

# Unraveling The Bundled Benefits Of Retail Memberships

By **Rosa Abrantes-Metz, Mame Maloney and Jeff Brazell** (January 29, 2024)

Paid retail memberships have become a major fixture of the U.S. retail landscape.

Retailers and other service providers are increasingly attempting to attract and retain members by incorporating additional features and benefits into memberships.

In the most recent development in this arena, on Jan. 3, 2024, wireless carrier T-Mobile US Inc. announced a partnership providing free Hulu subscriptions to customers of its highest-tier wireless plan.[1]

The Wall Street Journal recently reported that "streamers are increasingly joining with rivals to offer bundles that help attract and keep subscribers." [2]

Concurrently, bundling practices have become a critical topic in antitrust and competition. Major brands are coming under antitrust scrutiny for their bundling practices. For example, Microsoft recently revised its practice of bundling Microsoft Teams with Microsoft Office in the face of concerns from EU antitrust regulators.[3]

While bundled goods and services have the potential to benefit both consumers and sellers, bundles can also reduce customer flexibility — particularly when components are not sold on a standalone basis. Consumers may feel that they have to compromise on their specific needs and be constrained by provider choice limitations.

Our research explores the welfare implications of bundling strategies in the retail sector, providing survey evidence regarding how customers view the attributes and features of the paid retail memberships they own.

We find that consumers enjoy the inclusion of additional features in retail memberships. We estimate a consumer surplus of approximately \$1.6 billion from four big-box retail memberships that include bundled benefits.

Our findings suggest that assessing consumer preferences and welfare may be important when considering potential resolution mechanisms in antitrust contexts.

In this article, we provide a summarized version of our findings.

## Market Overview

To contextualize our findings, we first provide a brief overview of the use of bundling strategies in the U.S. retail market.

Out of the top 20 U.S. retailers,[4] eight companies — representing 63% of retail sales



Rosa Abrantes-Metz



Mame Maloney



Jeff Brazell

among this set — offer paid membership programs, as distinct from loyalty programs that cost nothing to join. The prices of the memberships range from \$48 to over \$200 annually.

Different memberships offer heterogeneous selections of benefits. Some benefits are included in virtually all memberships, such as exclusive or discounted fulfillment options — e.g., free two-day shipping, curbside pickup.

Another frequently-seen strategy is the offering of benefits supplied by partner brands — e.g., Walmart+ offers streaming video provided by partner brands Paramount+ and Pluto TV, rather than offering a Walmart-branded video service.

The graph below summarizes the benefits included with paid retail memberships at each of these eight companies.

Features Available Exclusively (or at a Discount) to Members	Number of Companies Offering Feature	Walmart+ and Sam's Club	Amazon Prime	Costco	Kroger Boost	CVS CarePass	Albertson's FreshPass	Apple One	My Best Buy
Fulfillment Options	7	X	X	X	X	X	X		X
Bundled Benefits via Partner Retailers	4	X	X		X		X		
Media Subscriptions	3	X	X					X	
Gas Savings	3	X		X	X				
Store Brand Products	2	X		X					
Financing Options	1			X					

To investigate how consumers view the attributes and features of paid retail memberships, we conducted a survey, collecting responses from 1,001 participants.

The survey assessed consumers' current membership subscriptions, their attitudes toward the features included with each membership, their frequency of use of such features, and the trade-offs consumers make when choosing between different memberships with different attributes.

We studied bundled membership benefits offered by the same brand as well as those offered by partner brands.

To capture these various elements, our survey questionnaire focused on paid memberships at four big-box stores featuring a variety of membership benefits: Walmart+, Sam's Club, Costco and BJ's Warehouses.

Overall, we find that consumers enjoy the inclusion of additional features in retail memberships. We observe heterogeneity among consumer reactions to each of the membership attributes we study, with some consumers responding with delight that a feature is included, others finding the feature as expected and others indifferent to whether or not it is included.[5]

We observe very few respondents reacting negatively to the inclusion of features in membership bundles. This suggests that customers may not feel constrained by provider choice limitations: consumers do not appear to be upset when a benefit is offered from a nonpreferred provider, but instead are just indifferent.

