

# **Exhibit A**

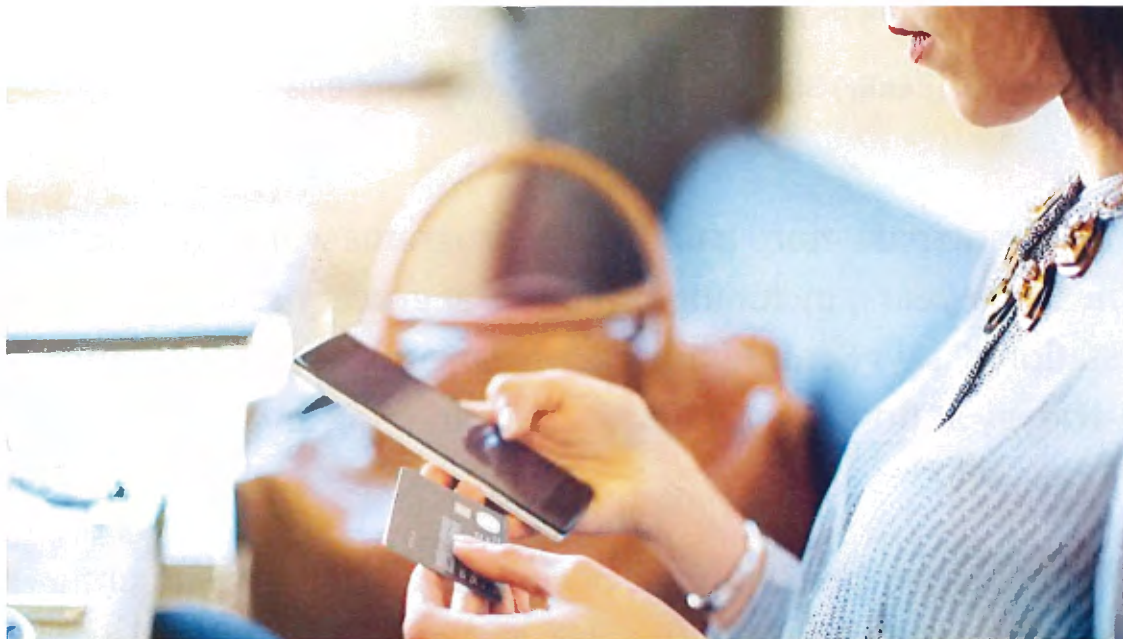
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# Pros and Cons of Retail Membership Programs

The benefits may sound great, but there's more to think about

By Beth Braverman

Last updated: November 09, 2019



More retailers are now providing membership plans, betting that you'll pay a fee for the privilege of shopping with them.

They're probably on to something. Amazon charges \$119 per year for Amazon Prime and has more than 100 million members who make the e-commerce giant their first stop when they go shopping.

In exchange for that loyalty, Prime members get lots of

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At least a dozen other chain retailers now offer membership plans, and that's likely to grow.

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“We anticipate more paid loyalty programs will launch in the next few years, including programs at grocery stores and gas stations,” says Scott Robinson, vice president of design and strategy at [Bond Brand Loyalty](#), a marketing and consulting firm.

As more membership plans become available, consumers need to carefully weigh the pros and cons. In addition to the perks these plans offer, the cost of membership and the risk that you'll turn you into a spendthrift could outweigh any benefits.

“Once you make a financial commitment to being a loyal customer, you’ve got a conscious or unconscious goal to get your money’s worth out of that membership,” says Josh Lowitz, a partner and co-founder of Consumer Intelligence Research Partners. And that can quickly get expensive.

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## More Membership Plans

Among the membership plans that may now be vying for your business are Bed Bath & Beyond's Beyond +, which you can join for \$29 per year. For that, you get 20 percent off every time you make a purchase online or at the store. You also get free shipping.

Others, including Sephora, Newegg.com, Restoration Hardware, and Wayfair, have rolled out or are testing membership programs, charging fees up to \$100 per year.

Lululemon has a pilot program that's currently only available in Austin, Denver, and Houston, but the retailer has plans to expand to other markets. CVS recently expanded its CarePass program nationwide.

When you sign up, these retailers offer online and in-store discounts, deals on shipping, dedicated customer service, and financing deals with lower interest rates. Depending on the retailer, membership comes with other perks, too, such as

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## What to Consider Before Signing Up

To help figure out whether a membership will be worth the cost, ask yourself these questions.

