The Wallet Allocation Rule

Analyzing the Relationship between Brand Perception and Share of Wallet

Matthew McNerney

President
IPSOS LOYALTY

Timothy Keiningham, PhD

Global Chief Strategy Officer
IPSOS LOYALTY

WALLET ALLOCATION RULE

"Customer Loyalty Isn't Enough. Grow Your Share of Wallet," *Harvard Business Review*

Keiningham, Timothy L., Lerzan Aksoy, Alexander Buoye, and Bruce Cooil (2011), "Customer Loyalty Isn't Enough. Grow Your Share of Wallet." *Harvard Business Review*. vol. 89 (October).

WALLET ALLOCATION RULE

How Things Are Now

WALLET ALLOCATION RULE

The Objective of Every Public Company: Growth

Most Programs…

Most Customer Loyalty Programs Focus on Retention

- Even dissatisfied customers continue to purchase at some level.
- 40%, 60%, 80% - When is a customer considered “lost”?

WALLET ALLOCATION RULE

A Change in Focus

We think the focus should shift from “retention” to “retention and **selling more to existing customers**”

WALLET ALLOCATION RULE

In Reality…

Share of Category Purchases

=

True Loyalty

Who’s In Your Customer’s Wallet?

- Consumers are not loyal to a brand, a store or a company but rather to a portfolio of brands, stores and companies.
- Most customers do not stop buying from a particular brand/outlet they just buy less.
- Simply trying to maximize customer retention rates is not enough, we also want them to spend more with us.
- But first we have to know how much they are spending with us and with competitors, i.e. their share of wallet.

WALLET ALLOCATION RULE

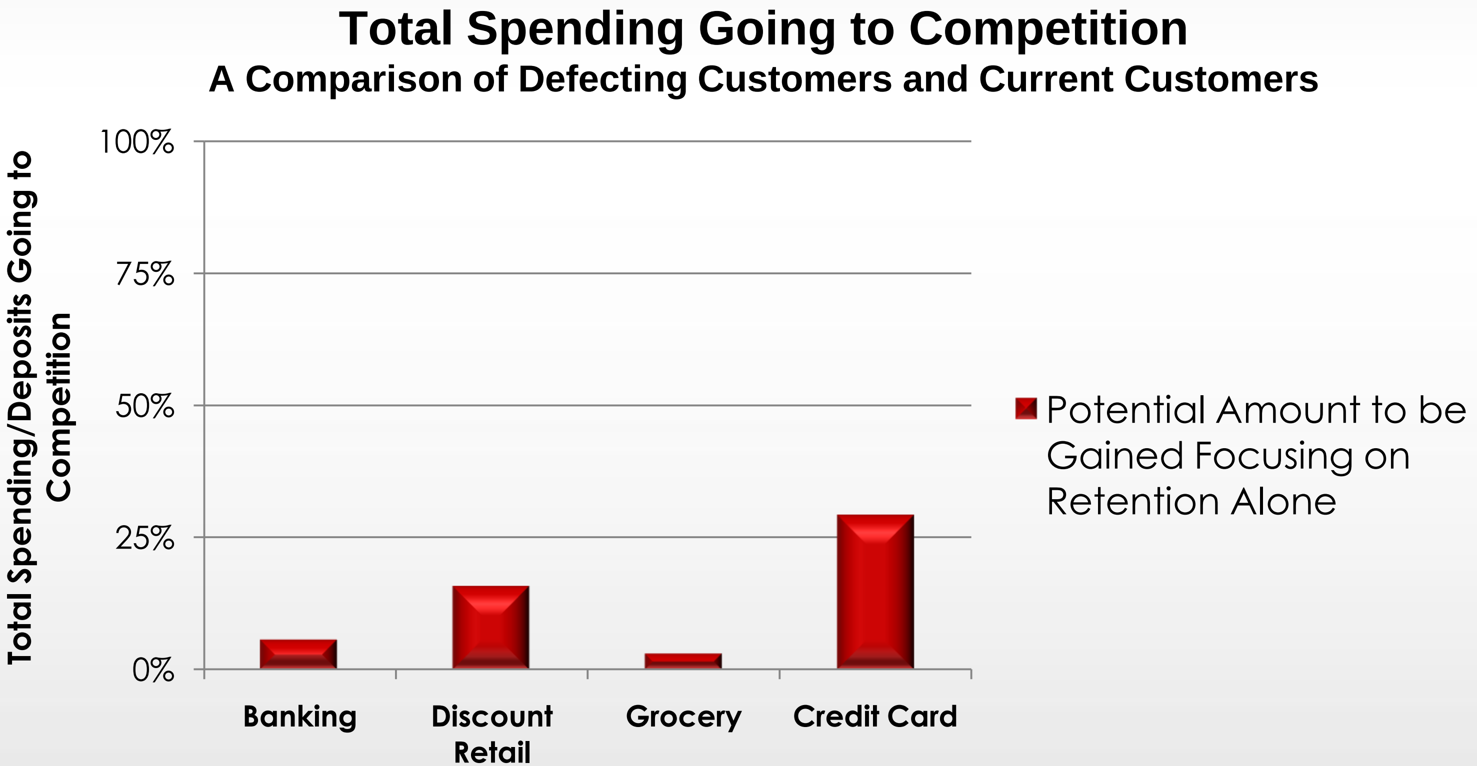
The Opportunity for Growth

Focusing on increasing Share of Wallet has a **10 Times Greater Impact** than focusing on retention alone

Coyne, Kevin (1989), "Beyond Service Fads: Meaningful Strategies for the Real World," ***MIT Sloan Management Review***, 30 (Summer), 69-76.

