

# The Wallet Allocation Rule

Analyzing the Relationship between Brand Perception  
and Share of Wallet



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



## Harvard Business Review

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*New Thinking, Research in Progress*

#### FIRST Customer Loyalty Isn't Enough. Grow Your Share of Wallet.

A new tool—the Wallet Allocation Rule—shows the best way to pull ahead of competitors



Loyalty counts for only so much. Real growth comes from increasing your share of wallet. Here's how by Timothy L. Keiningham, Lerzan Aksoy, Alexander Buoye, and Bruce Cool

Companies spend a great deal of time and money trying to improve customer loyalty by measuring and managing metrics like satisfaction and Net Promoter Scores. But traditional gauges of loyalty correlate poorly with what matters most: share of wallet. This is the percentage of a customer's spending within a category that's captured by a given brand, or store or firm. Customers may be very satisfied

with your brand and happily recommend it to others—but if they like your competitors just as much (or more), you're losing sales. Making changes to increase satisfaction won't necessarily help. This doesn't mean traditional metrics aren't valuable; it can be very useful to know whether your customers are satisfied and would recommend you to their friends and colleagues. But these measures in themselves can't tell you how

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and it existed in a space what

#### USING THE WALLET ALLOCATION RULE

Don't let the math scare you. Calculating a company's share of wallet requires just three steps and the application of a straightforward formula.

1 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.

2 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.

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

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

3 To arrive at a brand's share of wallet for a given customer, plug the brand's rank and the number of brands into the share-of-wallet formula:

$$\text{SHARE OF WALLET} = \frac{1}{\text{NUMBER OF BRANDS}} \times \left( \frac{\text{RANK}}{\text{NUMBER OF BRANDS}} \right)$$

Stuart's share of wallet for Acme detergent:

$$= \frac{1}{3} \times \left( \frac{3}{3} \right) = \frac{1}{3} \times 1 = 0.3333$$

$$= 0.33 \times 100 = 33\%$$

Stuart's share of wallet for Mega detergent:

$$= \frac{1}{3} \times \left( \frac{1}{3} \right) = \frac{1}{9} = 0.1111$$

$$= 0.11 \times 100 = 11\%$$

Stuart's share of wallet for Brand X detergent:

$$= \frac{1}{3} \times \left( \frac{2}{3} \right) = \frac{2}{9} = 0.2222$$

$$= 0.22 \times 100 = 22\%$$

Repeat the calculation for each customer and brand. To obtain a brand's overall share of wallet, take the average of all customers' share-of-wallet scores.

	ACME	MEGA	BRAND X
STUART	33%	11%	22%
MARY	22%	22%	11%
JOE	33%	11%	22%
AVERAGE SHARE OF WALLET	28%	14%	22%

#### The Rule in Practice

The new rule has important implications for strategy. To understand what drives changes in share of wallet, managers need to shift their focus from drivers of satisfaction to drivers of rank.

First, you can't assess brand performance as if it existed in a vacuum. That sounds obvious, but in reality it's exactly what most managers do, measuring customer satisfaction or using other metrics that are based on customers' perceptions of their brand alone. As a result, the

Returning to the store's customer surveys, managers learn that the top two reasons its satisfied customers recommended the grocer are the superior quality of its produce and the ambience. This is not surprising; management has worked hard to differentiate the grocer on these parameters. What attracts the store's customers to the competitor? The survey indicates that for Competitor One, the primary attraction is everyday low prices. Competitor Two also competes on price, but largely through rotating deep discounts. Competitor Three's main appeal is the convenience of its locations.

The managers immediately realize that if the grocer is to move up to first place in more of its customers' minds, it can't simply enhance what it already does well: stocking even better produce or improving the aesthetics might further delight customers who already rank it first but would be unlikely to change the minds of the rest, whose main interest is in low prices and convenience.

The grocer can't compete on price in every category, so its managers decide to drop prices on its most commonly purchased staples, reasoning that customers who are already attracted to the store for its produce and ambience will then have less reason to shop at its strongest competitor, the everyday-low-price store. Surveys after the price change find that 49% of customers now peg the grocer as their first choice

If growth is what you're after, stop watching satisfaction scores and start paying attention to rank.

(a gain of 9%) and that the number of store customers regularly shop in has dropped from 2.5 to 2, on average. These changes, when plugged into the Wallet Allocation Rule, translate to a seven-point increase in share of wallet, its equivalent of shifting \$62 million from competitors' registers into the grocer's own.

Many companies could see this kind of revenue jump if they decided to simply pursue customer satisfaction for its own sake and focused instead on how satisfaction and other loyalty boosters could help them pull ahead of the competition. If growth is what you're after, stop watching scores and start paying attention to rank. The path to winning has always been the same. It's not just how many points you score that matters—you need to score more than your competitors. **HBR REPORT 1108**

Timothy L. Keiningham is the global chief strategy officer and an executive vice president at Ipsos loyalty. Lerzan Aksoy is an associate professor of marketing at Fordham University. Alexander Buoye is the vice president of analytics at Ipsos loyalty. Bruce Cool is the Dean Samuel E. and Evelyn P. Richard Professor of Management at Vanderbilt University's Owen Graduate School of Management.

