Customer Loyalty Measurement Is Broken: Let's Fix It

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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), 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

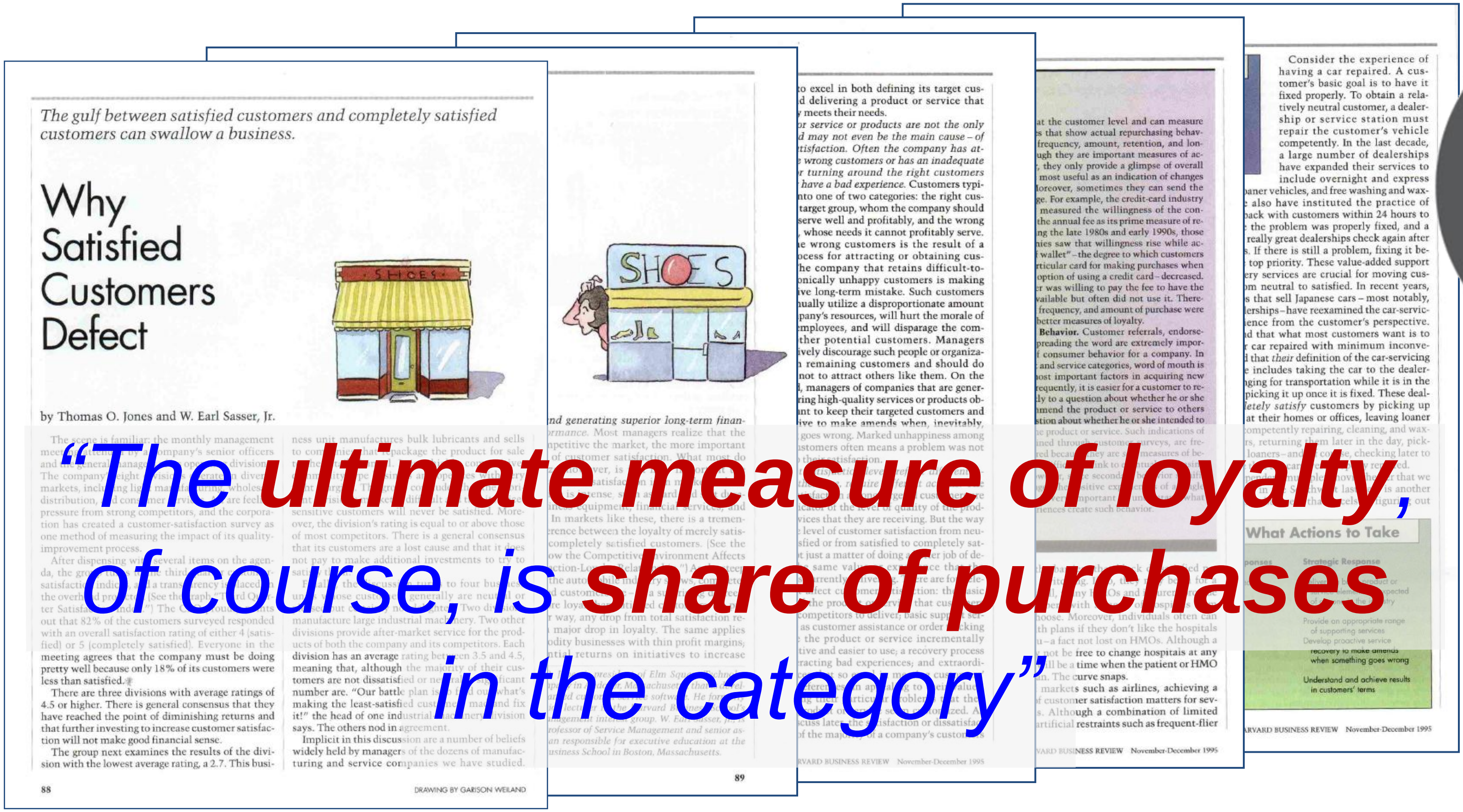
SHARE OF WALLET

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.

IMPROVING SHARE OF WALLET REQUIRES A CUSTOMER LOYALTY STRATEGY



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

Jones, Thomas O., and W. Earl Sasser, Jr. (1995), "Why Satisfied Customers Defect," *Harvard Business Review*. vol. 73 (November-December), 88-99.

MANAGERS CARE ABOUT LOYALTY

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.

