Membership in Dynamic Competition
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Abstract:
A competitive two-period membership (subscription) market is analyzed. Two symmetric firms charge a "membership" fee that allows consumers to buy products or services at a given unit price, for both periods. Transactions are not anonymous, and firms price discriminate based on purchase history. Three main features of the tariff structure affect the competition. They are: (i) the length of the membership (long-term vs. short-term); (ii) the ability to price discriminate between "old" and "new" customers with the membership fee and the unit price; and (iii) the incentives to price discriminate between different consumers’ types (low and high-demand/value customers). When firms employ short-term membership, they don’t discriminate with their unit price but only with their membership fee regarding the length of the customer relationship. Instead, with long-term membership, firms have incentives to prevent their old most valuable customers from being "poached" by the competitor. In equilibrium, firms price discriminate with their membership fee and unit price regarding customer purchased-behavior and volume of demand (second-degree price discrimination). Overall, the number of consumers poached is smaller with long-term subscriptions. Given that poaching erodes welfare and firms are better extracting surplus with short-term memberships, consumers are better off with long-term memberships.