**Will the discounts really save you money?** One of the most appealing aspects of paid retail membership programs is the opportunity to pay less for your purchases. But weigh the size of those discounts against the cost of the membership, says Kit Yarrow, professor emerita of psychology at Golden Gate University and author of "Decoding the New Consumer Mind: How and Why We Shop and Buy."

A \$15 per year, the PowerUp Rewards Pro membership at GameStop, for example, will get you 10 percent off all pre-owned games, so you'd have to buy about six pre-owned games in a year to offset that cost. A \$100 membership to Restoration Hardware gets you 25 percent off any full-priced item, an amount you could likely offset with just a few pieces of furniture.

**Will a membership cause you to spend more than you should?** Buying things you don't need just to get rewards or a

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Yarrow. Amazon Prime customers spend an average of \$1,200 per year on the site, compared with just \$600 spent on Amazon by non-Prime members, according to CIRP.

“Once you make the commitment with a membership, you become a little bit lazy about comparison shopping,” says Yarrow.

**Will you use the extra perks?** Many retailers offer additional benefits beyond discounts. Restoration Hardware, for example, provides members with a complementary one-on-one consultation with an interior designer, which may not be valuable to you if you’re a do-it-yourselfer or you’re already working with a design pro.

“It’s really no different than taking out a golf club or gym membership,” says Doug Stephens, author of the book "Re-Engineering Retail." “You have to ask yourself at the outset, what’s the likelihood that you’ll actually use these services? You may join with the best of intentions, and then after a while look back and see that you only went golfing twice.”

**Do you know how the retailer might use your data?** To become a member, you’ll likely have to share your name, address, phone number, and other information in exchange for membership. Some membership programs, such as the one offered by the hat seller Lids, ask for your date of birth with a promise to send you a “birthday present” when the day comes.

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“If you feel that you’re getting a good deal with the membership, you’re probably giving up something,” Stephens says. “Often, that’s information about your habits, tendencies, and behavior.”

Stephens says to be sure to read through the terms of the membership agreement before signing up to find out how your data can be shared.

**Is it simple to end a membership?** Most membership programs auto-renew and many are nonrefundable. Still, the terms of each retailer are different. Newegg, for example, will provide a full refund if you haven’t used any benefits in the current annual membership term; Barnes & Noble allows members to opt-out of auto-renewal and will provide a refund within 30 days of a membership renewal if it hasn’t been used.

To avoid cancellation problems, set a calendar reminder to evaluate your membership a few weeks before it renews, so that you can opt out if you choose. Also, before renewing check whether the terms of the membership program have changed or whether your needs have changed. A Restoration Hardware membership, for example, might be a great deal for a new homeowner but less worthwhile after you’ve finished decorating.

RETAILER

MEMBERSHIP  
COST

SELECT BENEFITS

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AMC Stubs  
Premier

\$15/year

3 million items; free two-day delivery on over 100 million items

- Video streaming from Amazon Prime library

- Prime music streaming

- Unlimited photo storage

- Access to the 800,000-book Kindle Lending Library

- 100 rewards points per \$1 spent (\$5 reward for every \$5,000 points)

- Free upgrades on popcorn and fountain drinks; free large popcorn refill

- Priority lanes at box office and concession stands

- Waived online ticketing fees

- Reduced prices on Tuesdays

- Birthday gift

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## Membership

		<ul style="list-style-type: none"> <li>• 40 percent off hardcover best sellers; 10 percent off most other items</li> <li>• Free express shipping in 1 to 3 days</li> </ul>
Bed Bath & Beyond Beyond +	\$29/year	<ul style="list-style-type: none"> <li>• 20 percent off all purchases</li> <li>• Free shipping</li> </ul>
Boxed Up	\$49/year	<ul style="list-style-type: none"> <li>• Free shipping on all orders</li> <li>• 2 percent cash back</li> <li>• 30-day free trial</li> </ul>
CVS CarePass	\$5/month or \$48/year	<ul style="list-style-type: none"> <li>• Free shipping from CVS.com where offered</li> <li>• Free 1-2 day prescription delivery on qualifying prescriptions</li> <li>• 24/7 pharmacist hotline</li> <li>• 20 percent off CVS Health brand</li> </ul>

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GameStop  
PowerUp  
Rewards Pro

\$14.99/year

- 20 rewards points for every dollar spent
- Birthday offer
- Buy 2 get 1 free pre-owned games welcome offer
- 10 percent off pre-owned games and accessories
- 10 percent extra trade credit on games, accessories, and tech
- One-year subscription to Game Informer magazine
- Access to exclusive sales

GNC Pro  
Access

\$39.99/year

- 1 reward point per \$1 spent; \$5 cash back for 150 rewards
- Free birthday gift
- Exclusive access to sales events, giveaways
- Free expedited shipping