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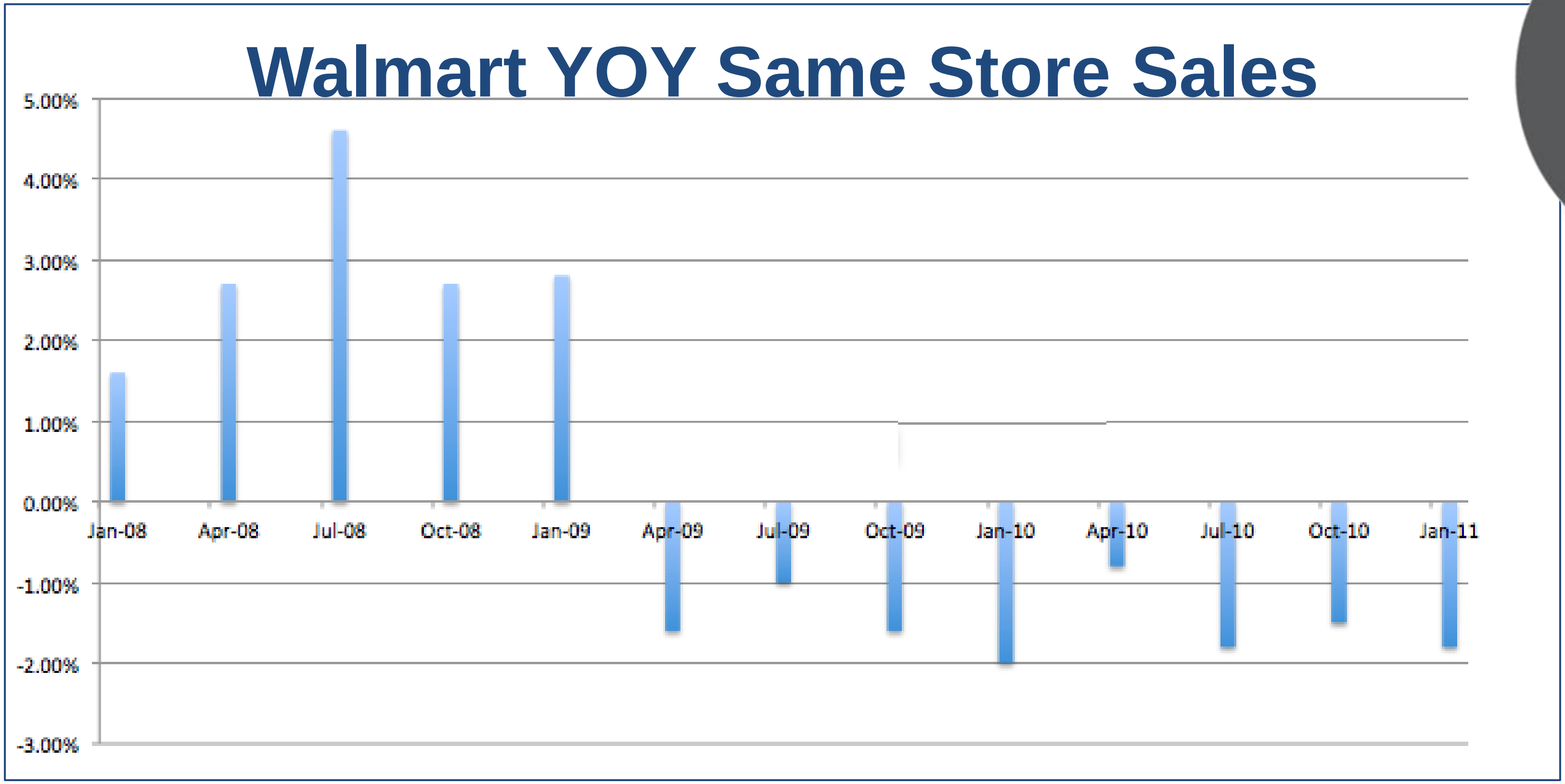
Wal-Mart says Project Impact is driving **consumer satisfaction to an all-time high.**

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



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.**

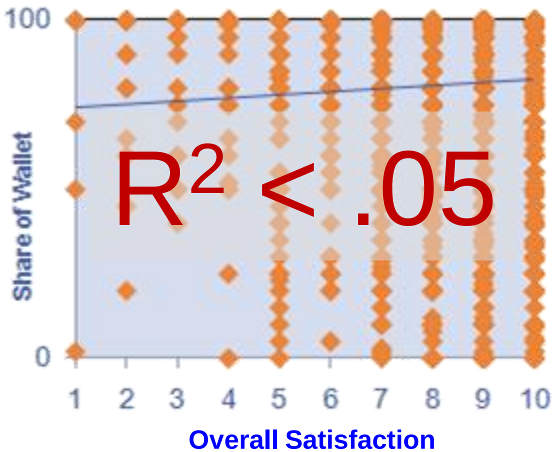
* D'Innocenzio, Anne (2011), "Wal-Mart: A Year of Taking Stock to Regain Footing," ***Yahoo! Finance*** (by Associated Press). (June 2), http://finance.yahoo.com/news/WalMart-A-year-of-taking-apf-2028266786.html?x=0&.v=4