#### HOW TO IMPROVE YOUR RANK

Boosting your brand's rank means minimizing the reasons your customers turn to your competitors. Below is a simple process you can implement right away.

**FOLLOWING THE WALLET ALLOCATION RULE**, establish the share of wallet of each competitor or your customer's use.

**DETERMINE** how many of your customers use each competitor.

**CALCULATE** the revenue that goes from your customers to each competitor.

**IDENTIFY** the primary reasons your customers use your competitors.

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



**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”?





# A Change in Focus

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



# 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.





# 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

**Total Spending Going to Competition**  
A Comparison of Defecting Customers and Current Customers



# The Opportunity for Growth



## The Added Opportunity from Share of Wallet

**Total Spending Going to Competition**  
A Comparison of Defecting Customers and Current Customers



# Acquisition vs. Share of Wallet

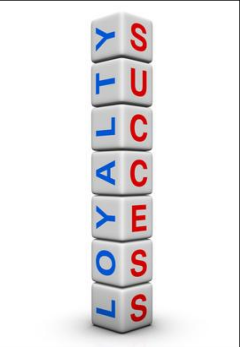
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**And it is easier and cheaper to  
sell more to existing  
customers than to acquire new  
ones!**



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







# Walmart — Project Impact

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## 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.



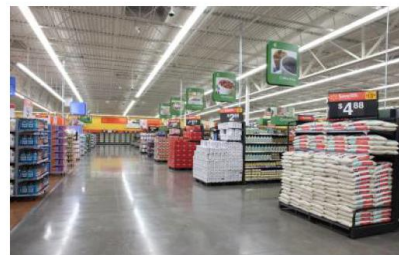
# Cleaner, Friendlier Stores

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

## Project Impact remodels

### Clean Action Alleys

- Pleased with sales increase versus control stores
- Accelerating implementation, complete by Q1 FY11\*



(NYSE: WMT)



\* Except for stores scheduled for a current year remodel or other real estate action

11

Wal-Mart Stores, Inc.

(NYSE: WMT)



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

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## Walmart's new look is more than skin deep

By Jackie Crosby

STAR-TRIBUNE

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

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





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



# 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.\*\*

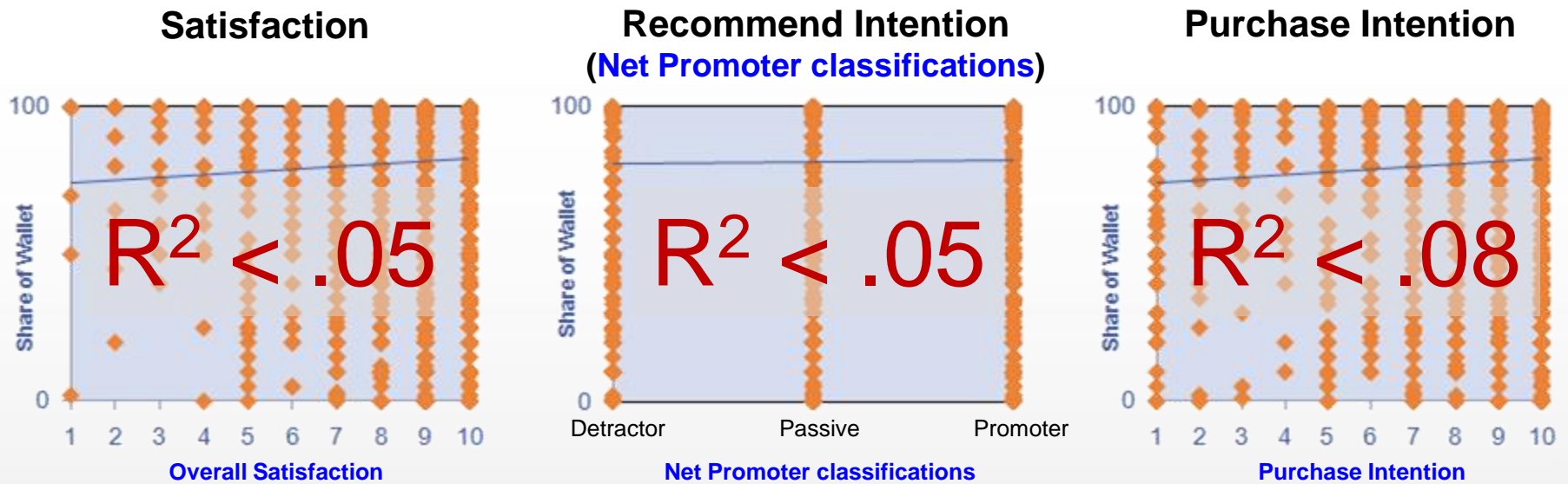
\* D'Innocenzio, Anne (2011), “Wal-Mart: A Year of Taking Stock to Regain Footing,” **Yahoo! Finance** (by Associated Press). (June 2), <http://finance.yahoo.com/news/WalMart-A-year-of-taking-apf-2028266786.html?x=0&.v=4>

