

COLUMNS

Amazon Prime's price increase could open door for rivals

March 17, 2014



By A LUXURY DAILY COLUMNIST

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We always said that paid loyalty is the best type of loyalty, and as one of the leaders in the subscription ecommerce industry, Amazon's Prime program has offered plenty of evidence to back up that contention.

However, Amazon's recent decision to raise the cost of a Prime membership will now test some of the limits of paid loyalty among its core audience and could open the door for rival Internet retailers that are savvy enough to recognize and act on this sudden opportunity.

Prime time

On March 13, citing the increased cost of fuel and transportation, Amazon announced a \$20 increase in membership fees, from \$79 to \$99, for new Amazon Prime members and members who renew after April 16.

In announcing the price hike, Amazon explained, "If you consider things like inflation and fuel costs, a Prime membership valued at \$79 in 2005 would be worth more than \$100

today.”

Amazon’s Student Prime membership fee will cost \$49 as of April 17, a \$10 increase over the current price.

Given its considerable experience with a subscription loyalty program, Amazon is undoubtedly aware of the potential risks of its price change.

In fact, the company floated the possibility of a \$40 increase in January, so the \$20 increase might be a reaction to negative feedback for the higher figure — or recognition of the fact that even the most loyal customers set limits on what they are willing to pay for certain benefits.

Amazon Prime will certainly try to offset the likely drop in membership figures by expanding and enhancing its other benefits.

Currently, in addition to prepaid two-day shipping, Prime members receive unlimited streaming of more than 40,000 movies and television shows via Prime Instant Video, as well as access to the Kindle Owners’ Lending Library.

There are rumors afoot that Amazon plans to add a streaming music service, which might help stem cancellations. That is a very competitive market, though, both on the artist-facing side and the customer-facing side, so adding streaming music may not be appealing enough to retain current members or attract new ones.

Amazon may also try to link its streaming TV-box product with Prime memberships, which might be more attractive to both its core audience and the next generation of consumers.

Or finally, it may look to make a major move and begin to offer free overnight shipping versus two-day shipping.

With all of the distribution centers Amazon has been building that must ultimately be the long-term goal.

Shape up or ship out

In the meantime, though, Amazon’s price increase creates an opportunity for its rivals — indeed, the type of price-cutting opportunity that Amazon has been using to its advantage in the online retail industry.

There is a simple fact behind the attractiveness of Amazon Prime and other prepaid shipping services: free shipping is the single most important factor in consumers’ online purchase decisions.

By offering members cost-certainty for an annual membership fee, Amazon receives substantial revenue upfront to help pay for its delivery costs and eliminates the single biggest cause of cart abandonment among online consumers: unexpectedly high shipping costs.

Since Prime’s launch in 2005, “tens of millions” of consumers worldwide have found the \$79 fee an acceptable price to pay for knowing how much their shipping costs will be, but are they willing to pay \$99 for that certainty?

A savvy online retailer or dozens of them will start building a single-store prepaid shipping program of its own right now — and lowball Amazon Prime by offering the service for less than \$99 a year.

Alternatively, an online retailer could enhance its program with particularly attractive benefits that offer its best customers exclusive savings and thereby cement their brand loyalty, even if the price is more in line with the new Amazon Prime membership fee.

SUCCESSFUL BUSINESSES know how to adapt to new conditions.

Amazon has proven itself willing to adapt time and time again as the retail climate changed. Its latest decision to raise the Prime membership fee, though, has also changed the online retail environment, providing an opportunity for other ecommerce companies to gain valuable footholds in the industry — if they are smart enough to act quickly and make the right decisions.

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