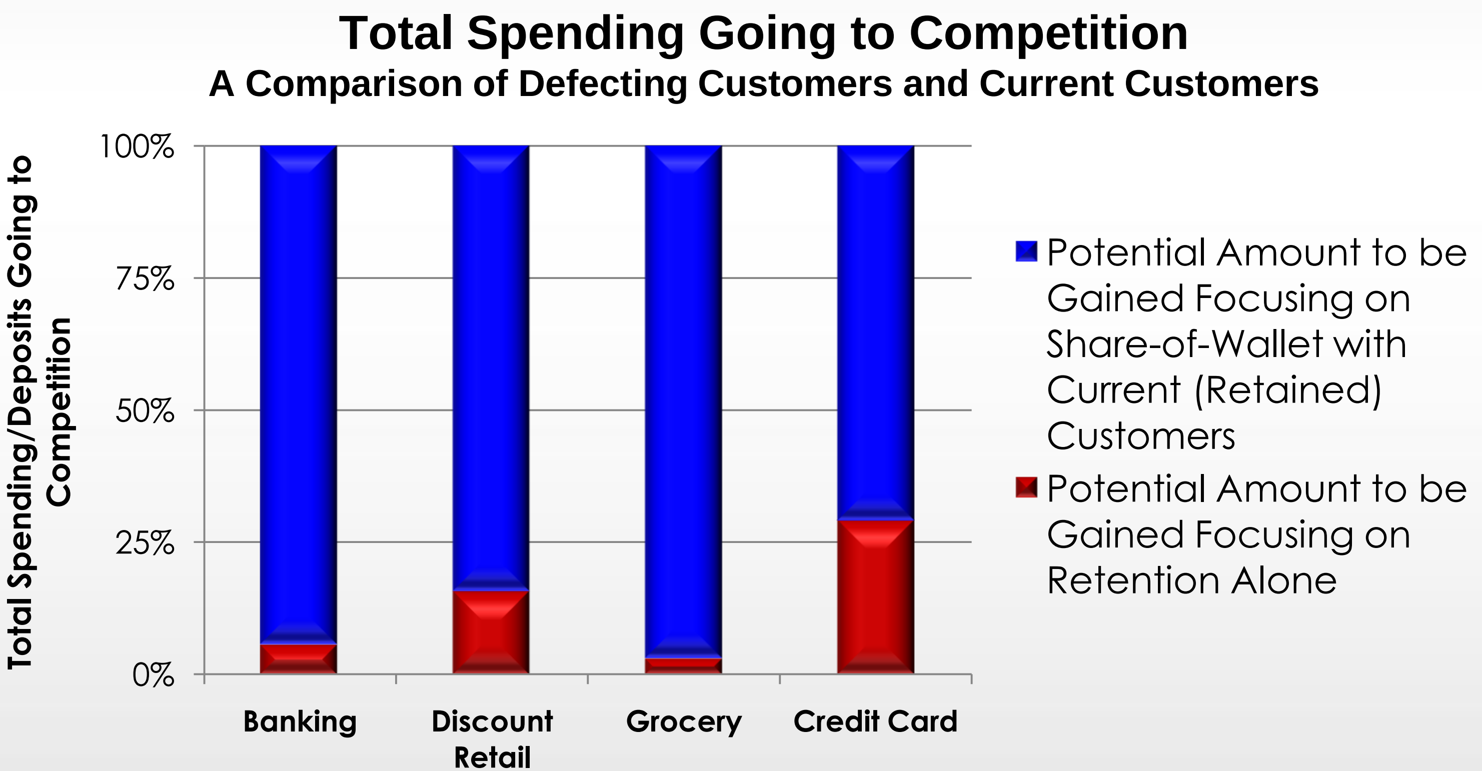
The Opportunity for Growth

The Opportunity from Customer Retention



The Opportunity for Growth

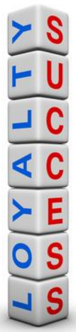
The Added Opportunity from Share of Wallet



Acquisition vs. Share of Wallet

And it is **easier and cheaper to sell more to existing customers** than to acquire new ones!

WALLET ALLOCATION RULE



Companies Try to Improve Loyalty through Metrics Like Satisfaction & Net Promoter Scores

WALLET ALLOCATION RULE

Walmart — Project Impact

HOME | TIME MAGAZINE | PHOTOS | VIDEOS | SPECIALS | SUBSCRIBE | Mobile Apps | Newsletters | RSS | @TIME | Like 330K

NewsFeed | U.S. | Politics | World | Business | Money | Tech | Health | Science | Entertainment

TIME Business

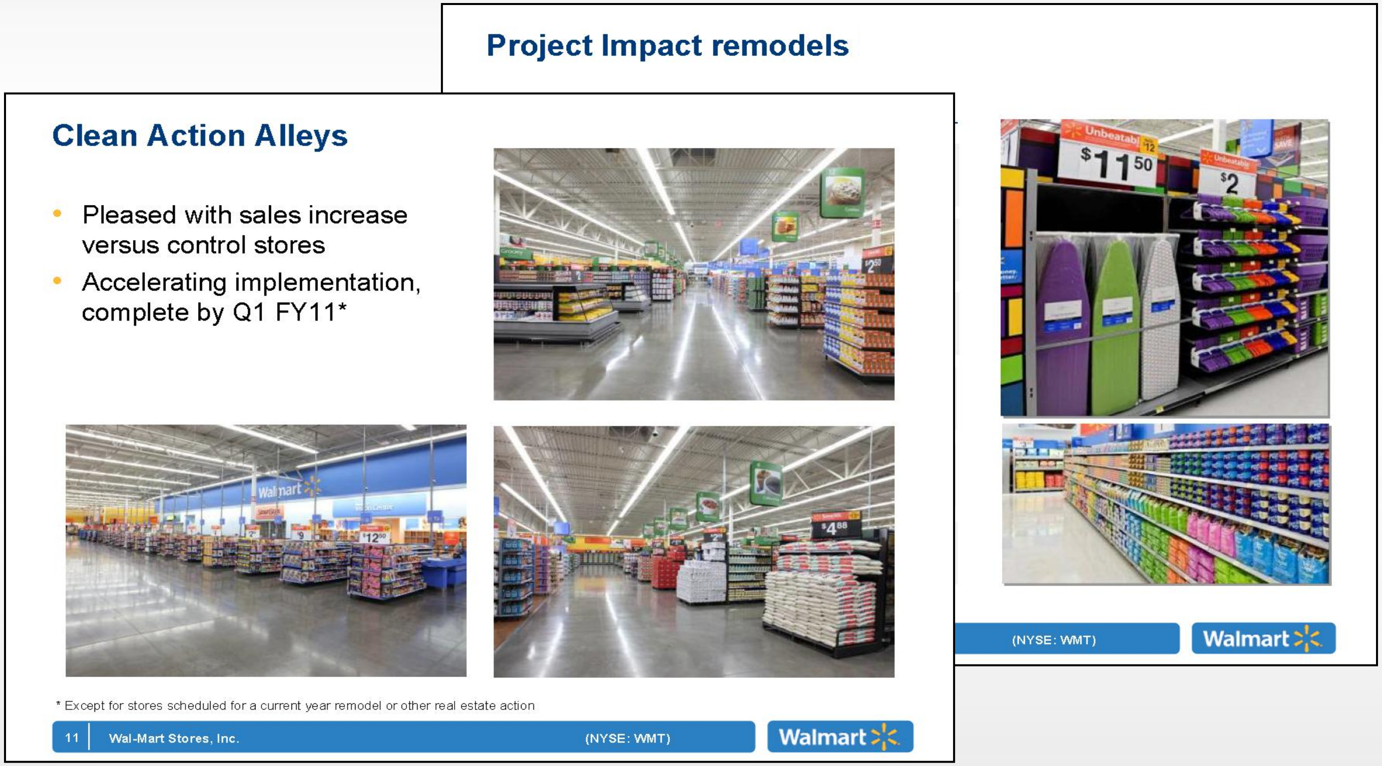
Walmart's Latest Move to Crush the Competition

By **SEAN GREGORY / WEST DEPTFORD, N.J.** Wednesday, Sept. 09, 2009

Walmart is in the beginning stages of a massive store and strategy remodeling effort, which it has dubbed Project Impact. **One goal of Project Impact is cleaner, less cluttered stores that will improve the shopping experience.** Another is friendlier customer service.