\*\* 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**



# A Rigorous Investigation to Find What Works



- **Collaborative investigation** between business and academia



Ipsos Loyalty



- 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 1<sup>st</sup> Step***

Rethink the nature of the relationship between customer satisfaction/loyalty and customer spending

- ***The Result***

Uncovered **serious disconnects 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**





# 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.



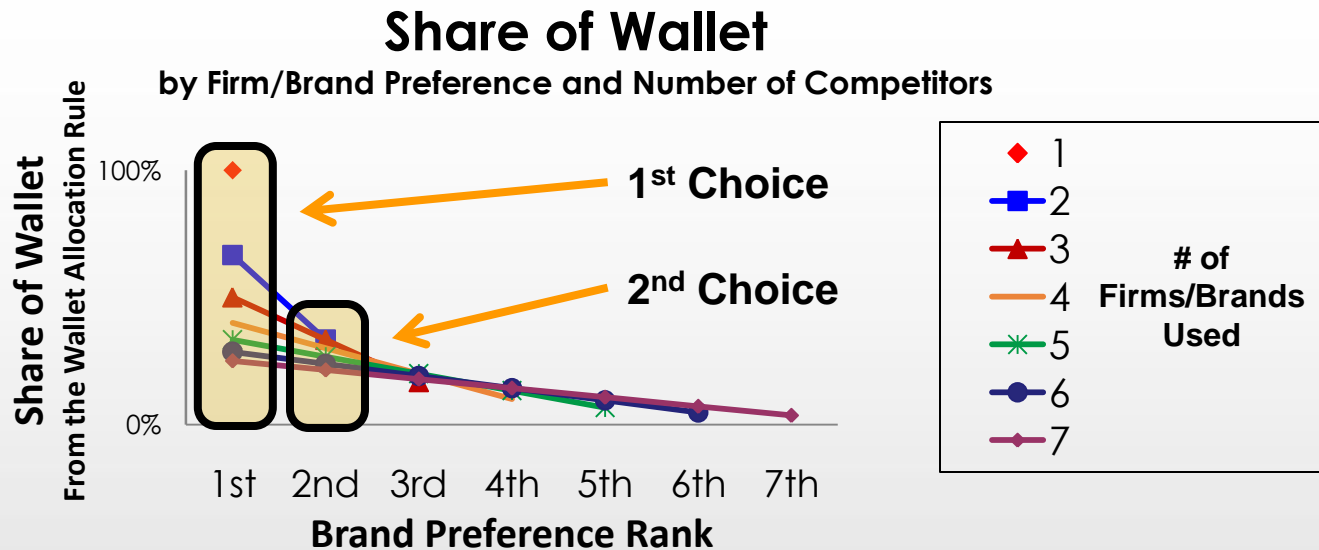
