The Wallet Allocation Rule
Analyzing the Relationship between Brand Perception and Share of Wallet

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How Things Are Now
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

The Opportunity for Growth

The Opportunity from Customer Retention

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Spending/Deposits Going to Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>0%</td>
</tr>
<tr>
<td>Discount Retail</td>
<td>25%</td>
</tr>
<tr>
<td>Grocery</td>
<td>50%</td>
</tr>
<tr>
<td>Credit Card</td>
<td>75%</td>
</tr>
</tbody>
</table>

Potential Amount to be Gained Focusing on Retention Alone
The Opportunity for Growth

The Added Opportunity from Share of Wallet

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

Potential Amount to be Gained Focusing on Share-of-Wallet with Current (Retained) Customers

Potential Amount to be Gained Focusing on Retention Alone
Acquisition vs. Share of Wallet

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 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.

Clean Action Alleys

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

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

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

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.**

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)

- Satisfaction
- Recommend Intention (Net Promoter classifications)
- Purchase Intention


* 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

- 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 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

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
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
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.
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.

<table>
<thead>
<tr>
<th></th>
<th>ACME</th>
<th>MEGA</th>
<th>BRAND X</th>
</tr>
</thead>
<tbody>
<tr>
<td>STUART</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>MARY</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>JOE</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>
Step 3: Use the Wallet Allocation Rule to Determine a Customer’s Share

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:

\[
(1 - \frac{\text{Rank}}{\text{Number of Brands} + 1}) \times \frac{2}{\text{Number of Brands}}
\]
How to Improve Your Rank
Strategic Implication #1
Be the 1st Choice of Your Customers

The Difference between 1\textsuperscript{st} choice and 2\textsuperscript{nd} choice is typically quite large

- Share of Wallet
- Number of Brands Used by the Customer

- 1st Choice
- 2nd Choice
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

<table>
<thead>
<tr>
<th>Number of Brands Used by the Customer</th>
<th>Share of Wallet Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two</td>
<td>20%</td>
</tr>
<tr>
<td>Three</td>
<td>40%</td>
</tr>
<tr>
<td>Four</td>
<td>60%</td>
</tr>
<tr>
<td>Five</td>
<td>80%</td>
</tr>
</tbody>
</table>
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!

My Rank in My Customers’ Mind

- Exclusive 1st Choice, 43%
- Competitor 1st Choice, 26%
- Tied with 1 Competitor for #1, 20%
- Tied with 2 Competitors for #1, 11%
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)

- Total: $425
- Brand A: $221
- Brand B: $68
- Brand C: $136
Why My Customers Shop My Store and The Competition

<table>
<thead>
<tr>
<th>My Firm</th>
<th>Brand A</th>
<th>Brand B</th>
<th>Brand C</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.png" alt="Image of a grocery store" /></td>
<td><img src="image2.png" alt="Image of a promotional flyer" /></td>
<td><img src="image3.png" alt="Image of a product list" /></td>
<td><img src="image4.png" alt="Image of a location map" /></td>
</tr>
</tbody>
</table>

Primary Reason My Customers Use My Firm and the Competition

- **My Firm**: Everyday Low Price!
- **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\textsuperscript{st} 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