

Customer Loyalty Measurement Is Broken: Let's Fix It

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CUSTOMER LOYALTY ISN'T ENOUGH. GROW YOUR SHARE OF WALLET



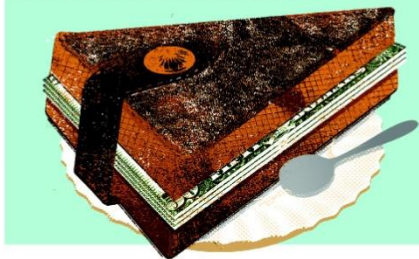
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FIRST Customer Loyalty Isn't Enough. Grow Your Share of Wallet



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

brand it existed in what's exactly yours do.

between change 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. Over 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 detergents.

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	2	1
MARY	3	3	3
JOE	3	1	2

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:

$$\text{Share of wallet} = \frac{1}{N+1} \left(\frac{R}{R+1} \right) \left(\frac{1}{R+1} \right)$$

Stuart's share of wallet for Acme detergent:

$$\begin{aligned} &= \frac{1}{3+1} \left(\frac{3}{3+1} \right) \left(\frac{1}{3+1} \right) \\ &= \frac{1}{4} \left(\frac{3}{4} \right) \left(\frac{1}{4} \right) \\ &= 0.03125 \end{aligned}$$

$$= 0.03125 \times 100\% = 3.125\%$$

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	3.125%	3.125%	3.125%
MARY	3.125%	3.125%	3.125%
JOE	3.125%	3.125%	3.125%
AVERAGE OF ALL	3.125%	3.125%	3.125%

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 ambience 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 45% of customers now peg the grocer as their first choice

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

(a gain of five) 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 \$60 million from competitors' registers into the grocer's own.

Many companies could use 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.

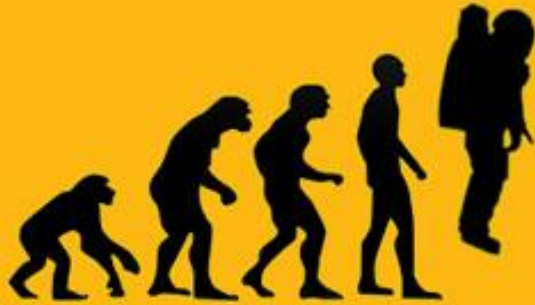
THE WALLET ALLOCATION RULE is a simple process you can implement right away. **FOLLOW** the Wallet Allocation Rule to establish the share of wallet of each competitor your customers use. **DETERMINE** how many of your customers use each competitor. **CALCULATE** the revenue that goes from your customers to each competitor. **IDENTIFY** the primary reasons your customers use your competitors.

October 2011 Harvard Business Review 31

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), 29-31.



WINNER OF THE 2011 NEXTGEN DISRUPTIVE INNOVATION IN MARKET RESEARCH AWARD



BEING NUMBER 1



THE PROBLEM

THE OBJECTIVE OF EVERY CEO



THE THREE LEVERS OF GROWTH

MARKET SHARE IS A FUNCTION OF



**SHARE
OF
WALLET**

**PENETRATION
LEVEL**

**CUSTOMER
USAGE
LEVEL**

Farris, Paul W., Neil T. Bendle, Phillip E. Pfeifer, and David J Reibstein (2006) . *Marketing Metrics: 50+ Metrics Every Executive Should Master*. Upper Saddle River, NJ: Wharton School Publishing.

A simple line drawing of a shoe store. The storefront has a red sign with the word 'SHOES' in white capital letters. Below the sign is a yellow awning with vertical stripes. The entrance features a central glass door with a green handle, flanked by two large glass windows. The base of the store is painted red. A small shadow is cast to the right of the building.

and generating superior long-term finan-

nd generating superior long-term financial performance. Most managers realize that the competitive market, the more important of customer satisfaction. What most do not realize is that customer satisfaction is a process, not a product. It is a process of continuous improvement in the quality of the product, the service, the equipment, the financial services, and the relationship between the company and the customer. In markets like these, there is a tremendous difference between the loyalty of merely satisfied customers and the loyalty of completely satisfied customers. [See the sidebar, "Customer Satisfaction," on page 10.]

Share

Time Co

at the customer level and can measure the degree to which a customer's behavior at that show actual repurchasing behavior. Frequency, amount, retention, and longevity are important measures of loyalty, but they only provide a glimpse of overall loyalty. The most useful as an indication of changes in loyalty over time are measures of turnover. For example, the credit-card industry has measured the willingness of the consumer to pay the annual fee as its prime measure of retaining the late 1980s and early 1990s, though studies saw that willingness rise while actual "wallet" – the degree to which customers use a particular card for making purchases when the option of using a credit card – decreased. If a customer was willing to pay the fee to have the card, he or she was more likely to use the card, which was variable but often did not use it. Therefore, frequency, and amount of purchase were better measures of loyalty.