# The Wallet Allocation Rule



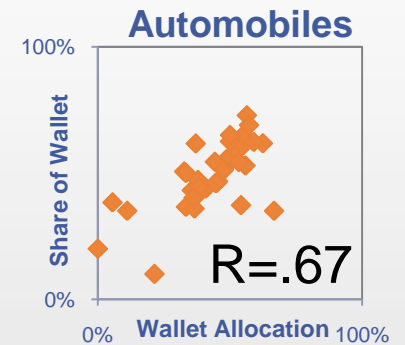
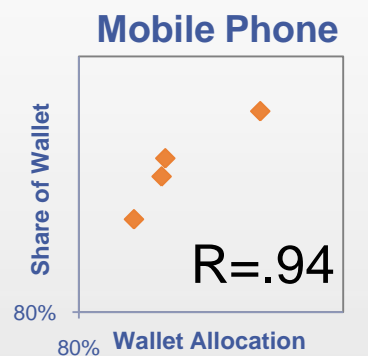
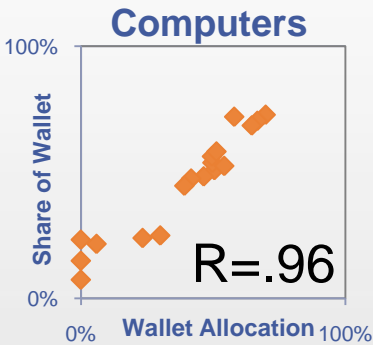
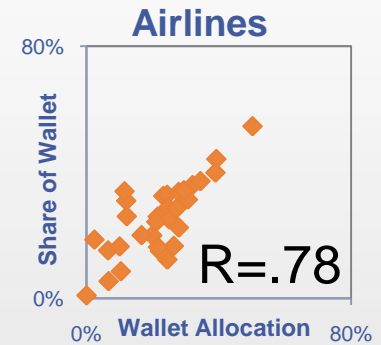
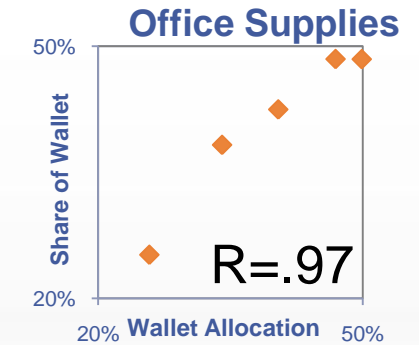
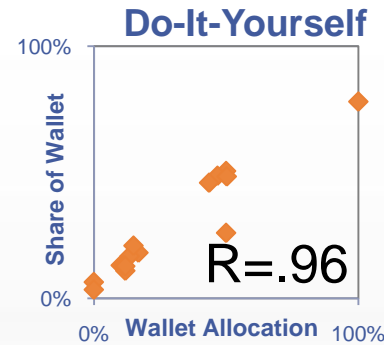
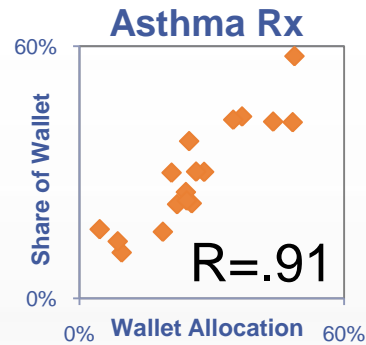
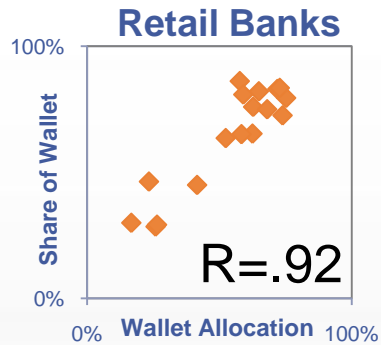
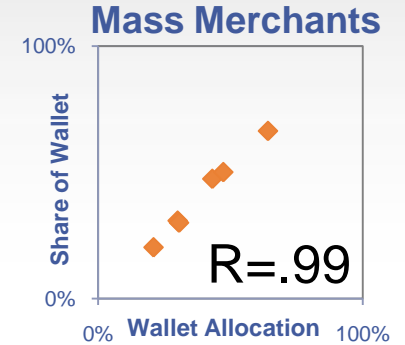
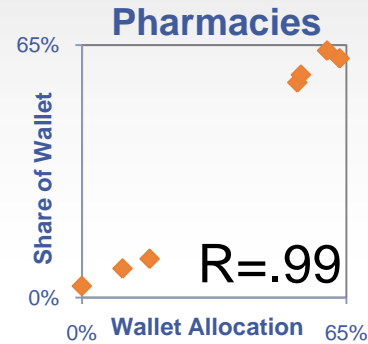
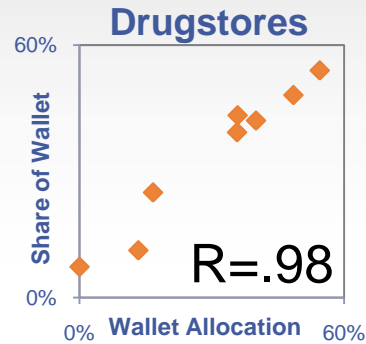
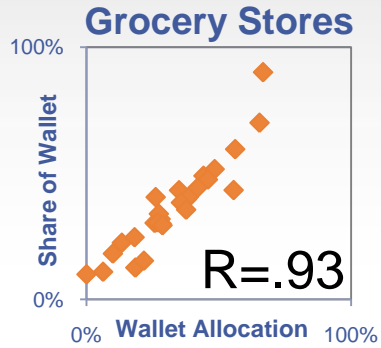
# Discovery of the Wallet Allocation Rule



- 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).

