

# Broadlines & Hardlines Retail

## Survey Says ~80% of Low-Income HH Will NOT opt for Discounted Amazon Prime Program = Weakness in DG & DLTR Overblown

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**Our Take:** With news out that Amazon will be offering a 45% membership discount for those on federal assistance interested in Prime (\$5.99/month vs. \$10.99/month currently), shares of WMT, the Dollar Stores (DG, DLTR), and other retailers (largely auto part retailers) that cater to the low-end consumer have been under duress. **In order to evaluate the potential success of the new initiative, we conducted a 500 person survey (over the past 24 hours) focusing on the low-end consumer (<\$40,000 HH Income) around current Prime penetration and willingness to join at both the old and the new discounted rate (key takes herein). Two points:** First, ~26% of those surveyed were already Prime members (lower than our national avg. estimate of 2/3). **Second and more importantly, roughly 80% of consumers not willing to pay the current \$10.99 monthly fee would still not pay the lowered \$5.99 rate. This is much higher than we would have expected, and suggests across the board adoption is certainly not imminent.** Said differently, while the Prime news certainly falls into the “risk bucket” for the low-end retailers, we see the concerns (and recent negative stock reactions) as a bit overblown and view the pullbacks in Dollar General & Dollar Tree, in particular, as an opportunity on the long side. See additional thoughts/survey results herein:

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- **Background on New Amazon Prime Discount Initiative:** Yesterday (6/6), Amazon announced that it will begin to offer a discount for its Prime Membership to those on government assistance. **Specifically, Amazon is discounting the price of its monthly Prime Membership to \$5.99 per month from the current rate of \$10.99 – a 45% reduction.** Recall, back in April of 2016, Amazon began offering a month-to-month \$10.99 Prime membership for those unwilling to commit to the \$99 annual membership. **To take advantage of this new discount, customers will need to qualify with a valid Electronic Benefits Transfer (EBT) card – the most commonly used method to disburse funds for several government assistance programs, including: Temporary Assistance for Needy Families (TANF); Supplemental Nutrition Assistance Program (SNAP); and Women, Infants, and Children Nutrition Program (WIC).** Customers must re-qualify for the program every 12 months and can do so up to four times. Importantly, government funds on EBT cards cannot be used to pay for the membership fee.
- **Looking Back . . . Where Food Stamps Have Historically Gone:** Based on published data from the USDA, SNAP dollars are spent across various channels, with Super Centers (i.e. WMT, TGT, Warehouse Clubs, etc.) at 51.7% garnering the lion’s share. Meanwhile, Supermarkets and various grocery stores combine for 40.9% of SNAP Dollars, with Convenience Stores (including Dollar stores) representing another 5.6% of the program’s spend. Similarly, we surveyed ~300 SNAP users on where they typically redeemed their SNAP benefits. Of note, roughly 48.9% selected grocery stores, 29.3% selected discounters, 19.2% selected Dollar Stores, with the remaining 2.5% choosing “Other”. Finally, historically speaking, SNAP sales have accounted for at most 5% of sales at Wal-Mart, Dollar General, and Family Dollar. *See Figures 1 & 2 below for more details.*

**Figure 1: SNAP Redemptions By Retailer Type**

Retailer Type	2014	2015	2016
Super Centers	48.7%	46.9%	51.7%
Supermarkets	33.0%	35.2%	29.7%
Small Grocery	1.2%	1.1%	1.4%
Medium Grocery	2.1%	2.0%	2.2%
Large Grocery	1.6%	1.5%	2.2%
Convenience Stores	5.0%	5.0%	5.6%
Combination Grocery	6.8%	6.6%	5.4%
Other	1.8%	1.8%	1.7%

Source: USDA

**Figure 2: Survey Response – Where SNAP Is Spent**

**Where do you typically redeem your SNAP benefits?**

	# of responses	% of responses
Grocery Stores	135	48.9%
Discounters (i.e. Wal-Mart)	81	29.3%
Dollar Stores	53	19.2%
Other	7	2.5%
<b>Total</b>	<b>276</b>	<b>100.0%</b>