Consider the experience of having a car repaired. A customer's basic goal is to have it fixed properly. To obtain a relatively neutral customer, a dealership or service station must repair the customer's vehicle competently. In the last decade, a large number of dealerships have expanded their services to include overnight and express

lender vehicles, and free washing and waxing. Also have instituted the practice of picking up customers within 24 hours so the problem was promptly fixed, and really great dealerships check again after 30 days. If there is still a problem, fixing it is top priority. These value-added support services are crucial for moving customers neutral to satisfied. In recent years, it's that sell Japanese cars—most notably, Lexus—have reexamined the car-service-from-the customer's perspective. And that's what most customers want: convenience. In fact, the most convenient way to get a car is to rent one. So it's not surprising that their definition of the car-service-er includes taking the car to the dealer's garage for transportation while it is in the shop. It's not just about picking it up; it's about taking it to the dealer's shop. And it's not just about picking it up; it's about taking it to the dealer's shop. And it's not just about picking it up; it's about taking it to the dealer's shop.

"The ultimate measure of loyalty, of course, is a share of purchases in the category"

Business Recovery Strategies

HARVARD BUSINESS REVIEW November-December 1995

HARVARD BUSINESS REVIEW November-December 1995

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DRAWING BY GABSON WEILAND

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MANAGERS CARE ABOUT LOYALTY



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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.

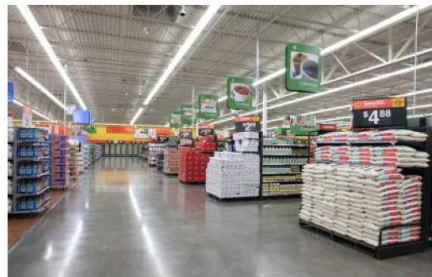
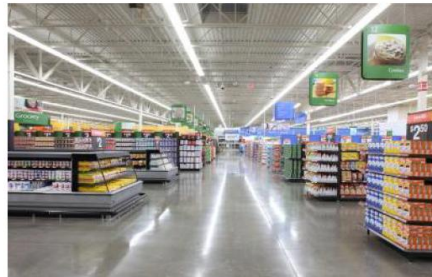
CLEANER, FRIENDLIER STORES

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*



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

11 | Wal-Mart Stores, Inc.

(NYSE: WMT)



(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

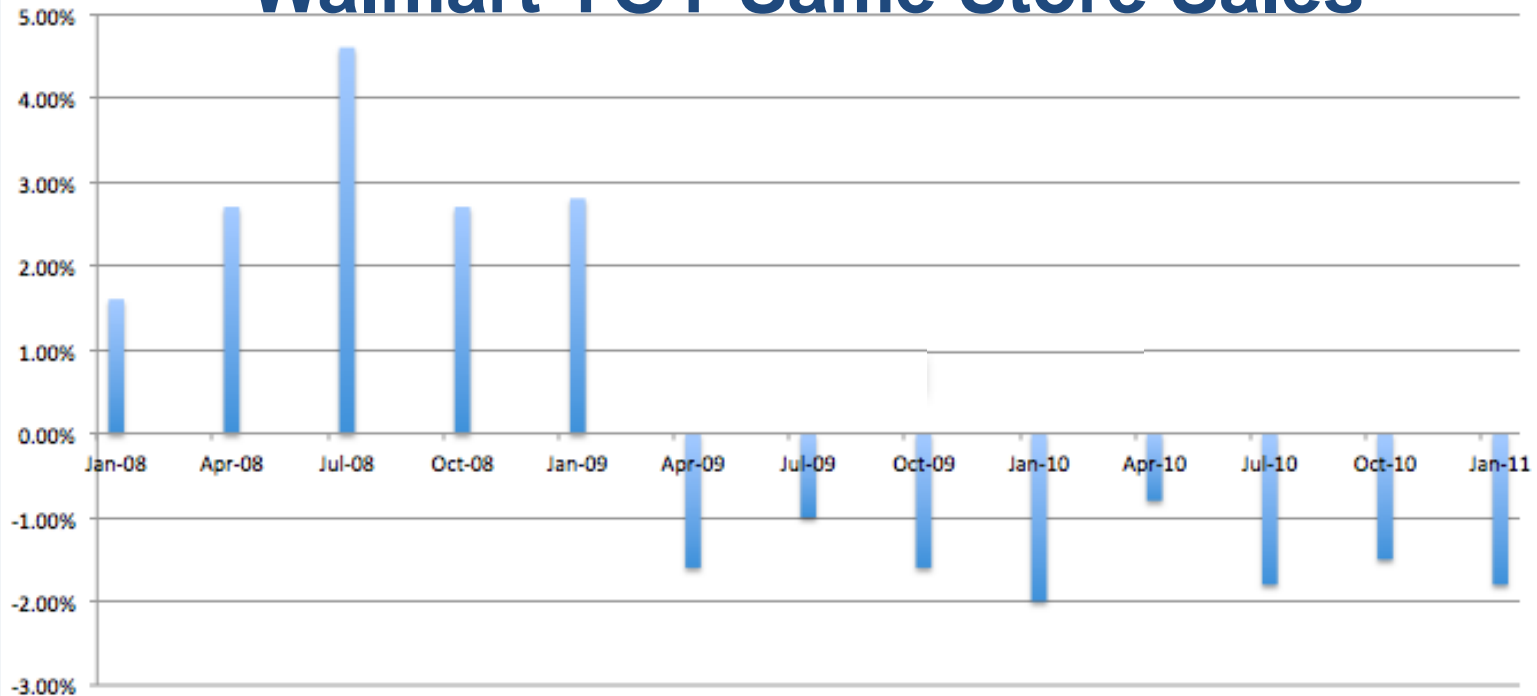
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Wal-Mart says Project Impact is driving
**consumer satisfaction to an all-time
high.**