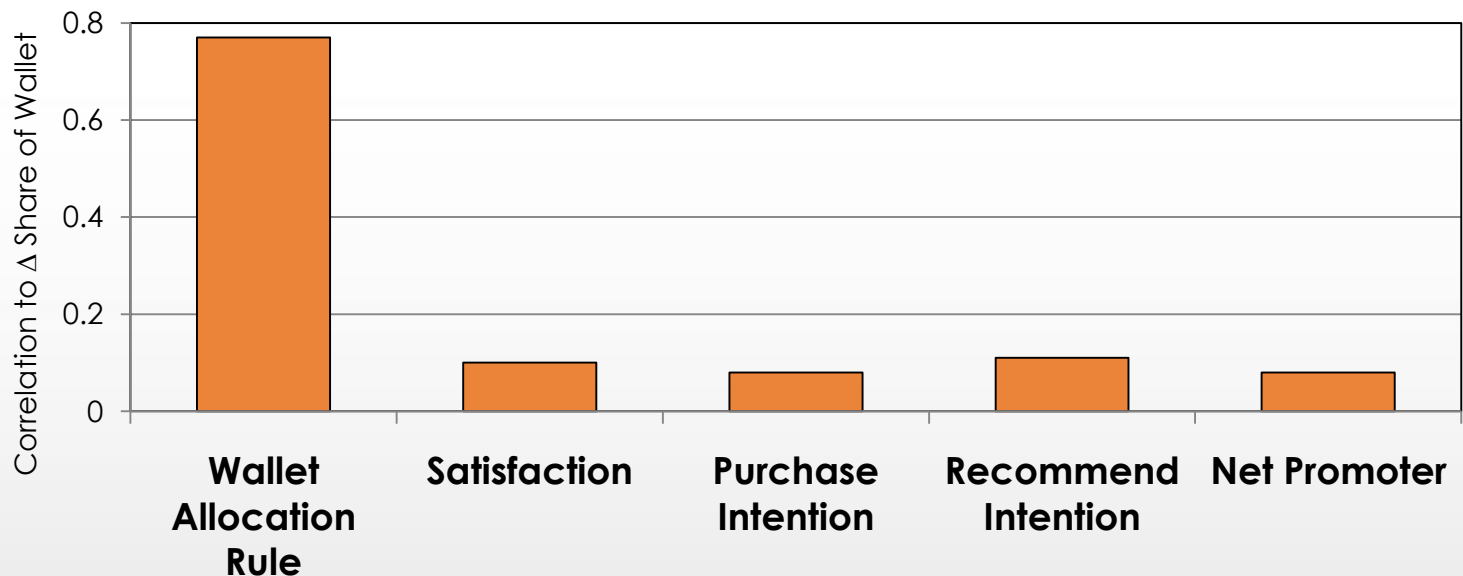


# Customer-level Change in the Wallet Allocation Rule and Change in Share of Wallet



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.





# The “Best” Metric?



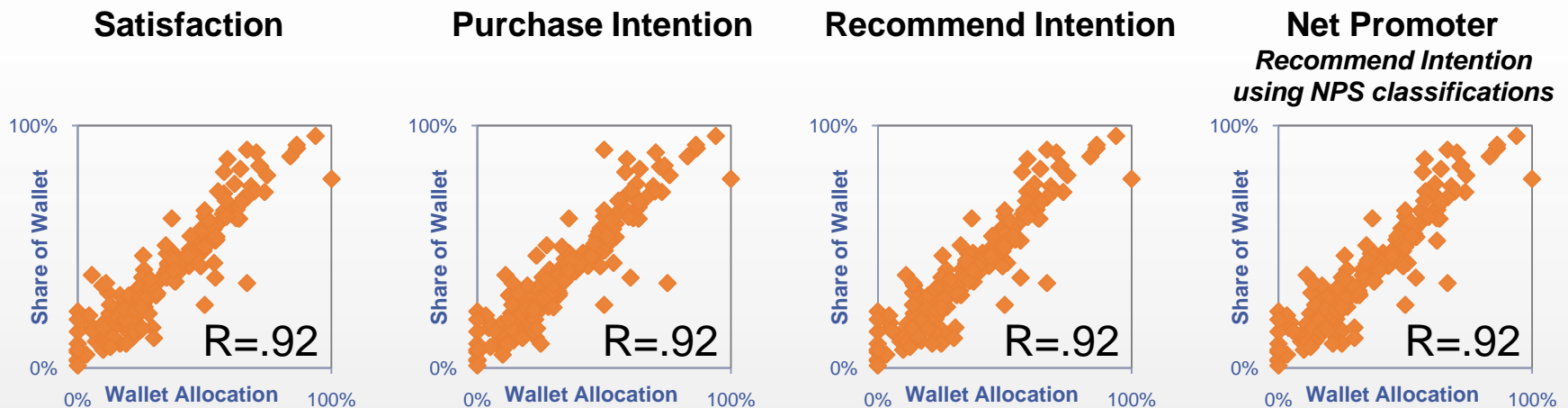
**It's not that the metrics we use  
are wrong**

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.



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



1

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

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2

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.



