

# Point of View



## Know and Grow Your Share: The Wallet Allocation Rule



**Ipsos Loyalty**  
The Customer and Employee Research Specialists

The investment companies put into understanding, creating, driving and improving loyalty is enormous. But loyalty can be a fickle thing. While measures and metrics such as satisfaction or Net Promoter Scores can provide a snapshot of what consumers think, it turns out that they don't predict the core loyalty metric that everyone needs to know to grow their business – share of wallet.

What is share of wallet? Simply put, this is the customer's spending on your brand as a fraction of their total spending in your category. And it is one of your most important metrics. Customers may like your brand. They may even be willing to recommend it to their friends, family and others in their social network. But if they also feel the same way about a competing brand, then your brand is losing sales.

This doesn't mean traditional metrics are useless. It is good to know customer satisfaction. And it is nice to know that consumers will recommend your brand. But these measures alone will not help you predict how consumers are splitting their dollars between your brand and your competition.

Consider the case of Walmart, the world's largest retailer. After extensive customer surveys, the company launched 'Project Impact' in 2008. The idea was to improve the shopping experience by de-cluttering shelves and aisles, removing large pallets of product from the floor, and designing stores to be more visually attractive. Customers loved it and the satisfaction scores went up. But the sales didn't follow. In fact, the retailer experienced an historic decline in sales. A shocking result considering that as Walmart saw its customer satisfaction performance escalate, it was watching its share of wallet deflate. As William Simon, President and CEO of Walmart U.S., remarked, "They loved the experience. They just bought less. And that generally is not a good long-term strategy."

So why do traditional loyalty measures fall short in linking to financial and sales performance? We wanted to know. Following a two-year longitudinal study examining the purchase patterns of more than 17,000 consumers across a dozen industries in nine countries, we came up with some key findings. In our research, we asked questions and collected data on the satisfaction and loyalty ratings and ongoing purchase histories of our consumer group.

Our analysis revealed an elegant relationship. The rank that consumers assign to a brand relative to the other brands they use strongly links to share of wallet when using a remarkably simple formula that we call the Wallet Allocation Rule.

$$\textit{Share of Wallet} = \left(1 - \frac{\textit{Rank}}{\textit{Number of Brands} + 1}\right) \times \left(\frac{2}{\textit{Number of Brands}}\right)$$

The Wallet Allocation Rule takes into account both the rank and the number of brands the customer uses. If the customer uses two brands in a category, the difference between being first choice and second choice can have significant financial consequences. And parity also hurts. Being tied for 1st is not the same thing as a customer's untied 1st choice. Ties mean that you split the rewards evenly with your strongest competitor.

### Three Easy Pieces

The Wallet Allocation Rule makes calculating share of wallet an easy task. In just three steps, you can fill out the formula and determine your brand's share.

#### Step 1:

Survey customers to determine the brands they regularly use.

#### Step 2:

Gauge satisfaction and other loyalty scores for each brand the customer uses, and then convert those scores into ranks. The highest scoring brand for a customer would be ranked 1st, the second highest 2nd, and so forth. In the case of a tie, use the average for the ranks they would have occupied had they not been tied.

#### Step 3:

Using these figures in the formula for the Wallet Allocation Rule, determine the share of wallet for each brand. Repeat for each consumer and brand. To determine the average share of wallet for the brand simply average the customer-level share of wallet scores for each brand.

## Applying the Rule

What drives changes in wallet share? This requires a change in strategy and a change in thinking. Instead of obsessing over the drivers of customer satisfaction, the rule here is to focus your energies on the drivers of rank.

Brands exist in the market, not in a vacuum, and that's the way to approach performance. Sounds elementary, right? But most managers treat satisfaction and loyalty metrics as if simply achieving a particular score is sufficient. The reality is that simply boosting your brand's satisfaction ratings rarely boosts your share of wallet. But improving your brand's rank does.