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

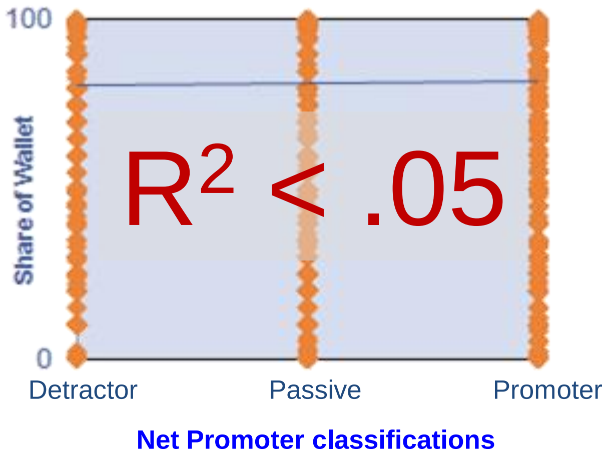
TRADITIONAL GAUGES OF LOYALTY CORRELATE POORLY WITH SHARE OF WALLET

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

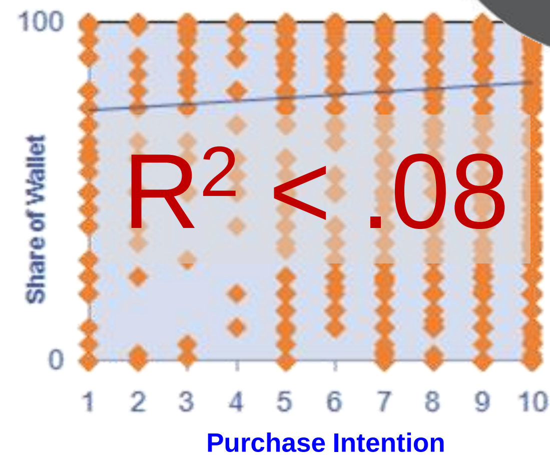
Satisfaction



Recommend Intention (Net Promoter classifications)



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**

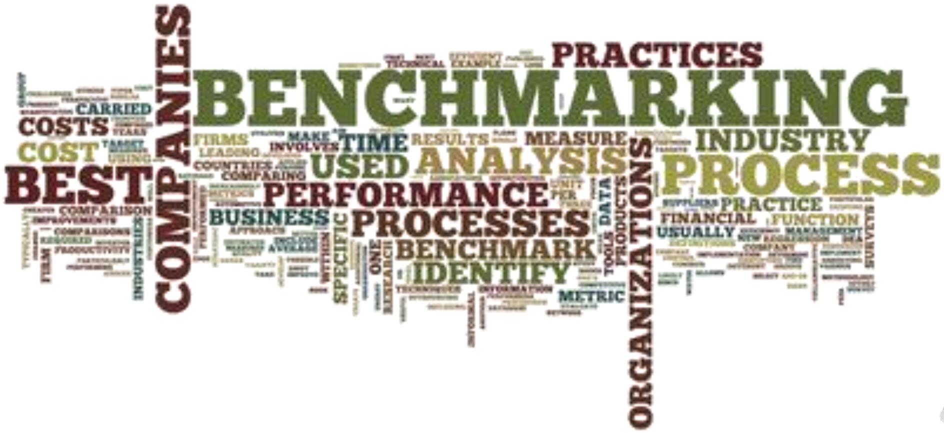
CHALLENGE WHAT WE BELIEVE

- ***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

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***
  ?????