ONE OF THE LONGEST SLIDES IN SAME-STORE SALES DECLINES IN WALMART'S HISTORY

Walmart YOY Same Store Sales





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

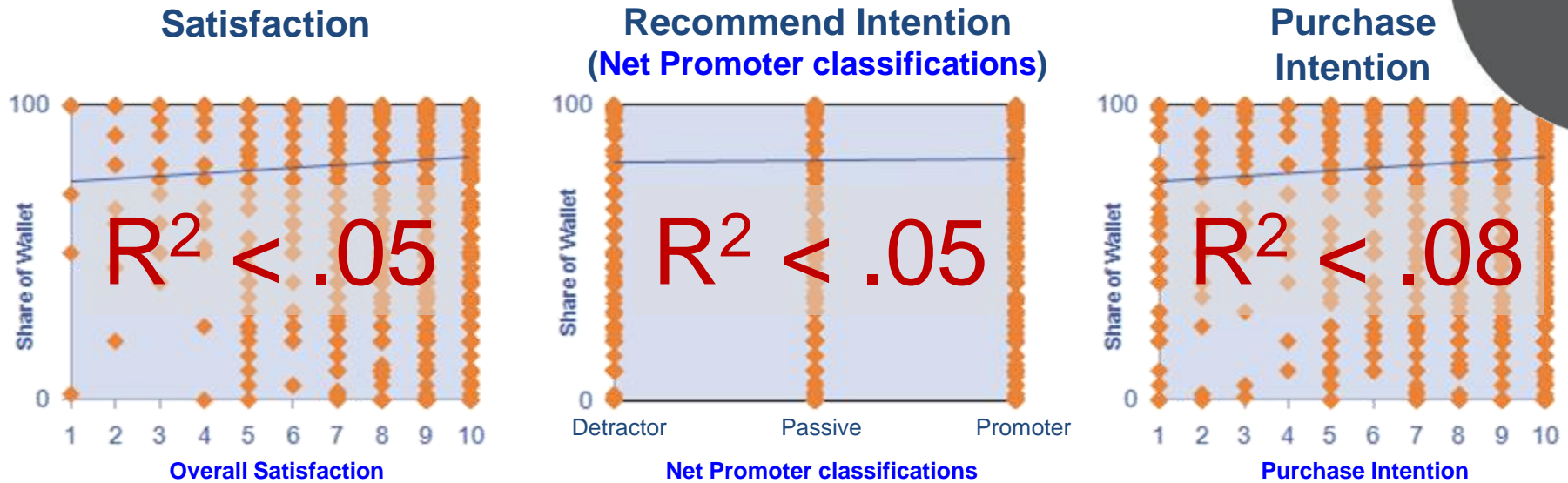
President and CEO, Walmart U.S.**

* 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 SHARE OF WALLET

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



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 Ipsos and academia



Ipsos Loyalty



FORDHAM UNIVERSITY
THE JESUIT UNIVERSITY OF NEW YORK

VANDERBILT



UNIVERSITY

- Conducted extensive investigation into the drivers of share of wallet

- 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**

CHALLENGE WHAT WE BELIEVE

■ *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

Satisfaction is relative to competition