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Lids AccessPass	\$5/year	<ul style="list-style-type: none"> <li>• \$10 for \$100 spent</li> <li>• Birthday present</li> <li>• Early access to new products, special offers</li> <li>• 20 percent off hats and embroidery</li> <li>• 10 percent off apparel and novelties</li> </ul>
Newegg Premier	\$19.99/3 months or \$29.99/six months or \$49.99/year	<ul style="list-style-type: none"> <li>• Free 3-day shipping, and free returns</li> <li>• Friends &amp; family membership for up to four people</li> <li>• No restocking fee on returned items</li> <li>• Dedicated customer-service line</li> <li>• Exclusive deals, early notice of events</li> </ul>
REI Co-op membership	\$20 (lifetime membership)	<ul style="list-style-type: none"> <li>• 10 percent "dividend" (cash back) each year based on eligible purchases</li> </ul>

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Restoration Hardware RH Members	\$100/year	<ul style="list-style-type: none"> <li>• 25 percent off all full-price items</li> <li>• 20 percent off sale items</li> <li>• Design consultation</li> <li>• Early access to clearance events</li> </ul>
Sephora Flash	\$15/year	<ul style="list-style-type: none"> <li>• Free two-day shipping</li> </ul>
Wayfair MyWay	\$29.99/year	<ul style="list-style-type: none"> <li>• Free shipping on all orders</li> <li>• 25 percent off assembly</li> <li>• Exclusive sales offers</li> <li>• Membership applies to sister companies AllModern, Joss &amp; Main, Birch Lane.</li> </ul>

**Editor's Note:** Amazon, Bed Bath & Beyond, and Wayfair participate in the shopping program on CR.org. When you shop through their retailer links on our site, we may earn

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# **Exhibit B**

## Blog

# Why Paid Memberships Are the New Loyalty



By Doug Stephens

Spending on loyalty programmes is through the roof.

In 2016, the consumer loyalty management market was valued at \$1.93 billion. By 2023 that figure is expected to reach nearly \$6.95 billion — an annual compounded growth rate of nearly 21 percent. In the US alone, consumers now collectively hold more than 3.8 billion loyalty program memberships!

And who could blame retailers for wanting loyal customers? It's a well-worn fact that retaining a customer costs a fraction of that of finding a new one. Returning customers also spend more than first-time customers — up to 67 percent more! And if that weren't enough, even a small drop in loyalty can be enough to kill a business. No one disputes the intrinsic value of loyalty. Which brings us to an inconvenient truth.

## The loyalty lie

Most loyalty programmes don't generate loyalty. In fact, a 2012 benchmark study from Edgell Knowledge Network, which surveyed the loyalty programmes of 60 retailers, found that customers of retailers that offer a loyalty programme were not recognisably more loyal than customers of those that don't. What's worse, according to the same study, is that 81 percent of loyalty programme members don't even understand what their rewards entitlements consist of or how they're redeemed. And this shouldn't come as a surprise considering the average household belongs to eighteen loyalty schemes!

Retailers are spending mountains of money to retain the very customers they had the least chance of losing to begin with.

These findings were echoed in a 2017 study by Accenture, which also suggested almost a quarter of consumers actually have either a "negative or non-existent response" to loyalty programs.

Here's the real punch in the gut though: According to a 2015 study by Colloquy, only 42 percent loyalty programme members are even active or engaged. Further research shows that as consumers, we are most likely

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So, while it pays to have loyal customers, you can't simply pay customers to be loyal.

But what if a business could turn transient loyalty into something deeper, more committed and more monogamous? What if the relationship between the retailer and the consumer could go from being transactional to being transformational and best of all, what if instead of paying customers to be loyal, those same customers actually paid the retailers they want to be loyal to?

It's a concept Amazon understands only too well. In its latest quarter, Amazon reported growing its paid Prime membership ranks by 47 percent. Prime consumption junkies spend 250 percent more each year than non-members. In fact, an astonishing 82 percent of US households with incomes over 110 thousand dollars per years are Prime members. And while standard loyalty programmes tend to bleed engagement over time, Prime members actually become more engaged. Consumer Intelligence Research Partners noted that 73 percent of 30-day trial subscribers end up paying for the first full year of Amazon Prime, 91 percent of first-year paid subscribers renew for a second year and 96 percent of second-year paid subscribers renew for a third year.

Amazon is merely the tip of a growing spear of retailers awakening to the power of paid membership.