# 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





## 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:

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





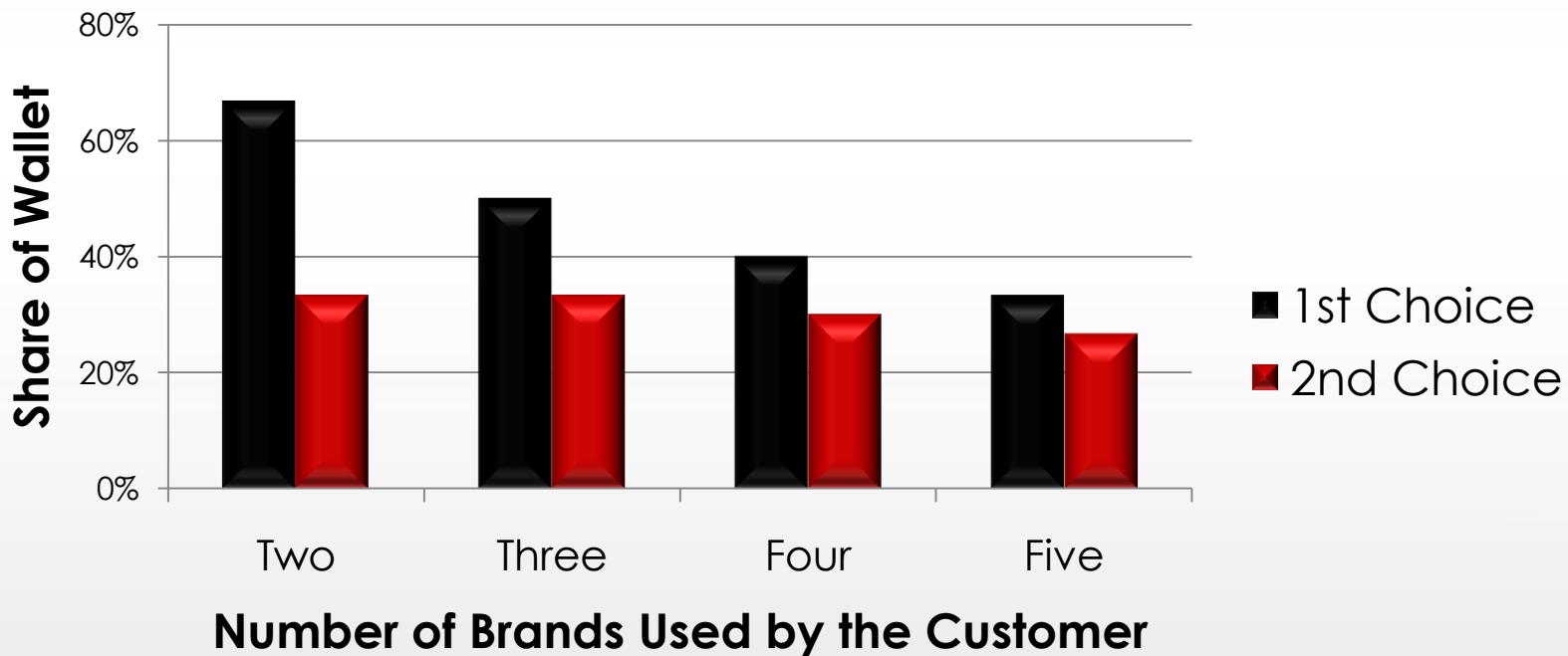
# How to Improve Your Rank

# Strategic Implication #1

## Be the 1st Choice of Your Customers



The Difference between 1<sup>st</sup> choice and 2<sup>nd</sup> choice is typically quite large