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

■ *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**

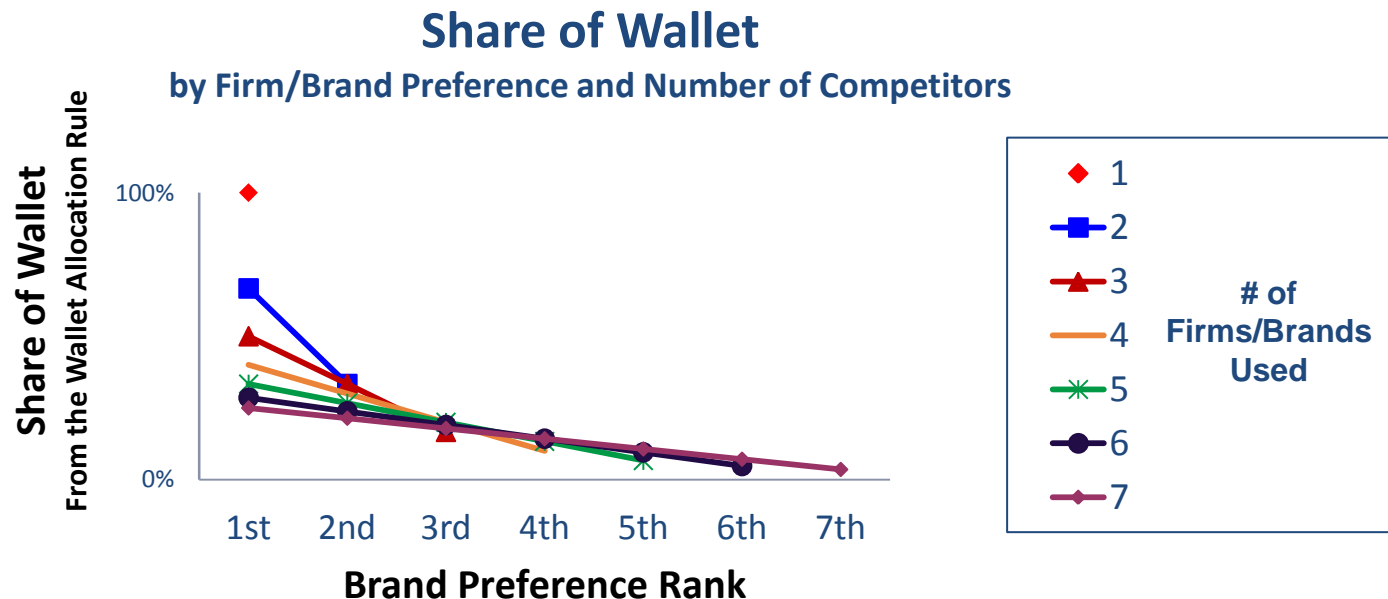


^{*} Kohli, Rajeev, and Raaj Sah (2006), "Some Empirical Regularities in Market Shares," *Management Science*, vol. 52, no. 11 (November), 1792-1798.

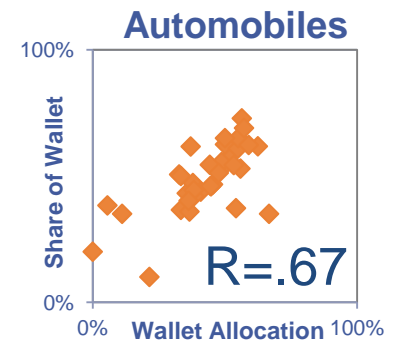
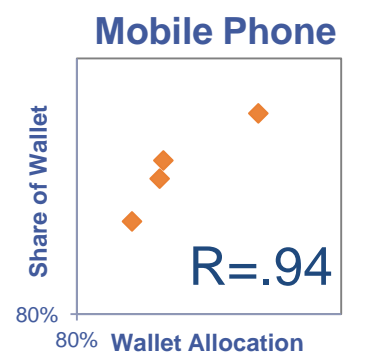
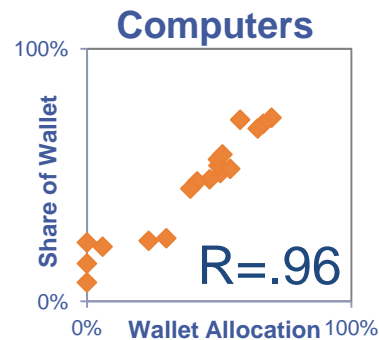
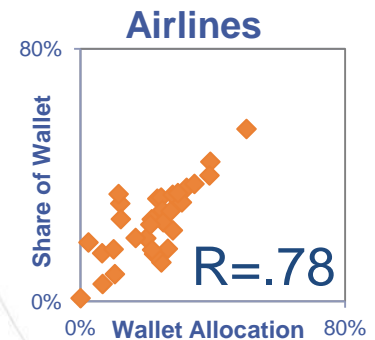
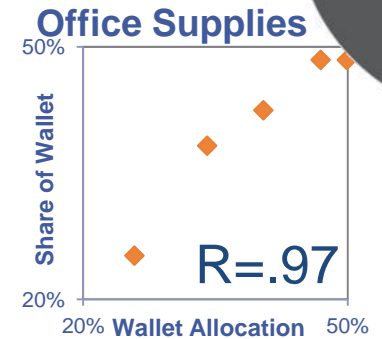
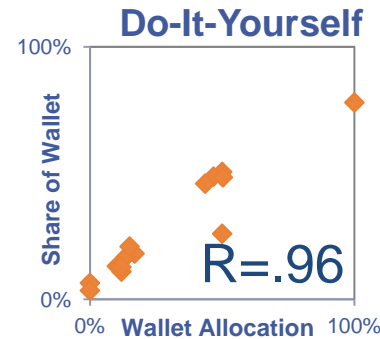
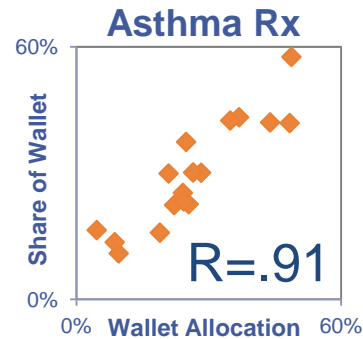
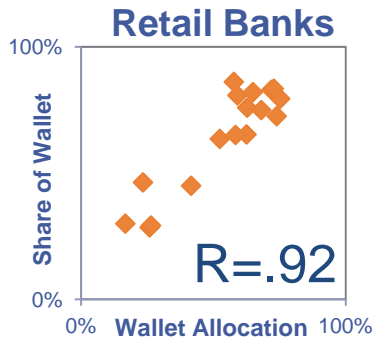
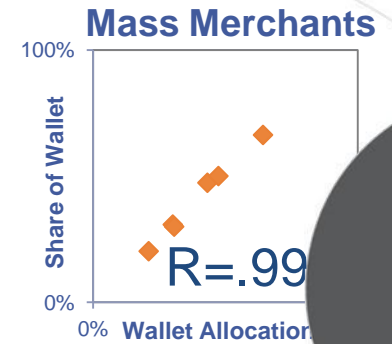
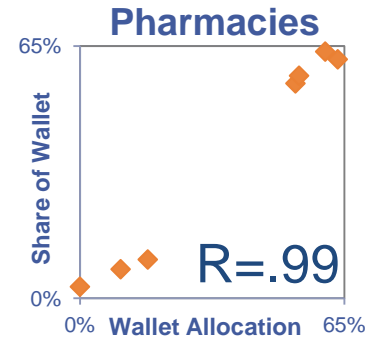
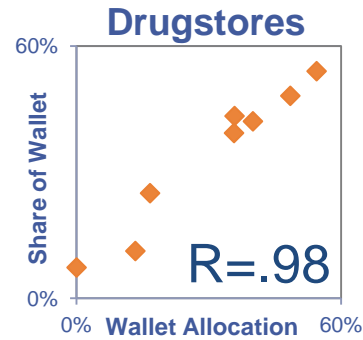
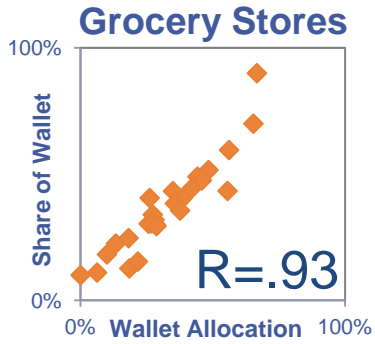
THE SOLUTION

