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IDEA WATCH

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FIRST

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ILLUSTRATION: GARY NEILL

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by Timothy L. Keiningham, Lerzan Aksoy, Alexander Buoye, and Bruce Cooil

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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your customers will divide their spending among you and your competitors.

Walmart had a rude awakening in this regard. In 2008, guided by extensive customer feedback, it launched Project Impact, a remodeling initiative designed to improve customers' experiences. It removed unsightly stacks of pallets from the aisles, trimmed distracting endcap displays, and thinned out overstuffed shelves. As expected, satisfaction scores rose. But same-store sales entered their longest decline in the company's history. "The customers, for the most part, are still in the store shopping," Charles Holley, Walmart's chief financial officer, recently observed, "but they've started doing some more shopping elsewhere." Even as satisfaction increased, share of wallet fell.

If traditional loyalty metrics don't link to share of wallet, what does? To find out, we undertook a two-year longitudinal study of more than 17,000 consumers, looking at purchasing in more than a dozen industries and in nine countries. We asked a broad array of questions and collected ongoing purchase histories and satisfaction and loyalty ratings. Our analysis—to our knowledge the largest and most rigorous of its kind—revealed an elegant correlation: The rank that consumers assign to a brand relative to the other brands they use predicts share of wallet according to a simple, previously unknown formula, which we've named the Wallet Allocation Rule. From company to company and industry to industry, the correlation between a brand's Wallet Allocation Rule score and its share of wallet was remarkably consistent—the average was greater than 0.9 (a perfect correlation is 1.0). Even more important, the correlation between *changes* in the Wallet Allocation Rule score and in a customer's share of wallet was a robust 0.8. The correlation between changes in satisfaction or intention to recommend and in share of wallet was very weak—only 0.1.

The essential distinction of the Wallet Allocation Rule is that it takes into account both rank—Is your brand a customer's first choice? Second?—and the number of brands in the set the consumer uses. Knowing these two values allows you to confidently predict share of wallet. (For a step-by-step demonstration of the calculation, see the exhibit "Using the Wallet Allocation Rule.") For example, if your brand is one of only two a customer uses for a given purpose, the rule shows that the difference between being her first choice and being her second can have a major financial impact. In such a situation, even being tied has grave consequences: Half of each dollar you could be collecting from the customer is going to your competitor instead. The flip side is that the negative impact of being second diminishes as the consumer's choice set increases.

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

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	**3**	**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 Wallet Allocation Rule formula:

$$\text{SHARE OF WALLET} = \left(1 - \frac{\text{RANK}}{\text{NUMBER OF BRANDS} + 1}\right) \times \left(\frac{2}{\text{NUMBER OF BRANDS}}\right)$$

Stuart's share of wallet for Acme detergent:

$$\left(1 - \frac{3}{3+1}\right) \times \frac{2}{3}$$
$$= (1 - 0.75) \times 0.67$$
$$= 0.25 \times 0.67$$
$$= 0.1675, \text{ ROUNDED TO } 17\%$$

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	**17%**	**50%**	**33%**
MARY	**17%**	**33%**	**50%**
JOE	**17%**	**50%**	**33%**
BRAND SHARE OF WALLET	**17%**	**44%**	**39%**

loyalty objectives used to evaluate and compensate managers usually have to do with achieving a certain satisfaction rating (which rarely boosts share of wallet), not with improving a brand's rank (which actually does).

Second, the rule makes it possible to craft strategies that directly affect brand performance and then measure the impact on share of wallet. Think about how a company typically tries to improve share of wallet. The effort often boils down to launching initiatives intended to make customers happier and then measuring satisfaction. As Walmart discovered, even initiatives that result in happier customers may have little or no positive impact on the top line. Instead, companies should understand exactly why their customers use each of the brands they do. If you're not number one, you should ask your customers why they prefer your competitor and use the insights you gain to move up the ranking ladder. The Wallet Allocation Rule is clear on this point: If you can't improve your rank, you can't improve your share of wallet. (See the sidebar "How to Improve Your Rank.")

Let's look at a composite case, drawn from our research, that illustrates how a full-service grocery retailer might put the rule to use. The grocer surveys its customers and finds that they are generally very happy with their experience—53% give the store a nine or 10 on a 0-to-10-point "would recommend" scale. However, despite these good scores, only 43% of customers rank the grocer as their first choice. The unpleasant implication is that 57% either prefer one or more of its competitors or consider the grocer to be tied with one of them. Using the Wallet Allocation Rule, the grocer calculates its average share of wallet and that of its three main competitors. Multiplying these estimates by its customers' average monthly grocery spend and the number of its customers who also patronize the competing stores, the grocer determines that its top three competitors are extracting a total of $425 million from its customers' wallets—some of which it could capture by moving up in the ranks.

Returning to the store's customer surveys, managers learn that the top two reasons its satisfied customers recommend 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 competition? 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, who are mainly interested 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 (a gain of 6%) and that the number of stores 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. It's the equivalent of shifting $62 million from competitors' registers into the grocer's own.

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

Many companies could see this kind of revenue jump if they decided not to 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 your scores and start paying attention to your 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 do.

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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.

FOLLOW the Wallet Allocation Rule to establish the share of wallet of each competitor your customers 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.

PRIORITIZE your opportunities to improve your share of wallet: Estimate the costs of addressing each reason your customers choose a competitor and weigh those costs against your potential financial return in each case. Remember to take into account the cumulative impact of addressing issues that apply to multiple competitors.