Cleaner, Friendlier Stores

Walmart **eliminated around 15% of items** in the stores to reduce clutter.



Bill Simon, EVP and Chief Operating Officer, Walmart U.S. (2010), Wal-Mart Stores, Inc., Presentation at Bank of America Merrill Lynch Consumer Conference (March 10).

Customer Satisfaction Soared

Walmart's new look is more than skin deep

By **Jackie Crosby**
STAR-TRIBUNE

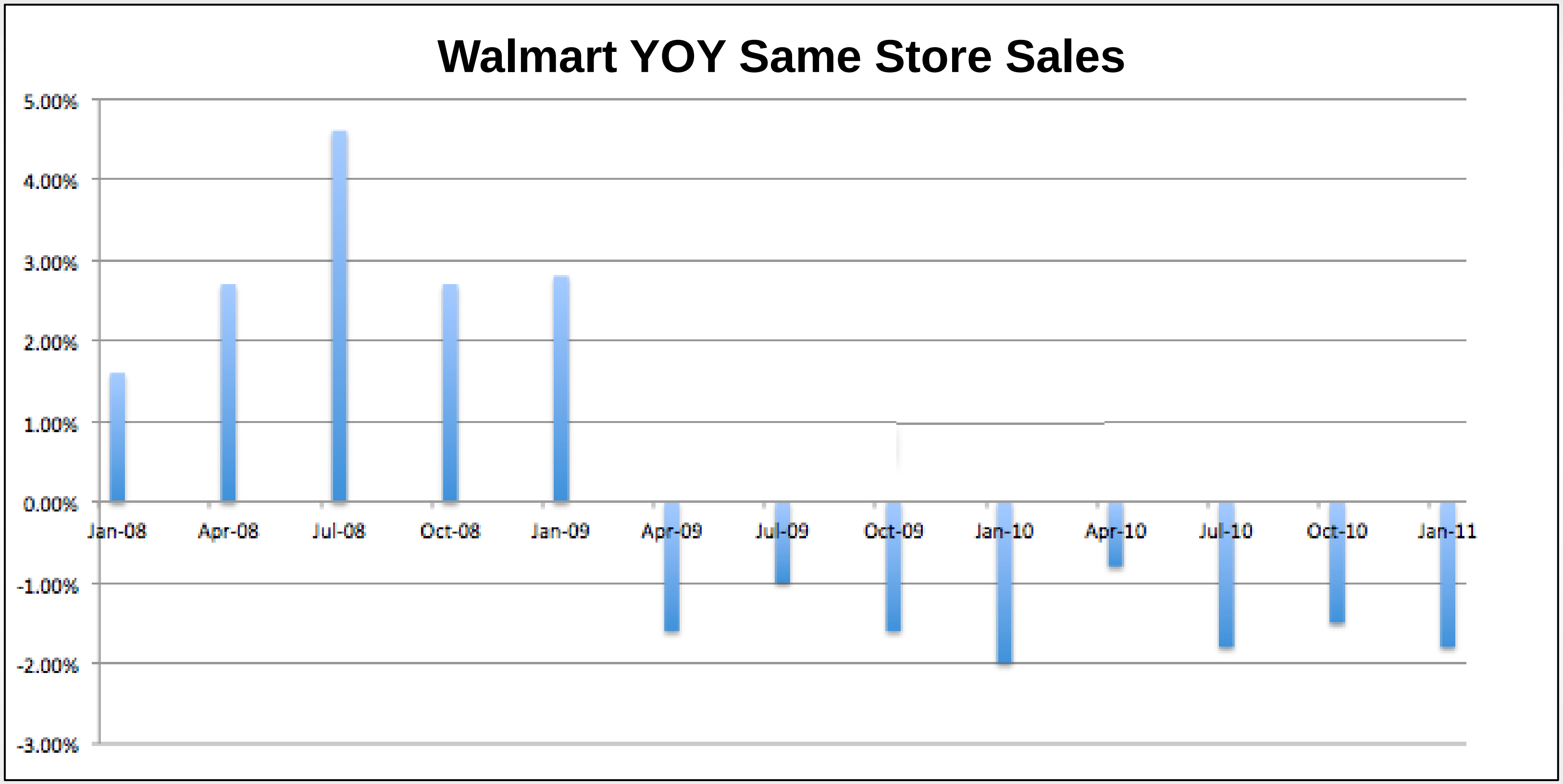
Published: 7:31 p.m. Saturday, Dec. 19, 2009

Post a Comment | E-mail | Print | Share | Larger Type

Wal-Mart says Project Impact is driving **consumer satisfaction to an all-time high.**

WALLET ALLOCATION RULE

Wal-Mart Experienced One of the Longest Slides in Same-Store Sales in Its History



WALLET ALLOCATION RULE

Satisfaction Rose — Share of Spending Declined

"The customer, for the most part, is still in the store shopping, but they started doing some more shopping elsewhere."

Charles Holley

Chief Financial Officer, Wal-Mart Stores Inc.*

"They loved the experience. They just bought less. And that generally is not a good long-term strategy."

William S. Simon

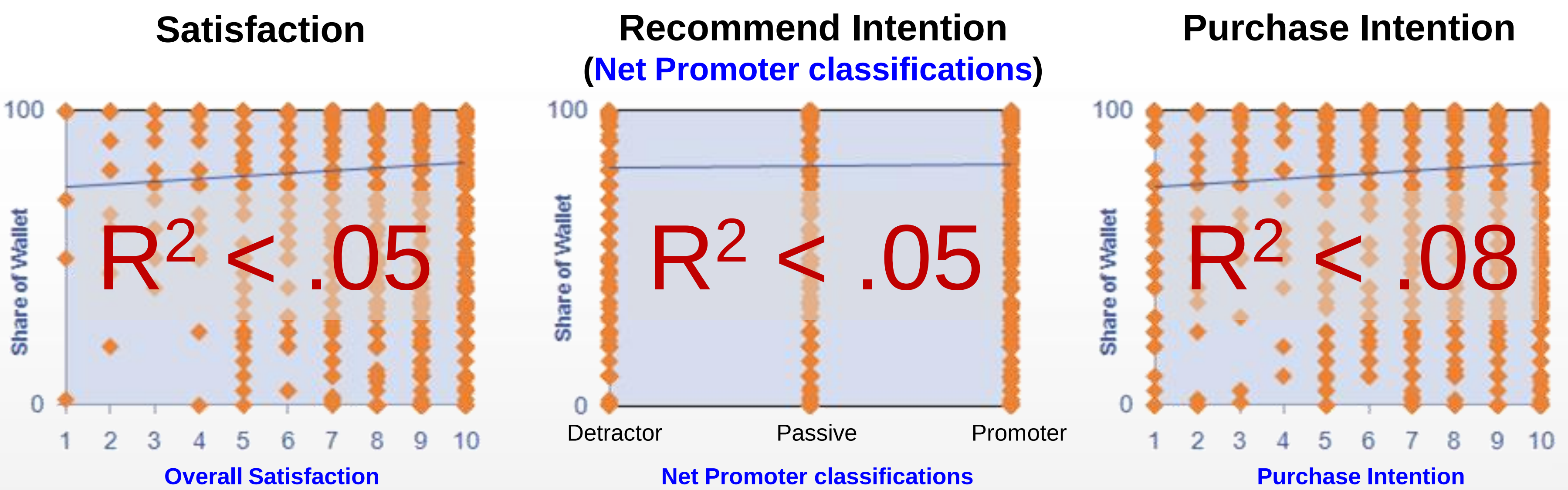
President and CEO, Walmart U.S.**

* D'Innocenzio, Anne (2011), "Wal-Mart: A Year of Taking Stock to Regain Footing," ***Yahoo! Finance*** (by Associated Press). (June 2), http://finance.yahoo.com/news/WalMart-A-year-of-taking-apf-2028266786.html?x=0&.v=4