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**



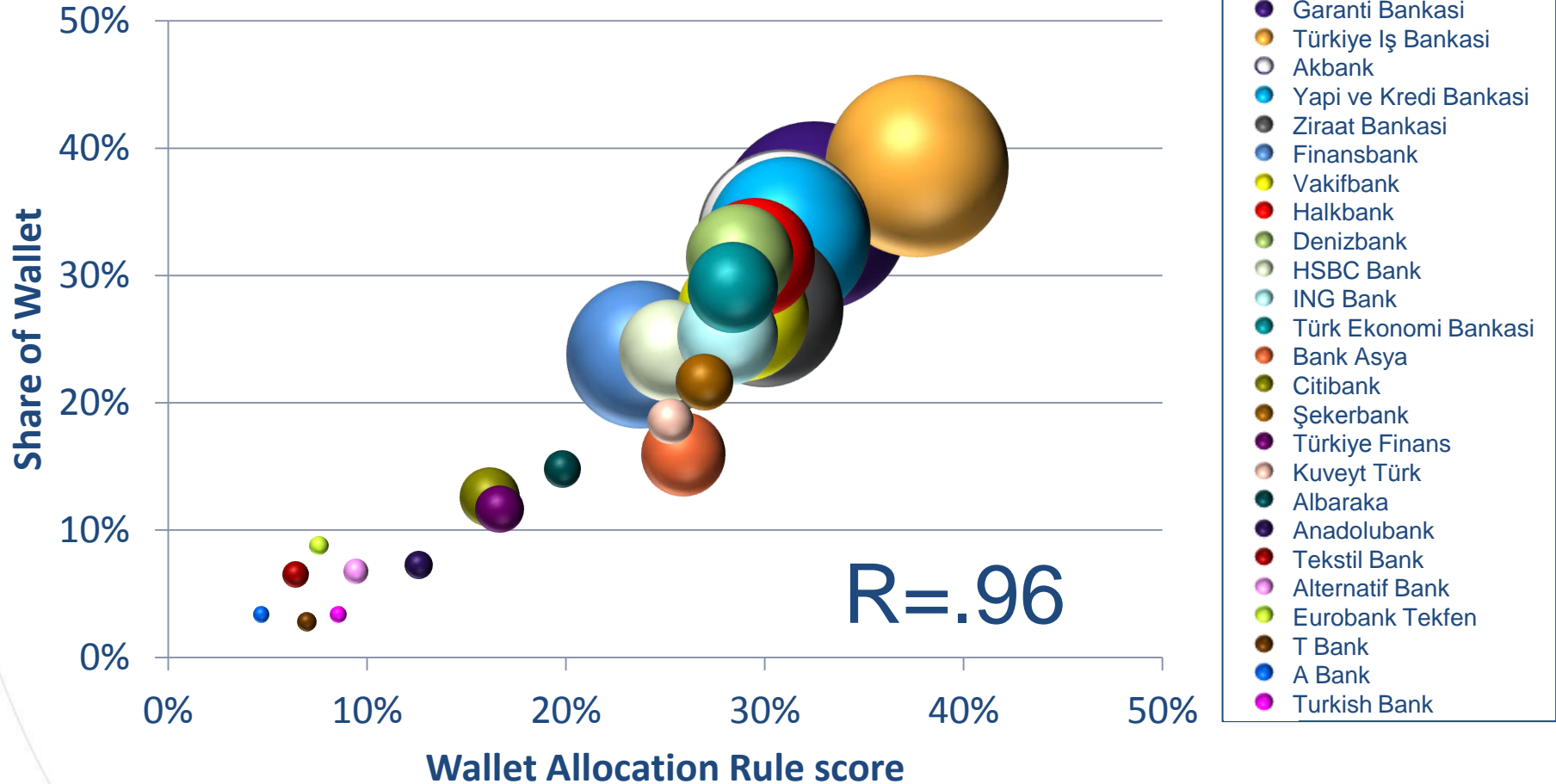
CORRELATIONS BETWEEN THE WALLET ALLOCATION RULE AND SHARE OF WALLET



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).