The Wallet Allocation Rule allows you to build marketing strategies that directly affect brand performance and then measure the impact on share of wallet.

What do brand managers normally do to improve their share of wallet? Typically, they create programs and initiatives designed to improve customer happiness and then measure success based on satisfaction. But while it is great to have a happier customer, they may not have the desired impact on the bottom line.

Brand managers should instead focus their energies on understanding why their consumers use the brands they do, and if your brand is not their top choice, find out why they prefer your competitor over your brand. These insights will help inform your strategies and help improve your rank. The Wallet Allocation Rule is clear that if you don't improve your rank, you won't improve your share of wallet.

## How to Improve Your Rank

If you want to boost your brand's rank in the eyes, hearts and wallets of your consumers, then you need to minimize the reasons they might find to turn to your competitors.

Here's a simple guideline to boosting your brand's rank using the Wallet Allocation Rule...

- establish the share of wallet for each of your competing brands
- determine how many of your consumers use each competitor
- calculate how much your consumers spend on each competing brand
- identify why your consumers use your competitor brands
- prioritize your opportunities to build and improve your share of wallet

Take a close look at each reason your consumers give for using a competing brand, estimate the costs associated with challenging those reasons, and then weigh the cost against the financial rewards of overcoming those challenges.

## Conclusion

Only you have the power and ability to drive revenue for your brand. But the key isn't to push for higher customer satisfaction merely for the sake of greater satisfaction. Focus instead on how greater satisfaction and other loyalty boosters can be employed to help you pull ahead of your competition.

Set and know your goals. If growth is the goal, then shift your focus from scores to rank. Score is important, but rank is what determines the winner. That's what makes a champion.

## Ipsos Loyalty

Ipsos Loyalty is a global, specialized practice dedicated to helping companies improve business performance through customer satisfaction management, customer relationship management, and employee climate management. Ipsos Loyalty provides a state-of-the-art approach to customer-driven business performance through a modular suite of innovative research tools that provides an integrated framework to identify complex global business solutions. Ipsos Loyalty is an Ipsos company, a leading global survey-based market research group. To learn more, visit [www.ipsosloyalty.com](http://www.ipsosloyalty.com).

## About the Author



### Timothy Keiningham

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Timothy Keiningham is one of the world's most highly acclaimed loyalty experts. Tim is global chief strategy officer at Ipsos Loyalty, one of the world's largest market research firms.

A prolific writer, Tim has authored and edited eight books. His most recent book, *Why Loyalty Matters*, provides compelling insight into how our loyalties, large and small, lay the foundation for our happiness, and determine the kind of world we live in. The book offers a comprehensive guide to understanding what loyalty is, what it isn't and how to unlock its power.

His prior book, *Loyalty Myths*, was ranked as the Number 4 best business book of 2006 by *The Globe and Mail* newspaper (Toronto, Canada), one of the 30 best business books of 2006 by Soundview Executive Book Summaries, and was a 2007 finalist for the Berry-AMA Book Prize for Best Book in Marketing.

Tim's research on the importance of loyalty has received over a dozen prestigious scientific awards, including:

- INFORMS Society for Marketing Science, top 20 most influential articles of the past 25 years.
- Marketing Science Institute/H. Paul Root Award from the *Journal of Marketing* for the article judged to represent the most significant contribution to the advancement of the practice of marketing (twice).
- Citations of Excellence "Top 50" Award (top 50 management papers of approximately 20,000 papers reviewed that year) from Emerald Management Reviews.
- Service Excellence Award (best paper) from the *Journal of Service Research*.
- Outstanding Paper Award (best paper) from the journal *Managing Service Quality* (twice).

Tim received a BA from Kentucky Wesleyan College (USA), an MBA from Vanderbilt University (USA), and a Ph.D. from Staffordshire University (UK).

An internationally renowned speaker, consultant, and author, Tim lives in the New York metropolitan area.



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