** Clifford, Stephanie (2011), "Stuff Piled in the Aisle? It's There to Get You to Spend More," ***New York Times***. (April 8), A1.

Traditional Gauges of Loyalty Correlate Poorly with What Matters Most — Share of Wallet

Customers' Share of Wallet Allocations by Their Satisfaction, Net Promoter, and Purchase Intention Levels



Scatter diagram showing a customer's share of wallet (Y Axis) by his/her satisfaction/net promoter/purchase intention level (X Axis)

Timothy L. Keiningham, Bruce Cooil, Lerzan Aksoy, Tor Wallin Andreassen, and Jay Weiner (2007), "The Value of Different Customer Satisfaction and Loyalty Metrics in Predicting Customer Retention, Recommendation and Share of Wallet," *Managing Service Quality*, vol. 17, no. 4, 361-384.

* Winner of the Outstanding Paper (Best Paper) award from *Managing Service Quality*.

Rethinking the Problem

WALLET ALLOCATION RULE

A Rigorous Investigation to Find What Works

- **Collaborative investigation** between business and academia

Ipsos Ipsos Loyalty | FORDHAM UNIVERSITY THE JESUIT UNIVERSITY OF NEW YORK | VANDERBILT UNIVERSITY

- Conducted the most comprehensive investigation into the drivers of share of wallet in the scientific literature
  - Over **17,000 completed interviews**
  - Over a **dozen industries**
  - From **nine countries**
  - Examining the **same customers over time**
- The goal
  1. **Best approach to link customer metrics with share of wallet**
  2. **Best loyalty metric for managers to track**

A Rigorous Investigation to Find What Works

- ***The 1st Step***
  Rethink the nature of the relationship between customer satisfaction/loyalty and customer spending
- ***The Result***
  Uncovered **serious <u>disconnects</u> between what we know to be true** about this relationship, **and how we actually measure** and manage customer satisfaction and loyalty

Everything Is Relative

- ***We Know***
  Satisfaction is relative to competition

- ***We Do***
  Benchmarking

- ***The Problem***
  Comparison with competition is done at the firm/brand level, **NOT the customer level**

WALLET ALLOCATION RULE

re THINK

Rank Matters

- ***We Know***
  Market shares follow a company's rank*

- ***We Do***
  ?????

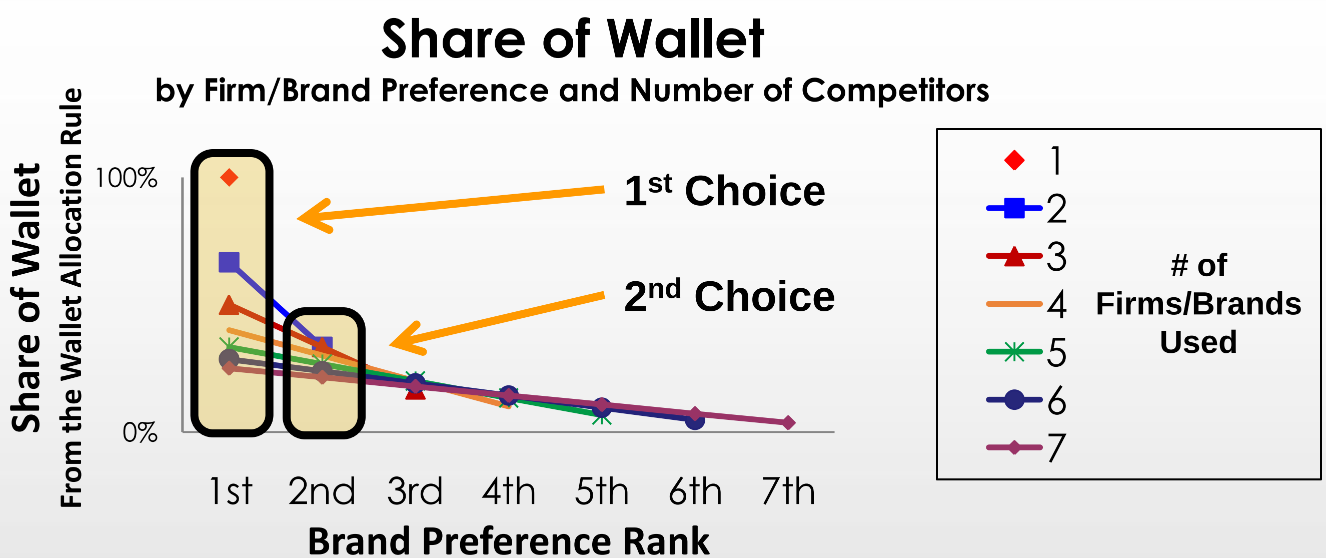
- ***The Problem***
  If you **can't improve your rank, you can't improve your share**

* Kohli, Rajeev, and Raaj Sah (2006), "Some Empirical Regularities in Market Shares," ***Management Science***, vol. 52, no. 11 (November), 1792-1798.