We find that customers who expressed delight at a feature are more likely to anticipate using it frequently, whereas customers who expect to rarely or never use a feature are likely to be indifferent if this feature is included in the bundle.

Moreover, members are more likely than nonmembers to expect to use the attributes included in a given membership, and expressed a higher level of delight at these attributes.

**Multiple Membership Subscription Frequency**

We find that subscribing to multiple memberships — also known as multi-homing — is common among respondents.

The majority of respondents, 74%, had a paid membership at one or more of the big-box stores in our survey — the remaining 26% did not have memberships at any of these four stores.[6]

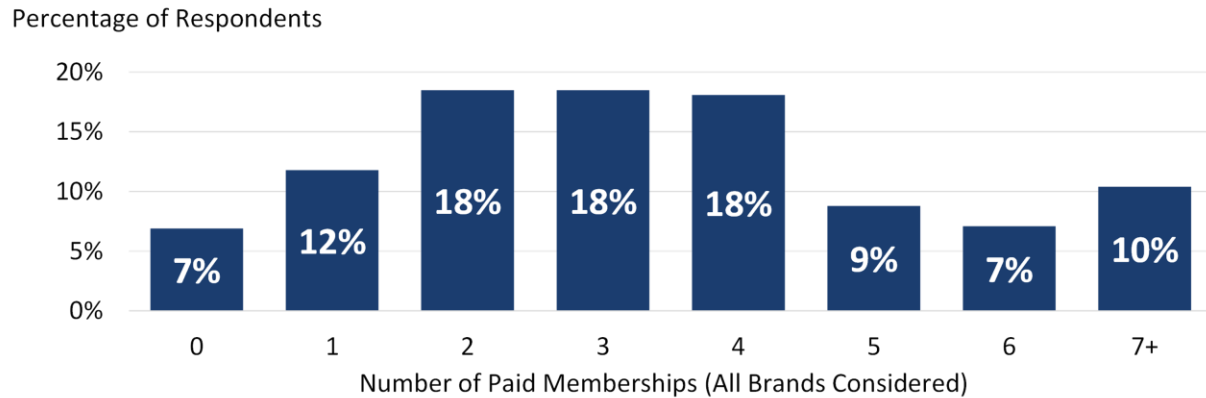
We find that it is common for members of any one big-box store to purchase a membership at an additional store, with an average of 54% of members of big-box stores included in our survey choosing to be members at more than one store. The graph below lists the number of respondents who are members of each of the four stores, and indicates the rate of multi-homing between each pair of stores.

For example, among Walmart+ subscribers in the survey, 50% also subscribe to Sam's Club, and 45% also subscribe to Costco. The lowest amount of overlap is seen with BJ's, likely due to the regional nature of the BJ's chain.[7]

Membership	# Members	# Members with more than one membership	% Members with more than one membership	Also Members of:			
				Walmart+	Sam's Club	Costco	BJ's
Walmart+	206	148	72%		50%	45%	17%
Sam's Club	356	189	53%	29%		37%	10%
Costco	394	178	45%	23%	33%		9%
BJ's	115	57	50%	30%	30%	31%	
<b>Average:</b>			<b>54%</b>				

Although not a primary focus of our survey, we additionally ask respondents whether they currently owned memberships for a set of 15 additional brands,[8] for a total of 19 paid retail memberships considered. We find the majority of respondents multi-home, with 81% of respondents having two or more paid memberships.

We further observe 10% of respondents having seven or more paid memberships. The figure below summarizes membership rates among respondents.



Amazon Prime had the highest number of subscriptions out of all 19 brands considered, with 62% of respondents reporting Amazon Prime memberships.

Of the Amazon Prime members in the survey, the vast majority multi-homed: 95% had at least one other membership among all brands considered, and 84% also had memberships with at least one of the four big-box stores.

### **Membership Features as Drivers of Consumers' Purchase Decisions**

To assess how consumers make trade-offs between products, we employed a conjoint survey methodology.

Respondents were asked to select among four hypothetical big-box membership subscriptions, based on randomized values of price, brand, bundled benefits included with the membership and other membership features.