Source: GHRA

- **3 Key Results From Our 500 Consumer Survey With Income Levels Under \$40,000:** Following the announcement of the new Prime discount, we surveyed 500 consumers over the past 24 hours with a household income of less than \$40,000 per year on: (a) whether or not they currently have a Prime membership and (b) following up with **non-Prime members** on whether or not they would consider paying the current and/or discounted rate for the program’s benefits. Our findings are detailed below:

- o **Key Take #1 = 26% Prime Penetration w/ < \$40,000 Demographic:** Based on our 500 person survey, 26.2% of respondents or 131 people, currently have a Prime Membership. Not surprisingly, this is much lower than the estimated two-thirds of U.S. total households that currently have Prime. To this point, based on data from our separate [Team Gromey Consumer Survey](#), the average household income for Amazon Prime members is ~\$90,000.

**Figure 3: Percentage of Prime Members**

**Are you currently an Amazon Prime member?**

	# of responses	% of responses
Yes	131	26.2%
No	369	73.8%
<b>Total</b>	<b>500</b>	<b>100.0%</b>

Source: GHRA

- o **Key Take #2 = 21% of Non-Members Willing to Pay \$10.99/month:** Of the 369 respondents that are currently not Prime Members, roughly 21.1% or 78 people, are willing to spend \$10.99 per month (or \$99/year) to become members. **It is important to also point out that there is a notable difference between “willingness” and “ability/actually” going to join Prime.**

**Figure 4: Non Member Willingness to Spend \$10.99**

**Willing to spend \$10.99/mo (or \$99/yr) for Amazon Prime?**

	# of responses	% of responses
Yes	78	21.1%
No	291	78.9%
<b>Total</b>	<b>369</b>	<b>100.0%</b>

Source: GHRA

- o **Key Take #3 = Incremental 21% Willing to Pay At Discounted Rate:** Taking it one step further, we asked the 291 respondents who were unwilling to pay the \$10.99 rate, whether or not they would be willing to pay the new discounted \$5.99/month rate. **Similarly, only 21.0% or 61 respondents are willing to pay this new/discounted rate, but not \$10.99/month rate.**

**Figure 5: Non Member Willingness to Spend \$5.99**

**Willing to spend \$5.99/mo for Amazon Prime?**

	# of responses	% of responses
Yes	61	21.0%
No	230	79.0%
<b>Total</b>	<b>291</b>	<b>100.0%</b>

Source: GHRA

- **Other Considerations + Conclusion:** Indeed, Amazon looking to expand its Prime membership base by focusing on the low-end consumer poses an ongoing risk for both Wal-Mart and the Dollar Stores. However, we believe the fear and stock reaction of these retailers since the announcement is overblown, given: (1) per our study, just 21% of respondents would now consider Prime because of the new discount; (2) customers must use their own funds and not government assistance to fund the membership cost; (3) a lack of Internet access/banking resources required; and (4) the necessary planning ahead of need, given the two day delivery times. To this last point, a large percentage of dollar store purchases are for immediate

consumption and are generally much smaller in nature, with an average basket in the “low double-digits to mid-teens”. **Additionally, as it relates to Amazon it is important to keep in mind that many of their food/household essential programs include additional fees on top of the monthly \$5.99 Prime fee. To this point, Amazon Prime Pantry, focused on household essentials, comes with a \$5.99 fee per box (45 pound/ 4 cubic foot box) and Amazon Fresh – the company’s fresh grocery delivery business has an incremental \$14.99 per month fee.** We’d also be remised if we didn’t point out that Wal-Mart cancelled its unlimited free-shipping program – “ShippingPass” (formerly \$49 per year) earlier this year, in favor of free two-shipping for orders over \$35 on qualified items. Finally, as part of a two year test, Amazon is only just beginning to test the acceptance of food stamps in three states this summer – Maryland, New Jersey, and New York, putting the potential for a national rollout years away.

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