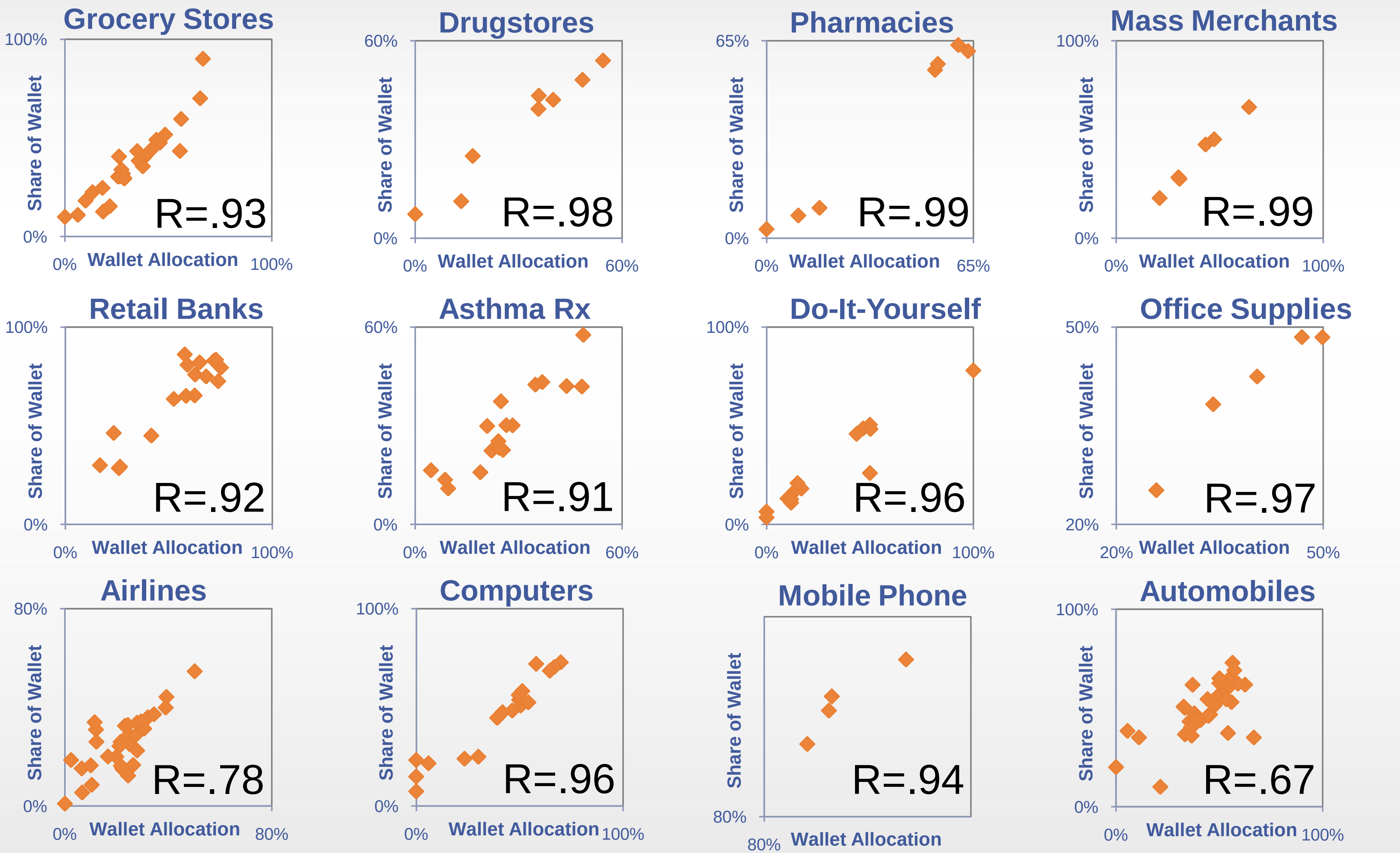
The Wallet Allocation Rule

Discovery of the Wallet Allocation Rule

- The relationship between a firm's/brand's rank and share of wallet follows a clear pattern that can be **predicted by two things**
  - **Relative ranking** of firm/brand used by a customer
  - **Number of firms/brands used** by a customer
- We refer to this as the **Wallet Allocation Rule**



Correlations between the Wallet Allocation Rule and Share of Wallet



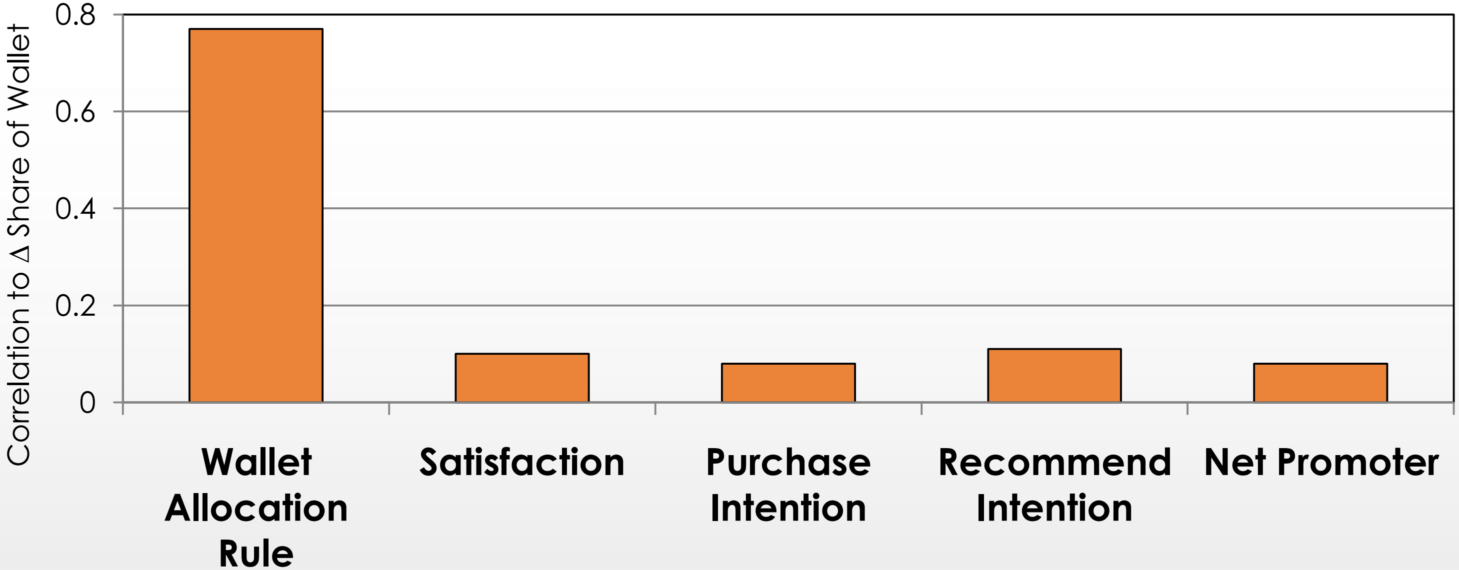
Note: Scatter diagrams show the average share of wallet at the firm/brand level (Y-Axis) by the predicted average share of wallet using the Wallet Allocation Rule (X-Axis).

WALLET ALLOCATION RULE

Customer-level Change in the Wallet Allocation Rule and Change in Share of Wallet

There is a strong correlation between changes in the Wallet Allocation Rule and changes in customers' share of wallet allocations over time

Customer-level Correlations between Changes in the Wallet Allocation Rule and Other Commonly Used Metrics and Changes in Share of Wallet



The chart shows the correlation between the change in an individual customer's share of wallet over time and the predicted change in share of wallet based on the Wallet Allocation Rule and other commonly used satisfaction and loyalty metrics.

WALLET ALLOCATION RULE

The "Best" Metric?