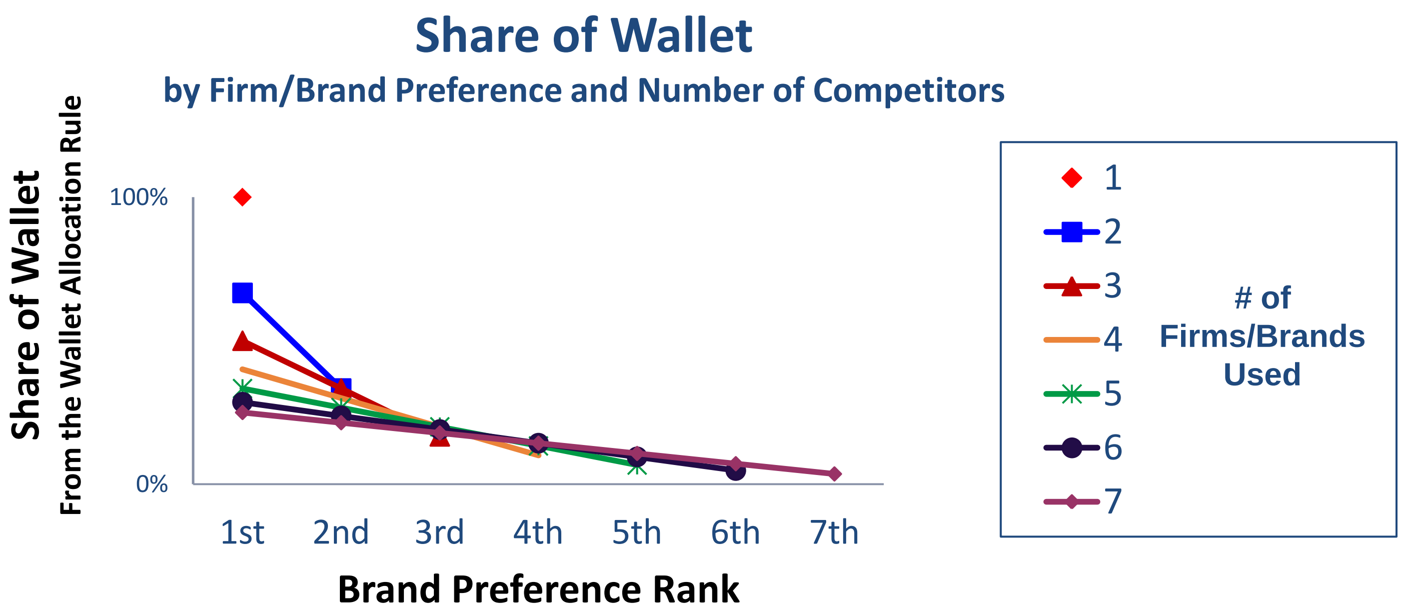
- ***The Problem***
  If you **can't improve your rank, you can't improve your share**