The difference of course is that Prime is not merely a points or rewards system but rather a carefully curated ecosystem of value, service and content. It's the veritable key to the kingdom of all Amazon has to offer. Special pricing, promotions, streaming music, on-demand video and of course, fast, free shipping are among the benefits members are willing to spend \$99.00 per year to access. And Amazon is merely the tip of a growing spear of retailers awakening to the power of paid membership.

For ten dollars annually, Sephora's Flash programme offers members unlimited free two-day shipping with no minimum purchase requirements. GameStop's Power Up Pro and Elite membership programmes, \$14.99 and \$29.99 per year respectively, offer members a select set of special gifts, discounts, benefits and privileges. Restoration Hardware's RH Member programme costs \$100 per year to join and offers members a range of perks and privileges including free interior design services and early access to promotional events.

## What's love got to do with it?

What Amazon, GameStop, Sephora and Restoration Hardware understand is that there's a difference between loyalty and love. Loyalty simply means you've managed to put a card in the customer's wallet. Paid membership means you've secured a place in the customer's heart. Membership — even for a small fee — forms a sense of exclusivity and transforms the customer experience in a way that traditional loyalty programmes simply cannot. Getting a customer to lay down a membership fee forms an entirely new degree of mutual commitment. Even a small sunk cost will make a customer implicitly more engaged with a brand.

Membership fees are true and present revenue a retailer cannot afford to lose.

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cannot afford to lose, unlike the potential future revenue stream that loyalty programs may hope to realize.

Perhaps the most compelling reason of all to consider membership over loyalty is that consumers clearly want it. Research by Loyalty One suggests "sixty-two percent of consumer respondents said they would consider joining a fee-based rewards programme if their favourite retailer offered one." Among Millennials, the numbers were even more compelling with "75 percent of 18-24 year-olds and 77 percent of 25-34 year-olds saying they'd pay to belong."

Lastly, for retailers with a genuine interest in understanding their customers across channels, membership is the Holy Grail. A membership is true and unfiltered permission to engage and eliminates any ambiguity about the relationship. Paying members are more inclined to share personal information because they inherently understand that doing so contributes to shaping their experience with a brand. It's this level of consumer transparency that allows brands to more clearly understand customer actions throughout their ecosystem and across channels.

So if you're serious about creating truly loyal customers, I suggest you put their money where your mouth is. Paid membership is the new loyalty.

For an audio version of this article click here!

TAGS

Amazon Prime / Loyalty Management / Loyalty marketing / Marketing / Retail / strategy

AUTHOR



Doug Stephens

Doug Stephens is one of the world's foremost retail industry futurists, authors and speakers. His intellectual work and thinking have influenced many of the world's best-known retailers, agencies and brands. Doug is the author of two ground breaking books; The Retail Revival and Reengineering Retail: The Future of Selling in a Post-Digital World. Doug is also the syndicated retail columnist for CBC Radio and sits on multiple corporate and academic advisory boards.

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# Exhibit C



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# 3 Reasons Costco Has Membership Fees

By [VANESSA PAGE](#) | Updated Jan 28, 2020

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Loyalty

Reducing Shrinkage

EXPAND+

Costco Wholesale ([COST](#)), the members-only big-box discount retailer, charges \$60 annually for its lowest level membership, the Gold Star. For \$120 per year, Executive membership offers additional savings, perks and benefits, as well as cash back on qualified purchases.<sup>[1]</sup> These fees may seem steep, but Costco relies on a subscription model for three reasons.

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Feedback



Costco has found a way to deter theft in its stores: charge people to shop. It's unlikely that shoplifters will spend \$60 a year for the opportunity to steal. By controlling entrances and exits in addition to the membership format, Costco believes its [shrinkage](#) is "well below those of typical retail operations."<sup>[2]</sup>

## Income Stream

In the volatile world that is the grocery business, membership fees provide a stable source of income. In the company's fiscal year 2019, [revenue](#) from membership fees grew 7% to \$3.35 billion. When you consider that net income was \$3.66 billion, you can see why the company relies on membership fees to stay in business.<sup>[3]</sup>

Revenues from membership fees are great. Aside from a few minutes of an employee's time, plus the cost of the card and subsequent promotional mailings, managing membership isn't too costly. As such, Costco's billions of dollars in membership fee revenue is almost entirely profit.

## The Bottom Line

Costco has consistently low prices with a strong consumer following. With the company expanding both domestically and internationally, as well as profits increasing year over year and its sophisticated logistics network, the company looks poised to become a retail giant that rivals Walmart. Many Americans believe that Costco has membership fees solely for the cash they provide, but direct profit is only one of the three reasons.

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