It's not that the metrics we use are wrong

Satisfaction,

Purchase Intention,

Recommend Intention,

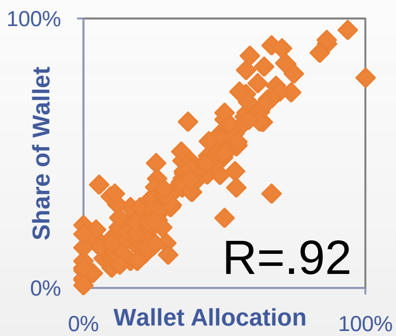
Net Promoter

It's the way that we use these metrics that's wrong

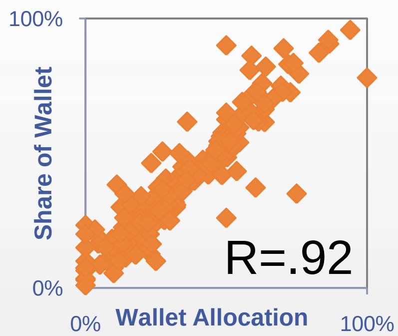
It Doesn’t Matter Which Metric You Use!!!

Surprisingly, **performance was virtually identical regardless of the metric used** to determine a firm’s/brand’s relative performance ranking.

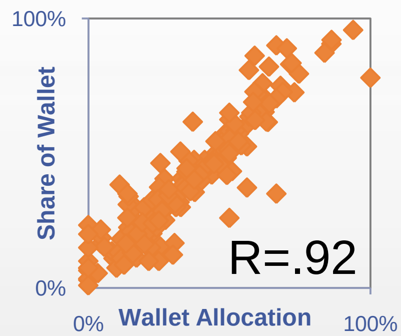
Satisfaction



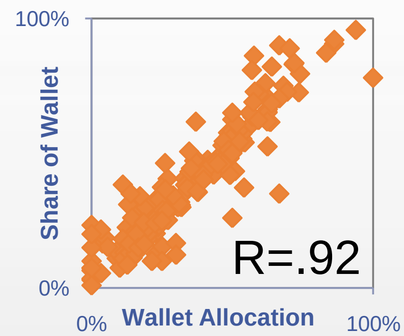
Purchase Intention



Recommend Intention



Net Promoter
Recommend Intention using NPS classifications



Average firm/brand Wallet Allocation Rule score and Share of Wallet across industries investigated.

Note: Scatter diagrams show the average share of wallet at the firm/brand level (Y-Axis) by the predicted average share of wallet using the Wallet Allocation Rule (X-Axis).

Using the
Wallet Allocation Rule

Using the Wallet Allocation Rule

Calculating a company's share of wallet requires **just three steps** and the application of a straightforward formula.

Step 1: Establish the Number of Competing Brands Customers Use

Establish the number of brands (or stores or firms) customers use in the product category you want to analyze.

Let’s say that Stuart, Mary, and Joe all buy Acme, Mega, and Brand X detergent.

Step 2: Survey Customers to Determine Your Rank

Survey customers and obtain satisfaction or other loyalty scores for each brand; convert the scores into ranks.

In the case of a tie, take the average — for instance, if two teams tie for first place, assign each a rank of 1.5.

WALLET ALLOCATION RULE

STEP 2

Relative Rankings for Stuart, Mary, and Joe

The chart below shows the ranks of the three detergents based upon the satisfaction scores provided by Stuart, Mary, and Joe.

	ACME	MEGA	BRAND X
STUART	3	1	2
MARY	3	2	1
JOE	3	1	2

WALLET ALLOCATION RULE

Step 3: Use the Wallet Allocation Rule to Determine a Customer's Share

3

To arrive at a brand's share of wallet for a given customer, plug the brand's rank and the number of brands used by the customer into the Wallet Allocation Rule formula:

$$\left(1 - \frac{\textbf{Rank}}{\textbf{Number of Brands + 1}}\right) \times \frac{\textbf{2}}{\textbf{Number of Brands}}$$