The conjoint methodology allows us to observe which product features are most likely to drive a customer's choice between products. We find that the most important elements are the brand of the store and the membership price per year, suggesting that offering competitive pricing is very important for retail subscription memberships, as is maintaining positive brand perception.

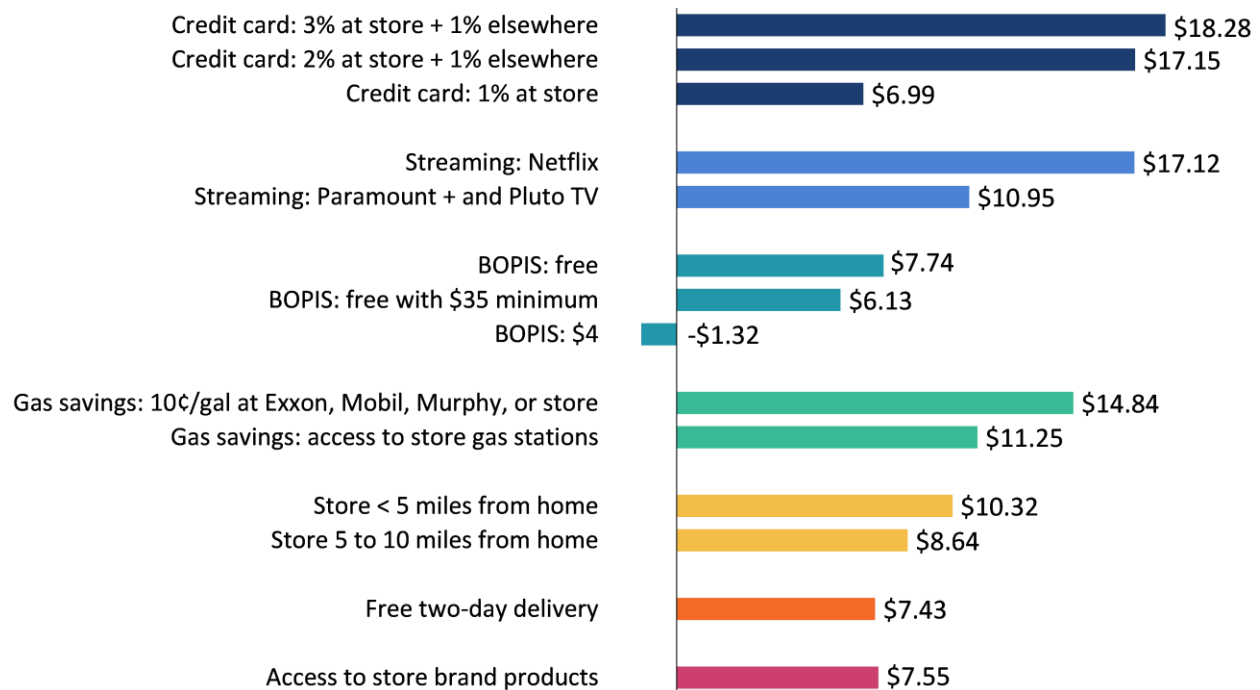
After brand and price, the remaining membership attributes we study — such as video streaming, free two-day shipping, gas savings or store credit card — all have the ability to sway consumers' purchase decisions between retail memberships, and represent similar importance to consumers.

The conjoint survey methodology also allows the assessment of the dollar value consumers place on each product feature, referred to as the willingness to pay. The WTP is measured by observing the trade-offs customers made between different hypothetical product bundles, given the different price points presented.

The figure below presents the WTP for each of the membership attributes studied. For example, we find that the WTP for free two-day delivery is \$7.43. This means that consumers would be willing to pay an extra \$7.43 per year for a membership, all else equal, if it includes free two-day shipping.

The WTP amounts for each attribute are measured relative to the implicit \$0 consumers would pay when the attribute is not offered at all — or, in the case of the store distance

from home attribute, a store 10 miles from home is normalized to \$0.



### Negative Value Placed on A La Carte Pricing

We find that customers place a negative value on paying \$4 per order for buy-online, pickup-in-store, also known as curbside pickup.[9]

In other words, consumers are less happy when BOPIS is available for a fee of \$4 per order, and would be happier if BOPIS were simply not offered at all. Further research would be needed to assess whether a similar result holds for membership attributes beyond those included in this study.