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

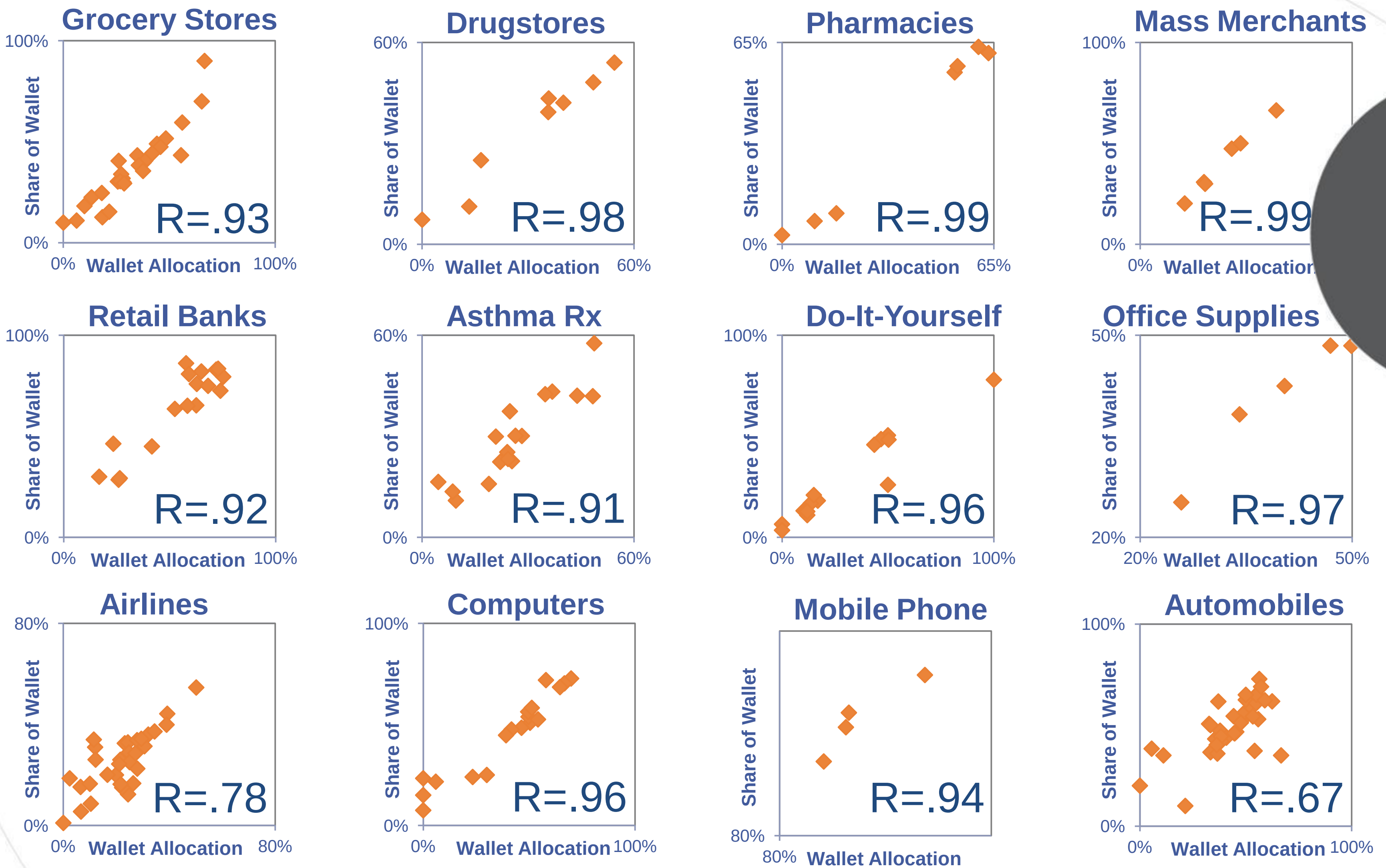
THE SOLUTION

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**

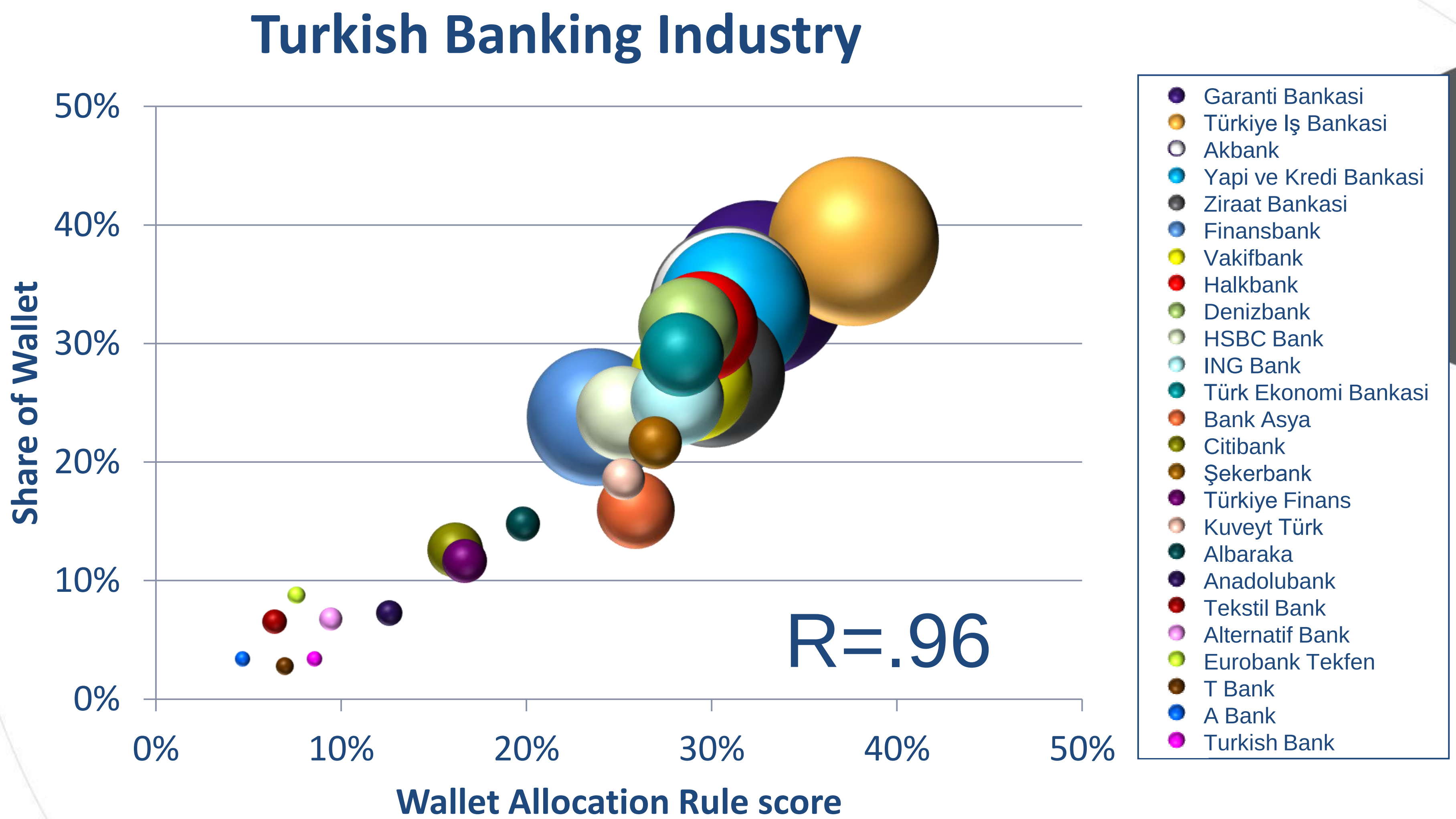


CORRELATIONS BETWEEN THE WALLET ALLOCATION RULE AND SHARE OF WALLET



