

14.7: Case study - Amazon Prime

One-line summary

Amazon Prime has become one of the largest and best loyalty programmes in recent years, despite not using point systems and oversimplified projections of loyalty. They provide consumers real value by addressing their needs for instant gratification and exclusivity, while streamlining the customer experience and seeing a substantial financial return for the company.

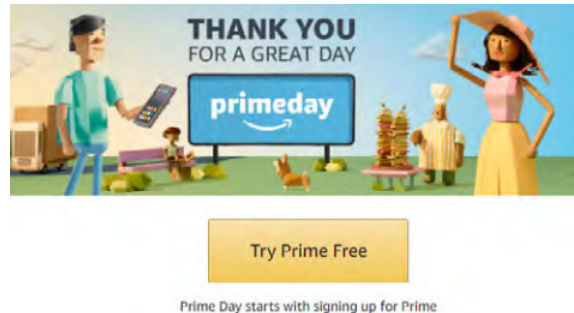


Figure 14.7.1: Call to action to sign up for Prime on Amazon's home page *Adapted From Screenshot, Amazon 2017*

The problem

Amazon noticed that shipping was often a stumbling block when it came to completing purchases. If shipping took too long, users would drop out of the purchase. Similarly, if users purchased an item that was less than the minimum to receive free shipping they would also abandon the purchase. They needed to somehow streamline this process, so that customers would complete their purchases.

They considered a loyalty program that would address these two aspects, but knew that customers are inundated with loyalty programmes that offer cash-backs and promotions. Every retailer, bank and service provider all provide some form of loyalty programme that is very similar to all the others.

Amazon noted that many loyalty programmes fail because they don't meet the needs of the customer and promise delayed gratification. They offer customers nothing new nor anything they can derive any real benefit from in the short term. Customers have to build up points and cashbacks and wait to receive their reward. Many customers have become wary of loyalty programs, and see them as just another way to extort more money from consumers.

Customers need something that offer real benefits, and that they are willing to pay US\$ 99 a year for. They want real value immediately and not something they need to wait months or years to see any benefit from.

The solution

Amazon Prime provides its customers with what they really want and need from the brand. It has created a program that is designed to meet customer's need for instant gratification and removed the stumbling blocks in the purchase process. Prime members receive next day delivery on all items, and do not need any minimum value in their shopping carts to receive free shipping. They reap the benefits of the program immediately and every time they shop online.

Instead of making these shipping features free, Amazon Prime made the service part of an exclusive loyalty programme that users had to pay a yearly fee to benefit from. So, in addition to tapping into instant gratification, Amazon Prime also made use of customers' want to be involved in something exclusive, that would set them apart from general customers. As well as shipping benefits, Amazon Prime users would get access to exclusive deals and discounts, as well as first option on new products. Prime members get to see and purchase products before they are made available to other customers.

To ensure they provided perceived real value, Amazon also included access to their entire library of Amazon Prime videos in the Prime membership. Although the fledging library cannot rival Netflix, offering the content free enables it to gain an audience to test out content and gain insights for future content development. This means that the customer receives great value in the form of online viewing content, and the brand gains invaluable input that it can use to fuel further development.



Figure 14.7.2: The highlighted benefits of Amazon Prime on Amazon's home page *Adapted From Screenshot, Amazon 2017*

Amazon Prime is more than a loyalty or a rewards program, it is a privilege program that taps into customers' need for feeling important and special, as well as addressing stumbling blocks in the purchase process, and meeting our growing need for instant reward (YourStory, 2017).

The results

Amazon has created a truly extraordinary loyalty programme that users are prepared to pay for. By providing customers with what they need and streamlining the customer experience, Amazon has demonstrated that gimmicks and cash backs are not the solution for loyalty programmes. Amazon Prime saw rapid adoption in the US, and still sees a 40% increase in subscriptions year on year even though the loyalty program is nearly 12 years old. As of early 2017, 60% of Amazon's US customers have a Prime membership, with the total number of Prime subscribers hitting 80 million. Prime members also spend nearly double (US\$ 1 300) what non-Prime members do (US\$ 700) per year (Business Insider, 2017). The programme has been a huge success for the brand, with revenue from Prime alone making up US\$ 6.4 billion in 2016. The programme is so successful that revenue from subscriptions alone is nearly enough to cover the largest cost of the company, its overall shipping costs (Bloomberg, 2017).

Essentially, establishing customer loyalty is about providing users with an experience that is simply better than anything else, so that users change their purchase behaviour to favouring your brand. And that is exactly what Amazon has been able to achieve through Prime (LooseThreads, 2017).

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