Share of Wallet

Share of wallet is a great concept - but, in practice, not a great tool...

by Brian Woolf (March 2, 2015)

The term "share of wallet" is usually heard when someone is painting a picture of the great upside sales potential that lies in a company's lower-spending customers. I have heard many a food retailer argue the case that his company is receiving only a fraction of the total expenditure of these low spenders and it would make economic sense to aim for a larger share. One major retailer, with NASA-like computing capabilities, even imputed each customer's total food spending, based on how much she spent (and what she spent it on) in its stores, augmenting it with inferred external data. It was then easy to calculate what share of each customer's estimated total food spending the retailer was earning. Targeted coupons were then sent to those customers with a low "share of wallet".

It's a great concept—but not a great tool.

Why?
Economics. Elasticity. Marketing.

Economics:
Each quarter, the typical US food retailer has 10,000-20,000 club card members shopping in its average store. Multiply that by the number of stores and we are talking of a very large number of unique customers. Is it realistic to accurately project the total weekly amount spent on food for each of these customers?

Considering all the assumptions and estimates needed to calculate each customer's total weekly food spending and the array of offers to match each profile, that's a huge initial cost. Then there's the cost of keeping customers' changing spending patterns and total spending data up-to-date. The cost doesn't even stop there. The ongoing processing, selection of myriad offers (remember we are individualizing each customer's spending habits), and markdown costs need be added. On top of all that, many customers will not even take advantage of your offer. For them, do you raise the offer value in the next round making the program even more expensive?

Elasticity:
The most common reason why we have a low share of a particular customer's wallet is because she is "in love" with one or more other retailers. To seriously gain her shopping affection (switching a lot of her wallet to you) is likely to cost a great deal in enticements (if it is even

possible, for habits are hard and expensive to change.) As you would expect, the lower the share of wallet you have of a customer, the higher the cost to switch her behavior; in other words, wooing such desirable customers with enticements is often uneconomic.

So what can be done? Focus on Customer Elasticity instead. This simple concept measures the responsiveness of customers to targeted offers made to them. Customers who respond frequently to your offers are given a high customer elasticity rating; those that don't respond at all receive a zero elasticity rating. If you seek increased sales, target offers at customers with high, rather than low, customer elasticity scores (even though the low scores are often those with a low share of wallet). To increase the customer elasticity of those with low scores typically take large enticements making such offers uneconomic. The secret is to discover your company's patterns and pockets of customer elasticity through test marketing; then build your targeted sales program on this hard, not inferred, data.

Marketing:

The sales lure of low share of wallet customers, however, is not easy to shrug off. The potential appears so great, so compelling. So let's consider marketing as an alternative approach. Many retailers give their Chief Marketing Officer (CMO) the responsibility for both marketing and sales. <u>Marketing is about understanding customers' wants and needs and satisfying them. Selling is getting the customer to buy what the company has bought.</u> Both the share of wallet and customer elasticity approaches, above, fall under the selling umbrella. They are the thought processes of a salesman.

If a marketer, however, puts on his (or her) marketing cap to consider the question how best to increase a customer's share of wallet, he is likely to ask: Why don't these customers like us; why do they prefer other retailers over us? He will probe to see if the company's loyalty basics are sound and whether any need repairing. He will ask: compared with our competitors, how good are our prices, our assortment, our quality, our service, and our shopping experience? He will question both high and low share of wallet customers to learn their thoughts on how their spending with us might be built. This share of wallet challenge reminds me of the old Kansas Dog Food Factory story our Business School Marketing professor recounted each year. A CEO is extolling the virtues of his team and the company's products, stops, and pauses, and frustratingly asks: "Why, then, are our sales so disappointing?" A voice from the back of the hall shouts out: "Maybe the dogs don't like our dog food." So a good marketer will be searching to see if the company still has the right retail recipe or whether some changes to the recipe are required to attract customers to buy more.

Closing Thought

The image of capturing a larger share of customers' wallets, especially those whose share is currently small, is appealing. It likely will be the holy grail of marketing for which we will search for many years. Achieving 100% share of all of our customers' wallets, of course, will never come. But ways to increase the share, including those suggested here, will continue to be explored—and found.

About the author...

Brian Woolf is a global leader in loyalty marketing and has written three definitive works on the subject, Measured Marketing: A Tool to Shape Food Store Strategy, Customer Specific Marketing, and Loyalty Marketing: The Second Act. He devotes his time to helping retailers develop, critique and strengthen their loyalty programs.

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