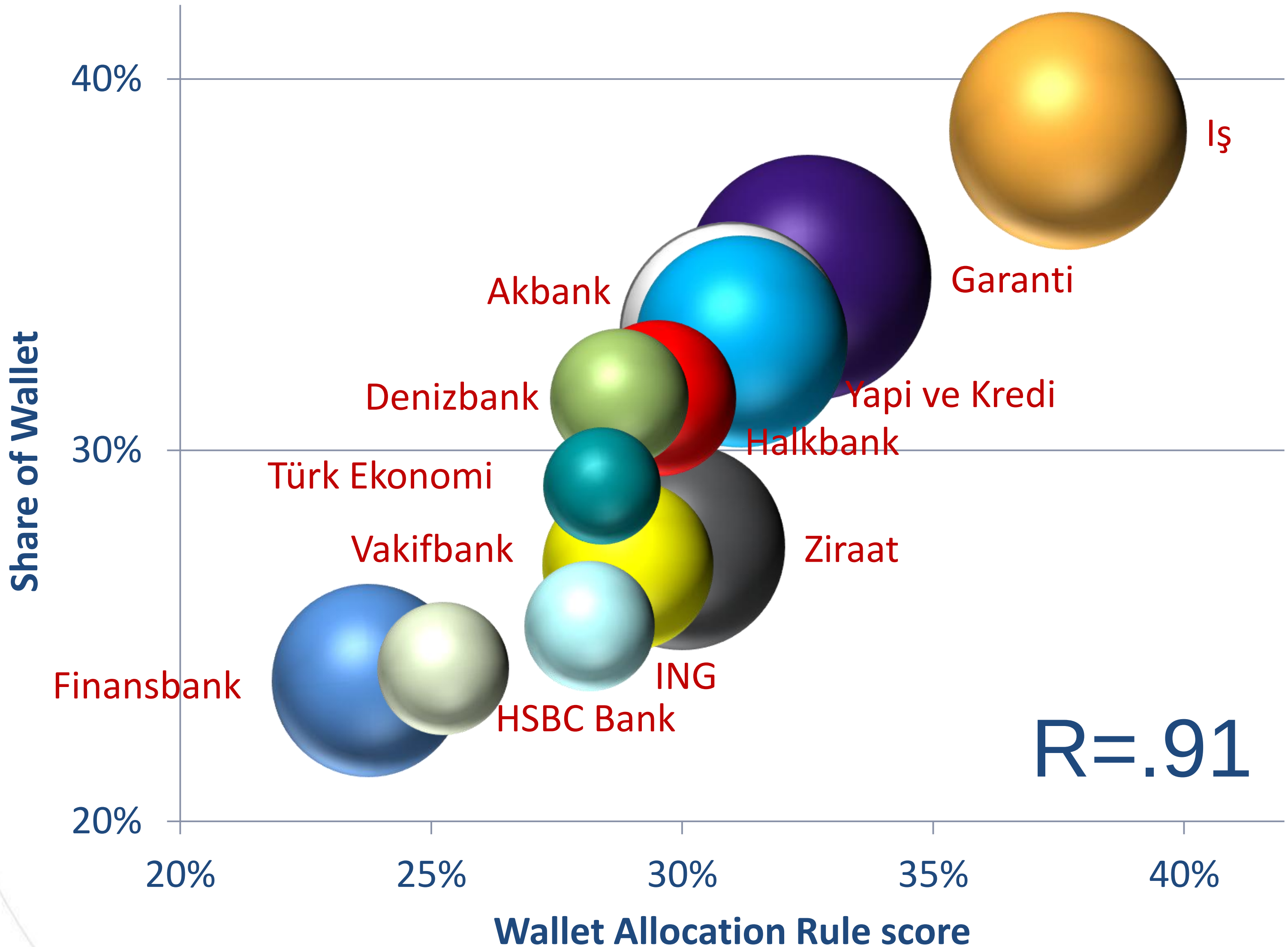
Note: Scatter diagrams show the average share of wallet at the firm/brand level (Y-Axis) by the predicted average share of wallet using the Wallet Allocation Rule (X-Axis).