However, our result is suggestive that customers expect features of membership subscriptions to be included at no additional cost, and are not happy when it is required that they pay per use. One possibility is that, in addition to imposing a literal transaction cost, a la carte pricing imposes a mental tax on consumers, eliciting a negative reaction.

This finding ties into prospect theory, a branch of economic literature positing that customers do not make decisions strictly based on the expected value of outcomes — as traditional economic theory suggests — but rather evaluate potential gains and losses relative to the status quo.[10]

A key concept within prospect theory is loss aversion, in which people place a higher psychological weight on potential losses as compared to equivalent gains.

Evaluating our survey results through the lens of prospect theory helps make sense of the seemingly counterintuitive finding that consumers receive negative value from an added benefit. In a strictly rational sense, consumers should value every feature at a lower bound of \$0, since they can simply elect not to use a feature they dislike.

However, prospect theory suggests that customers are not evaluating the strict expected

value of these features, but rather evaluating each feature relative to a reference point or status quo.

The negative value consumers place on the \$4 BOPIS option according to our survey suggests that the relevant reference point for retail membership consumers is for features to be included at no cost if they are included at all.

## Consumer Surplus

Consumer surplus quantifies the net benefit that consumers receive when they purchase a good or service at a price lower than the maximum they were willing to pay.

In other words, consumer surplus corresponds to the extra satisfaction consumers derive from a purchase.

Following the approach in the paper "Economic Valuation of Product Features" by Allenby, Brazell, Howell and Rossi, we compute consumer surplus based on the conjoint survey responses.[11]

For this calculation, we define a "feature rich" state of the world containing the four big-box stores covered by our survey with the actual prices charged and attributes included with each membership.

We contrast this against a feature-poor state of the world, which we configure as missing one of the brands. In other words, we measure the consumer surplus for Costco by asking the question, "If Costco closed, but you could still have a membership with Walmart+, Sam's Club or BJ's, what surplus have you lost?"

The figure below provides estimates of consumer surplus for members of each big-box store — note that the concept of consumer surplus is based on people who purchased a product.

We then scale the per-member surplus by the total number of members for each club store, to provide the total market-wide consumer surplus. Taken together, the value of the total market-wide consumer surplus for all four retail memberships is approximately \$1.6 billion.

<b>Membership</b>	<b>Per-Member Consumer Surplus</b>	<b>Number of Members</b>	<b>Total Consumer Surplus</b>
Walmart+	\$4.11	11-32 M	\$45 M to \$132 M
Sam's Club	\$5.49	69 M	\$379 M
Costco	\$14.94	66 M	\$986 M
BJ's	\$16.58	7 M	\$116 M
		<b>Total</b>	<b>\$1.6 B</b>

## Conclusion

Bundling is a common strategy among retailers, with many of the largest U.S. retailers offering paid memberships that include a variety of bundled benefits.

Our consumer survey provides novel evidence regarding consumer perceptions of these benefits and the consumer welfare implications. We find that customers typically enjoy the added benefits of retail memberships, and that customers rarely react negatively to the inclusion of features in membership bundles.

It is common for customers to subscribe to multiple retail memberships, suggesting that the inclusion of bundled benefits does not constrain customers.

Finally, we estimate positive market-wide consumer surplus from members of four big-box stores offering bundled benefits.

---

*Rosa M. Abrantes-Metz is managing director at Berkeley Research Group LLC.*

*Mame Maloney is a principal at The Brattle Group Inc.*

*Jeff D. Brazell is a professor in the marketing department and the director of the Center for Strategic Analytics at the University of Utah David Eccles School of Business.*

*The opinions expressed are those of the author(s) and do not necessarily reflect the views of their employer, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.*

[1] T-Mobile Press Release, "T-Mobile Adds Hulu to its Streaming Suite, Un-carrier Customers Now Get the Best Entertainment Bundle in Wireless," January 3, 2024, <https://www.t-mobile.com/news/offers/t-mobile-adds-hulu-to-its-streaming-suite>.