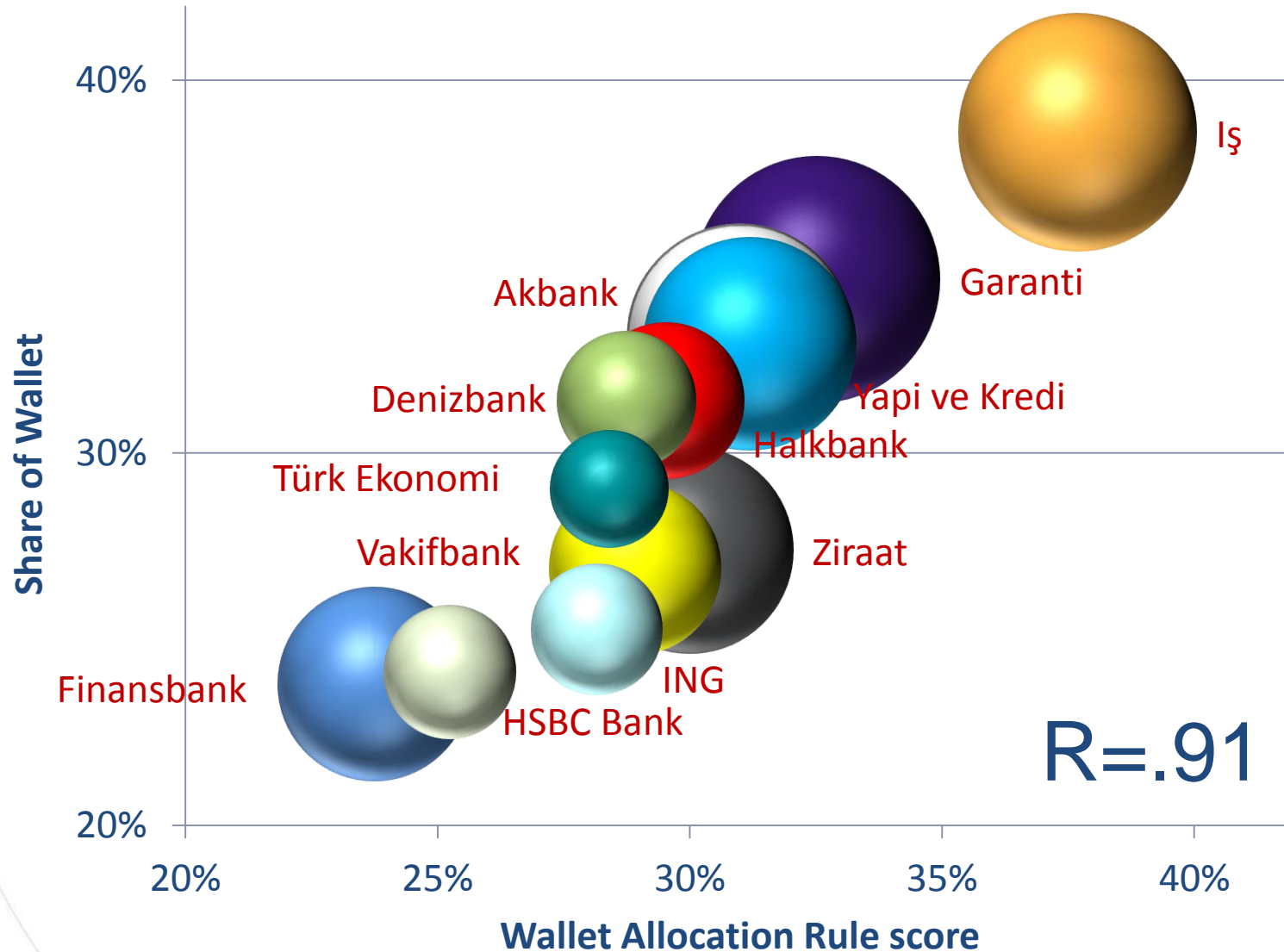
CORRELATIONS BETWEEN THE WALLET ALLOCATION RULE AND SHARE OF WALLET

Turkish Banking Industry



Note: Size of bubble corresponds to market penetration percentage

Turkish Banking Industry—Large Banks

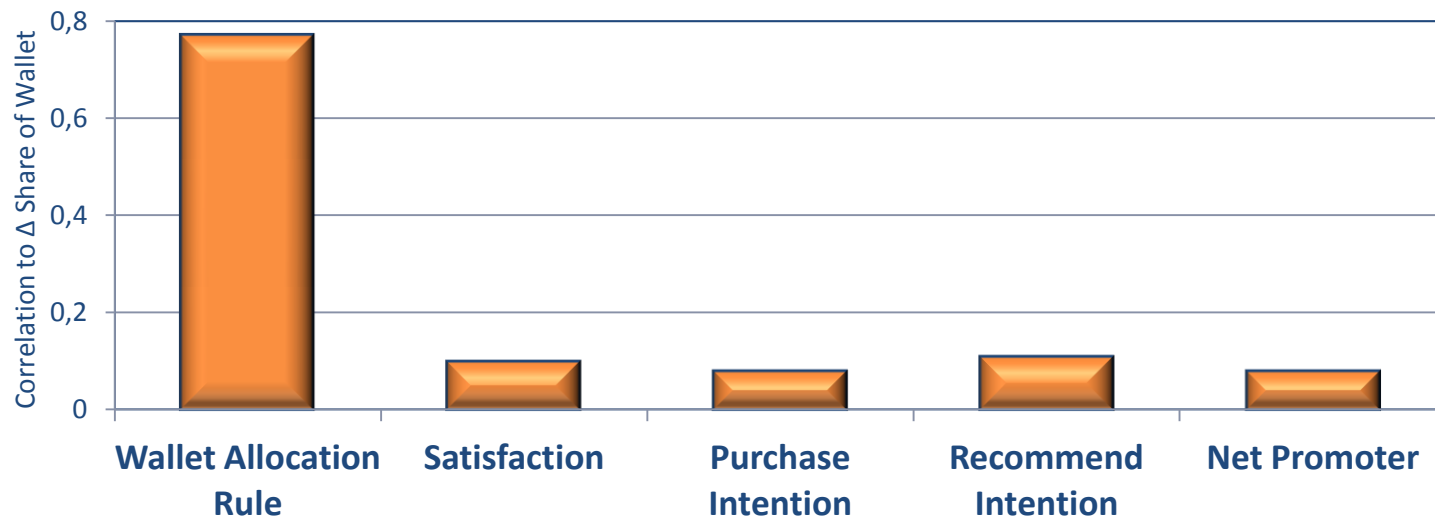