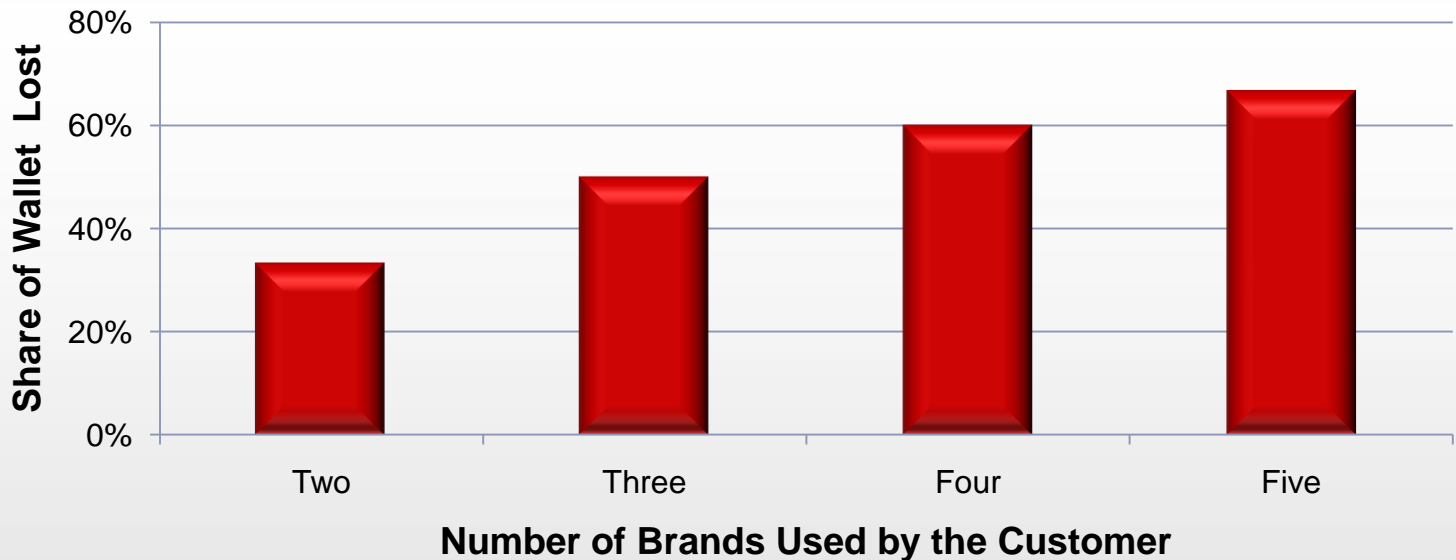


# Strategic Implication #2

## Reduce the Number of Competing Brands

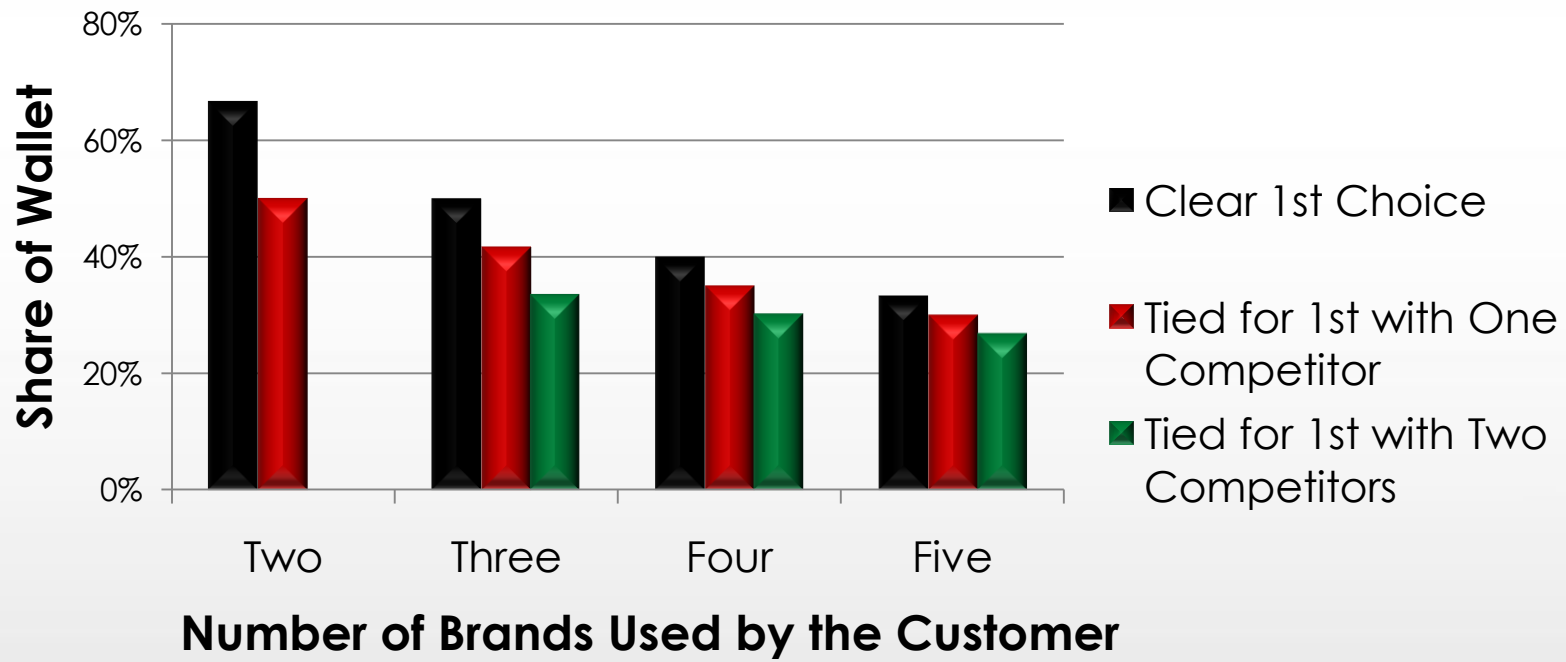
Reducing the number of brands a customer uses dramatically increases the share of wallet for the 1<sup>st</sup> choice brand