CORRELATIONS BETWEEN THE WALLET ALLOCATION RULE AND SHARE OF WALLET



Note: Size of bubble corresponds to market penetration percentage

Turkish Banking Industry—Large Banks

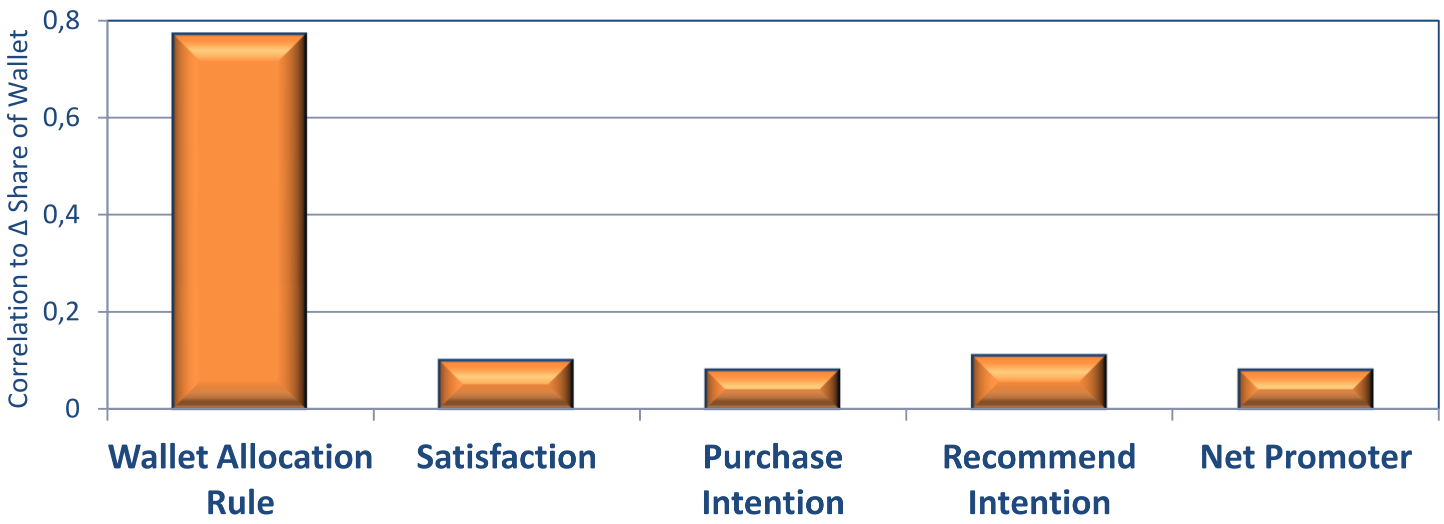


Note: Size of bubble corresponds to market penetration percentage

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.

THE "BEST" METRIC?

It's not that the metrics we use are wrong

Satisfaction,

Purchase Intention,

Recommend Intention,

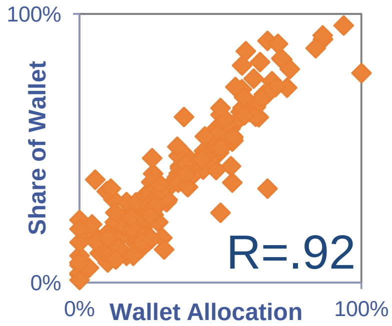
Net Promoter

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

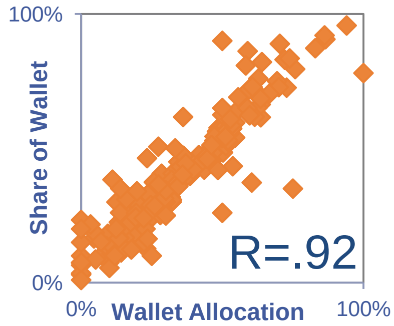
IT DOESN’T MATTER WHICH METRIC YOU USE!!!

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

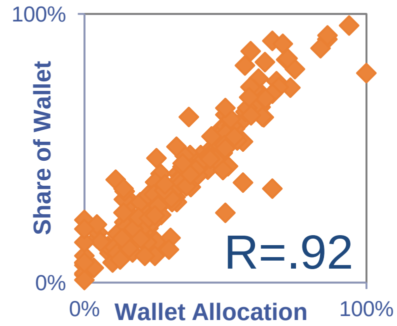
Satisfaction



Purchase Intention

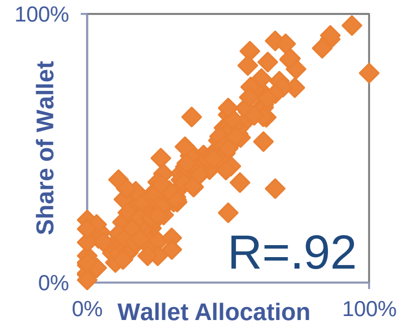


Recommend Intention



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

EASY TO USE PROCESS

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.