Note: Size of bubble corresponds to market penetration percentage

CUSTOMER-LEVEL CHANGE IN WAO AND CHANGE IN SHARE OF WALLET

There is a strong correlation between changes in Wallet Allocation Rule scores 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.

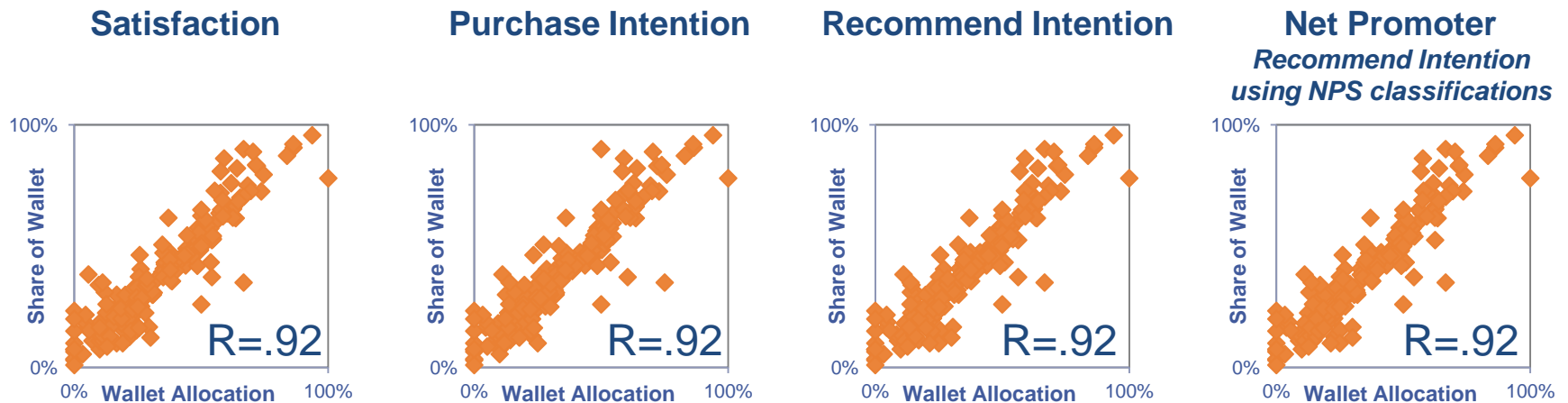
**It's not that the metrics we use
are wrong**