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



# 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

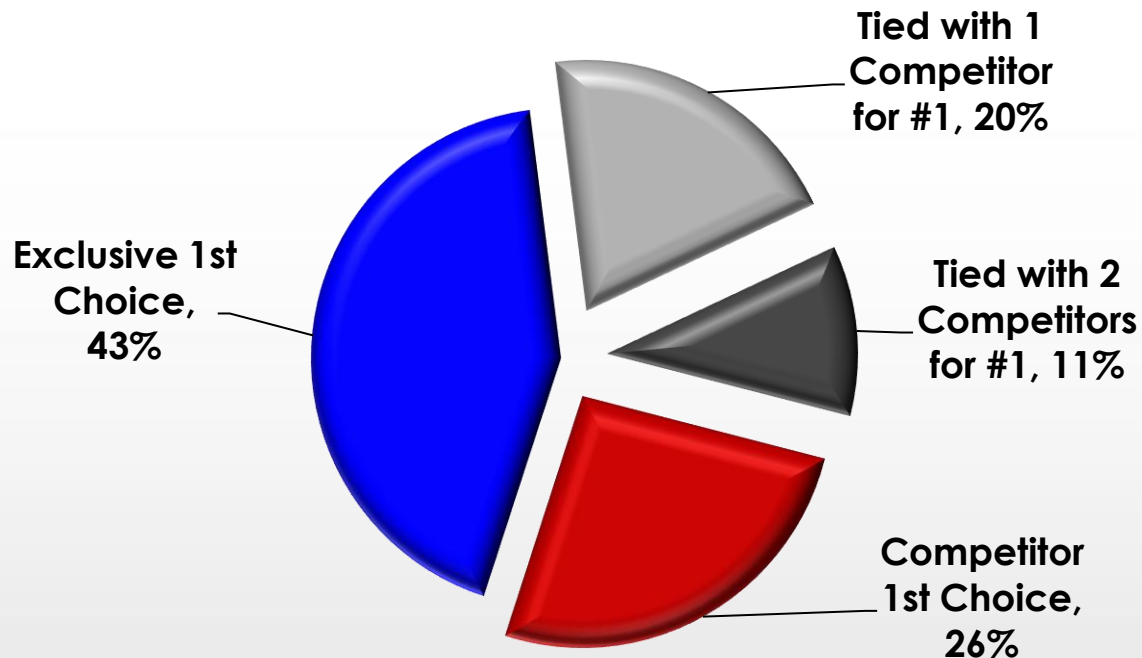


# How Do I Rank vis-à-vis Competitors in My Customers' Minds



I am the clear 1<sup>st</sup> choice of 43% of my customers!

My Rank in My Customers' Mind

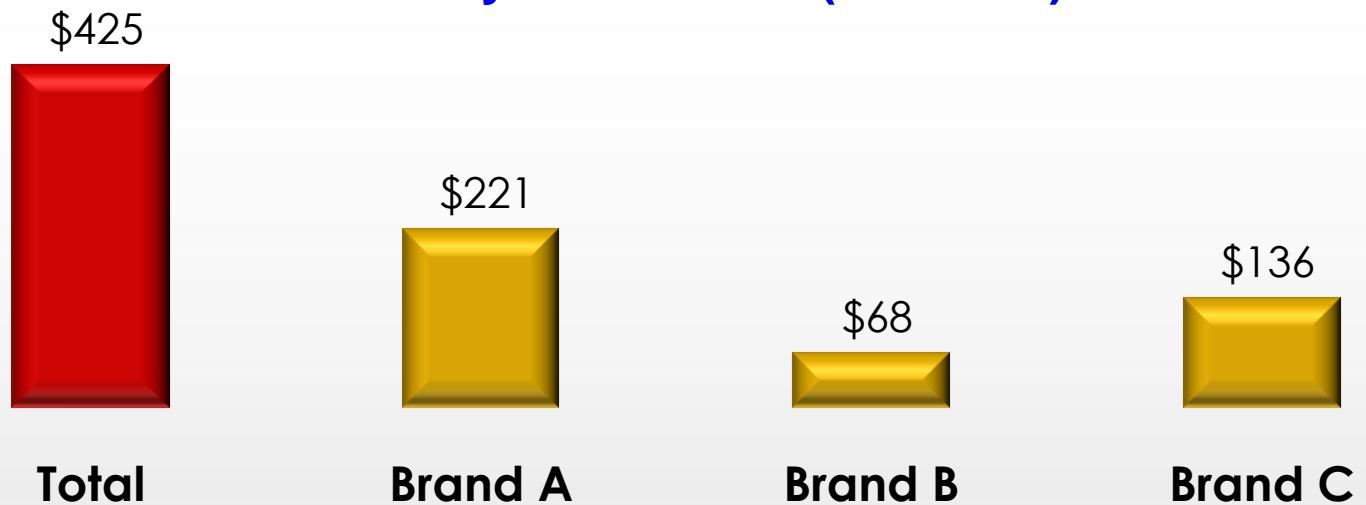


# How Much Money Is Going to Competitors from My Customers?



My customers spend \$425 million with the competition!

**Annual Revenue Going to Competition from My Customers (\$ Million)**





# 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**



# 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 1<sup>st</sup> 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.**

# 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

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