there a world where Walmart would want to own a streamer, a platform?

Sky Canaves:

I'm not sure unless it's TikTok. That was something-

Sara Lebow:

Yeah.

Sky Canaves:

They've looked at before and who knows what additional benefits they would want to offer there. But I think given the challenges that streaming is facing and all of the consolidation that's taking place and the different membership tiers and really the challenges in getting audiences to stay loyal to a particular streamer, this creates more incentives for the streamers to also find partners who can help them extend their audiences, even if only for the short-term, even if only some of those customers will stay around.

Sara Lebow:

Okay. Well that is all we have time for today. So thank you for joining me, Sky.

Sky Canaves:

Thanks again Sara.

Sara Lebow:

And thank you Blake.

Blake Droesch:

Thanks for having me.

Sara Lebow:

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