[2] Toonkel, Jessica, "Apple and Paramount Discuss Bundling Their Streaming Services; Streamers are increasingly joining with rivals to offer bundles that help attract and keep subscribers," *The Wall Street Journal*, December 1, 2023.

[3] Gil, Tono and Nicholas Hirst, "Alfaviu, Cispe say Microsoft Teams EU concessions need to go further," *MLex*, August 31, 2023; Espinoza, Javier, "Microsoft agrees to stop bundling Teams with Office," *Financial Times*, April 24, 2023.

[4] Based on 2021 revenue data compiled by the National Retail Federation (NRF). "Top 100 Retailers 2022 List," National Retail Federation, <https://nrf.com/resources/top-retailers/top-100-retailers/top-100-retailers-2022-list> (last accessed October 30, 2023).

[5] These findings are based on a Kano survey technique (see Kano, Noriaki, Nobuhiko Seraku, Fumio Takahashi, and Shin-ichi Tsuji, "Attractive Quality and Must-Be Quality," *Journal of the Japanese Society for Quality Control*, 41(2), 1984, pp. 39-48). Using the Kano survey technique, we asked respondents how they would feel if a given option was included with a retail membership subscription. Consumers could respond that they would be delighted, they would expect the feature, they would not care, they would tolerate the feature, or they would not be happy with this feature.

[6] We note that respondents were screened out of the survey if they reported that they "rarely or never" shopped at big-box stores and "likely would not" or "definitely would not" consider shopping at a big-box store. Respondents were only allowed to complete the survey if they had significant influence over their household's decision to purchase a big-box membership (eliminating respondents with slight or no influence). Responses were further screened if respondents quit the survey partway through, or if they completed the survey so rapidly that it was unlikely they read the survey questions. After these screening steps, there were 1,001 completions of the survey.

[7] BJ's has 235 club store locations in 18 states, concentrated in the eastern U.S. See BJ's Wholesale Club form 10-K for the fiscal year ended January 28, 2023, p. 8.

[8] The larger set of companies includes: AAA, Albertson's, Aldi, Amazon Prime, AMC, Apple One, Best Buy, CVS, DoorDash, Instacart, Kroger, Lowe's, REI, Sephora, or Petco. Although by no means an exhaustive list of the subscription memberships available on the market today, this selection of brands provided a range of price points and services.

[9] The WTP is statistically significantly less than zero, with 95% confidence interval ranging from -\$2.23 to -\$0.40.

[10] See, e.g., Kahneman, Daniel and Amos Tversky, "Prospect Theory: An Analysis of Decision under Risk," *Econometrica*, 47(2), March 1979, pp. 263-291.

[11] Allenby, Greg M., Jeff D. Brazell, John R. Howell, and Peter E. Rossi, "Economic Valuation of Product Features," *Quantitative Marketing and Economics*, 12(4), 2014, 421–456.

[12] Per-member consumer surplus estimated based on consumer survey. Walmart+ membership estimates obtained from Melissa Repko, "Walmart+ s gaining momentum, hits 32 million members, Deutsche Bank estimates", September 14, 2021, <https://www.cnn.com/2021/09/14/walmart-hits-32-million-members-deutsche-bank-estimates.html> (estimating 32 million subscribers); Melissa Repko, "Who needs another subscription service? Walmart is betting its millions of customers do," *CNBC*, October 2, 2022, <https://www.cnn.com/2022/10/02/walmart-inflation-walmart-plus-subscriptions.html> (estimating 11 million subscribers); M., Yaqub, "How Many Walmart Plus Members are There: Statistics and Facts in 2023", *BusinessDIT*, April 7, 2023, <https://www.businessdit.com/walmart-plus-statistics/> (estimating 11.5 million subscribers). Sam's Club membership estimates obtained from PYMNTS.com, as of April 2022, <https://content.pymnts.com/wp-content/uploads/2022/04/PYMNTS-Benefits-Of-Membership-April-2022.pdf>. Costco membership counts obtained from Costco's 2022 Annual Report. Considers all locations globally; member counts not provided for the U.S. separately. BJ's membership counts obtained from BJ's 2022 Annual Report.