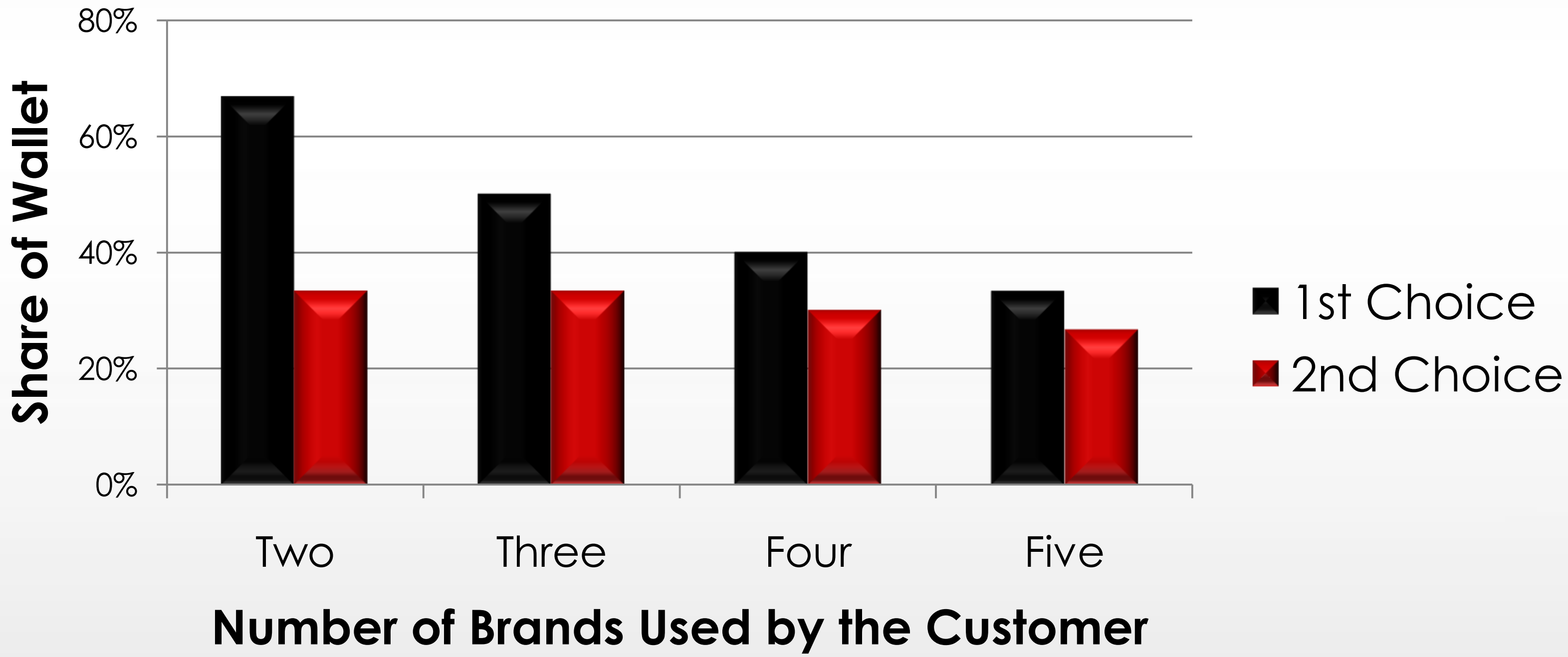
WALLET ALLOCATION RULE

How to Improve Your Rank

WALLET ALLOCATION RULE

Strategic Implication #1
Be the 1st Choice of Your Customers

The Difference between 1st choice and 2nd choice is typically quite large

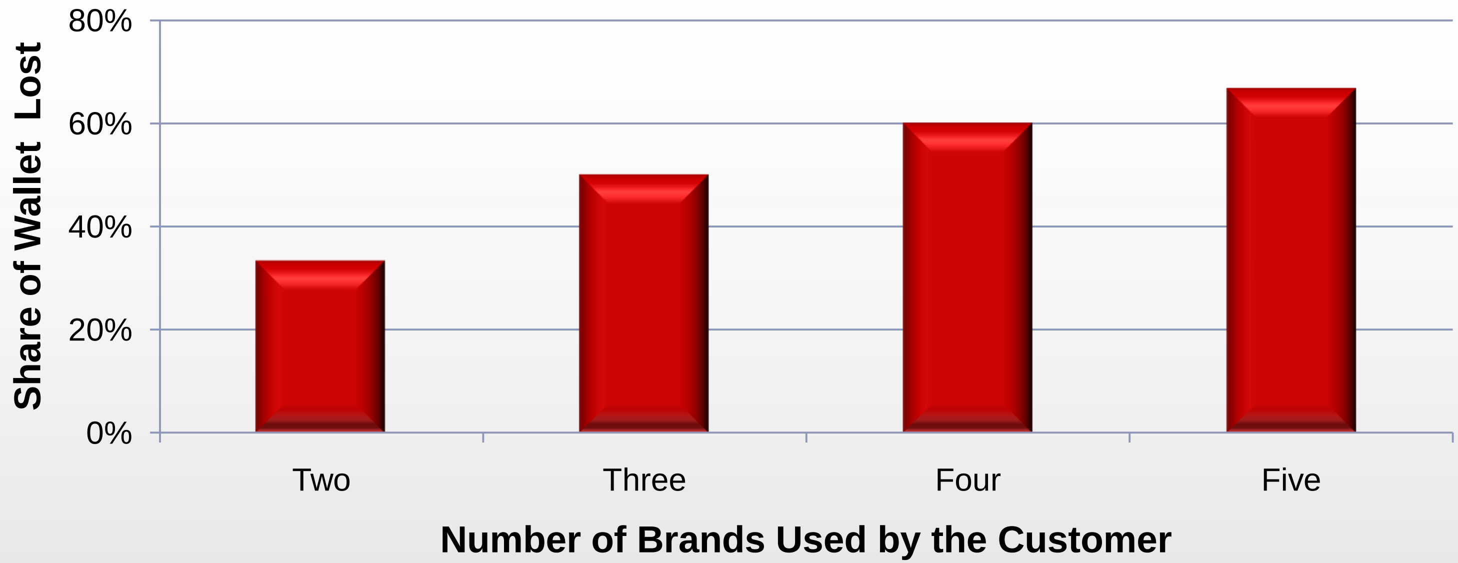


WALLET ALLOCATION RULE

Strategic Implication #2
Reduce the Number of Competing Brands

Reducing the number of brands a customer uses dramatically increases the share of wallet for the 1st choice brand

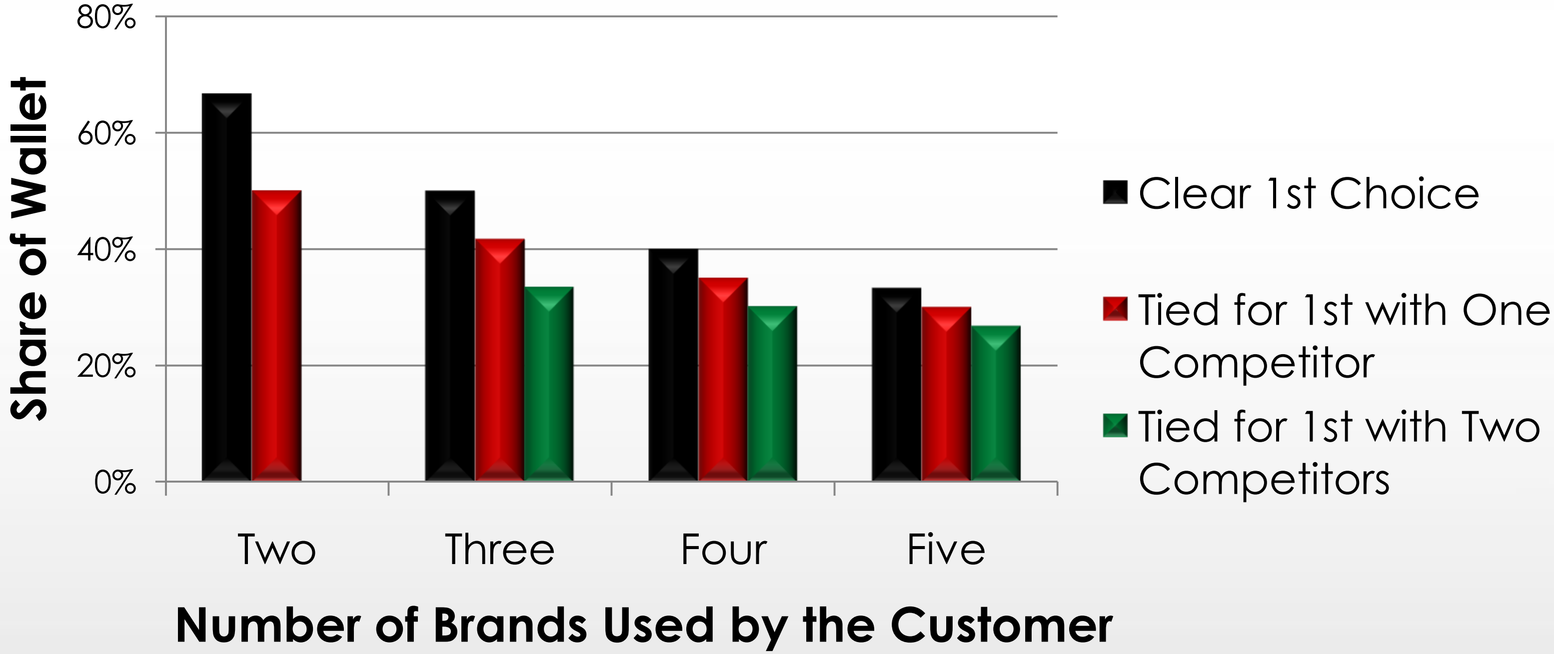
Cumulative Share of Wallet Lost for 1st Choice Brand with Each Increase in the Number of Competitors Used