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

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

A 3-STEP PROCESS

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

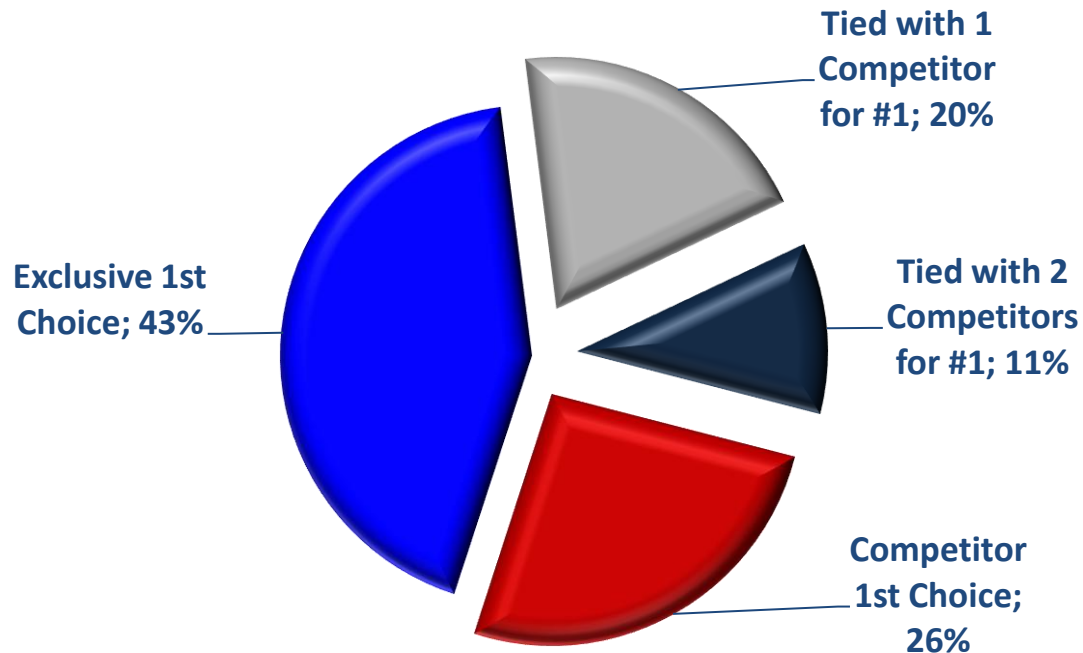
2 Obtain satisfaction or other loyalty scores for each brand used, and convert the scores into ranks.

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:

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

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

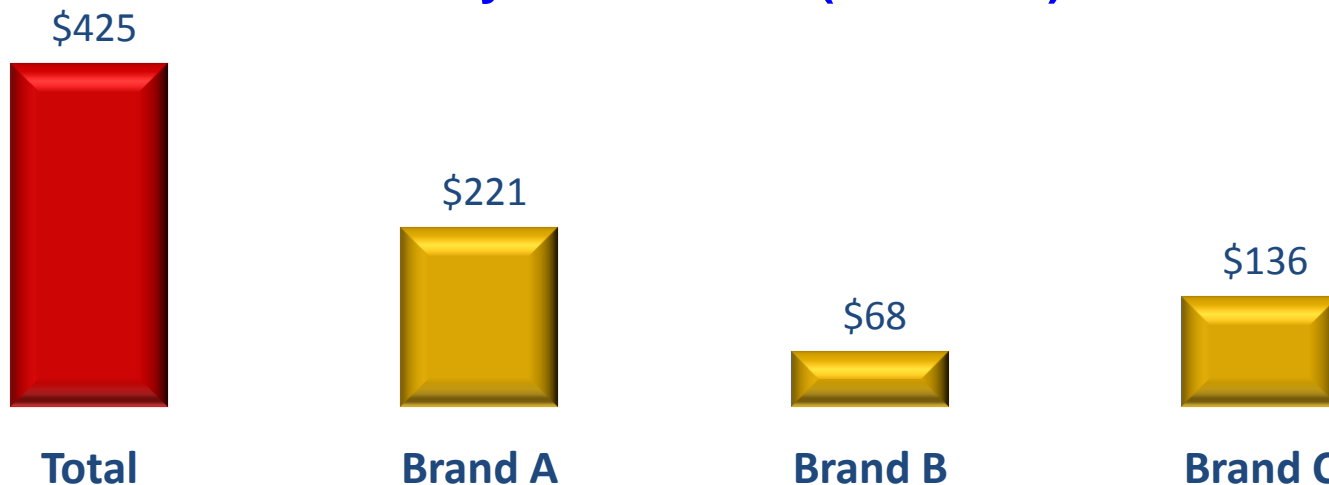
My Rank in My Customers' Mind



DETERMINE THE \$€€ GOING INTO COMPETITORS CASH REGISTERS FROM YOUR CUSTOMERS

My customers spend \$425 million with the competition!

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



DETERMINE WHAT IT TAKES TO BE CAPTURE MORE OF YOUR CUSTOMERS' SHARE OF WALLET

Traditional Satisfaction/Net Promoter Analysis Focuses on Why Customers Use Your Firm

My Firm



The Most Important Drivers of Satisfaction/NPS with My Firm Are

1. *Produce Quality*
2. *Helpful Employees*
3. *Store Atmosphere*



**Your customers use
competitors for different
reasons than they use
your firm!!!**

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 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.

“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



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