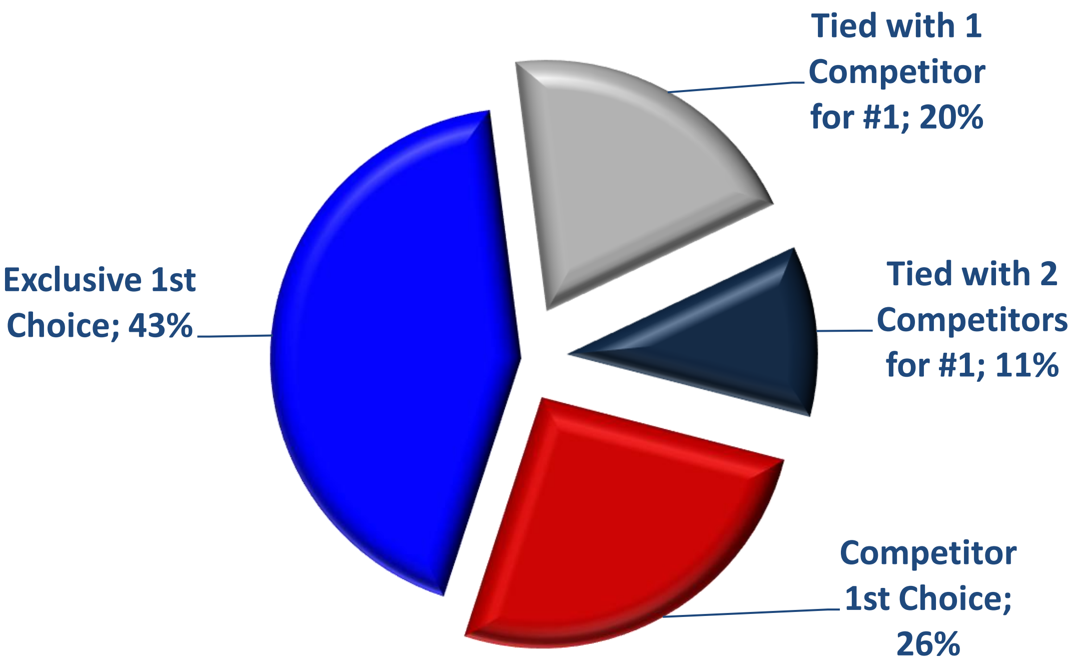
3. To arrive at a brand's share of wallet for a given customer, plug the brand's rank and the number of brands used by the customer into the Wallet Allocation Rule formula:

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

RANK MATTERS

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

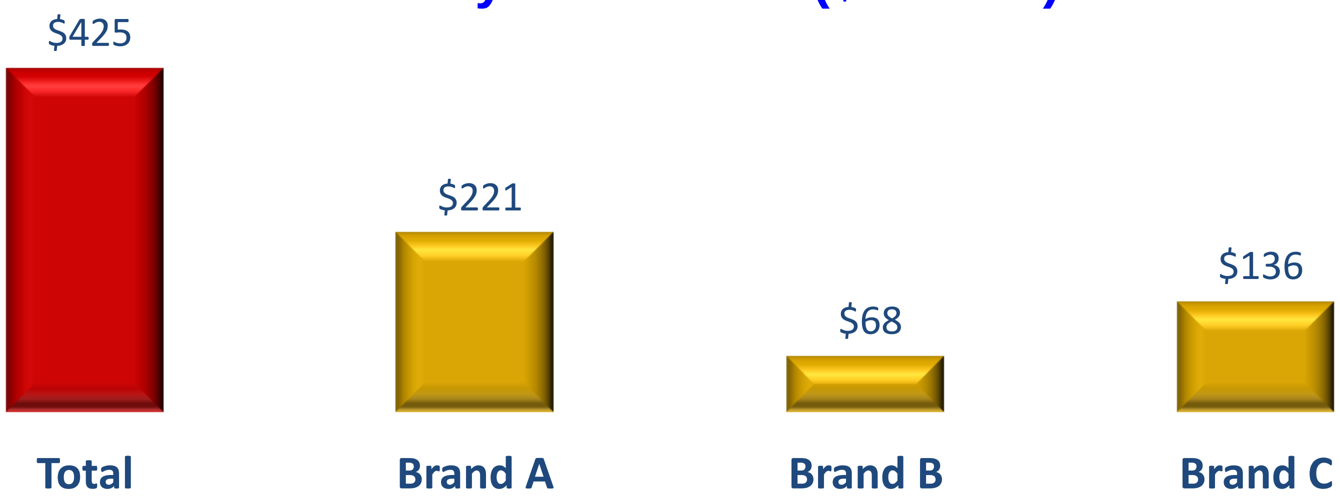
My Rank in My Customers' Mind



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.

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

FOR MORE INFORMATION PLEASE CONTACT

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