WALLET ALLOCATION RULE

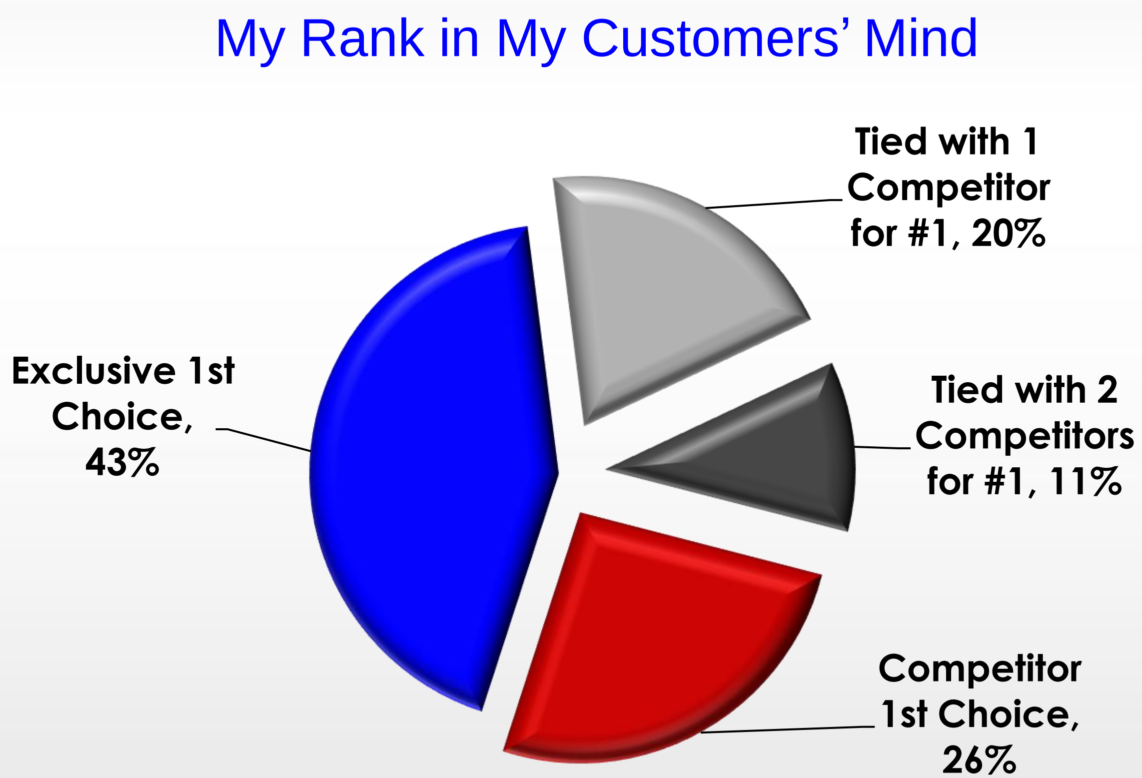
Strategic Implication #3
Parity Hurts

You must have a reason for customers to prefer your firm, or you evenly divide your customers' share of wallet with your closest competitors



How Do I Rank vis-à-vis Competitors in My Customers' Minds

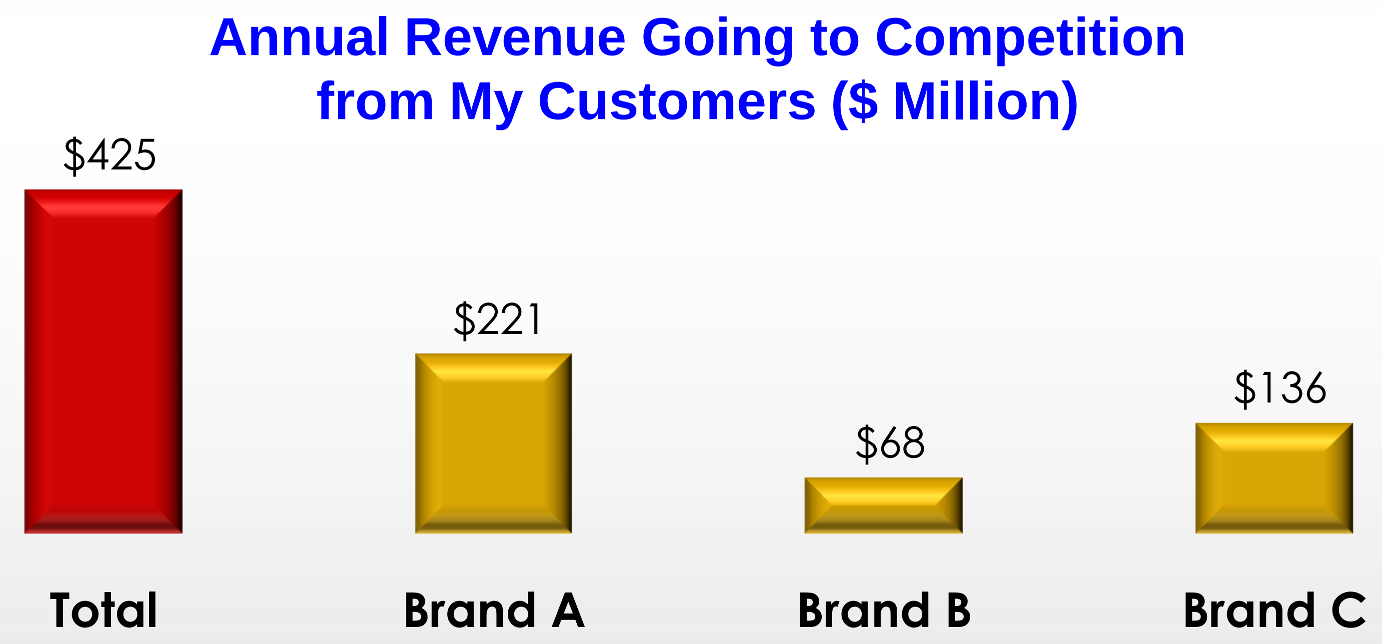
I am the clear 1st choice of 43% of my customers!



WALLET ALLOCATION RULE

How Much Money Is Going to Competitors from My Customers?

My customers spend $425 million with the competition!



WALLET ALLOCATION RULE

Why My Customers Shop My Store and The Competition

Primary Reason My Customers Use My Firm and the Competition

My Firm	Brand A	Brand B	Brand C

WALLET ALLOCATION RULE

Improving What You Already Do Well Is Unlikely to Change Your Rank

- ***The Reality***
  Improving produce quality is unlikely to change the minds of customers who prefer the competition.
- ***Reduce the Need to Use Competitors***
  Possible strategy—**drop prices on the most commonly purchased staples.**
  Customers attracted to the store for produce now have less reason to shop the strongest competitor.
- ***The Potential***
  In this case, a 6% increase in 1st choice translates into a seven-point increase in share of wallet.
  It's the equivalent of shifting $62 million from competitors registers to your firm.

WALLET ALLOCATION RULE

Conclusion

"The Wallet Allocation Rule can be very useful for managers, as it allows them to easily estimate customers' share of wallet, a critical metric in the measurement and management of customer loyalty."

Professor Sunil Gupta

Edward W. Carter Professor of Business Administration and Head of the Marketing Department

Harvard Business School

Discussion & Questions