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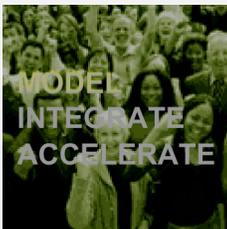
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## Share of Wallet: A Measure of Loyalty?

Article published in DM Direct Special Report

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By [N. Ramasubramani](#)

We have debated the role of retention rate as a measure of customer loyalty and discovered that the retention rate by itself is no true indicator of loyalty. We have discussed the unreliability of recency as an indicator of customer loyalty and concluded that recency again is no litmus test of customer loyalty either. Now the debate is whether the share of wallet (SOW), as measured by the extent of money the customer spends on your brand in preference to other brands, is an indicator of loyalty. As is the case with any other marketing issue, there are arguments and counter arguments being put forth by marketing professionals all over the world on share-of-wallet.

Is SOW really an indicator of loyalty? Or is it something dreamt up by an intelligent marketing person to focus the attention away from the real issue? And if SOW is really an indicator of loyalty, how versatile is it and what are its limitations? Let me try and address these issues in this discussion.

## Is SOW Really an Indicator of Loyalty?

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As usual, the answer is yes and no. Sounds like circumlocution? It is not. There are situations where SOW is an indicator (if partial) of loyalty. And there are countless situations where the SOW is a poor indicator of loyalty. What are these situations? In order to answer this question, let's look at situations where a marketer has a very high SOW and see if they are caused by loyalty or are merely correlated to loyalty.

Consider the coffee shop near your office where you pop in for your morning and evening coffee everyday. This shop probably has 90 percent SOW for your coffee money. But does this shop enjoy your loyalty? Would you absolutely, positively refuse to visit the coffee shop down the road if that shop were to offer you a better deal? What if this particular coffee shop offers you convenience, not a memorable experience. And so you are exhibiting what is called inertia loyalty, which means that if a better alternative emerges, you would switch without a second's thought. Does that indicate loyalty?

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Consider a second situation where you have relationships with two financial service companies. Company A maintains what are called corporate accounts, and so your salary gets credited to your account with this company A. You have a relationship with company B, which enjoys a lower SOW of your disposable income. Now further suppose that whenever you want a service, you want to transfer money to someone or you want to pay your bills and so on, you choose company B. Which one are you loyal to? Surely Company A, by the SOW definition. But something tells me that you prefer banking with Company B, and so maybe you are really loyal to company B.

How will you apply SOW in subscription services, for example, in mobile services? Your SOW is 100%. You spend all your communication money through the service you have contracted with. Does that mean that you are absolutely loyal?

Quite clearly, there are limitations in using SOW as an indicator of loyalty. But then, does that mean that SOW is totally unsuitable as an indicator of loyalty? SOW measures the amount of money that the customer is spending on your brand in preference to other brands and is therefore a definite indicator of preference. Therefore, (to quote the phrase most dreaded by marketers), all other things being equal, SOW could and does indicate a preference for your brand and hence could be an indicator of loyalty to your brand. Being a measurement of consumption behavior, it is presumed to be more reliable than attitudinal measurements such as satisfaction. But there are several notes of caution before we could exalt SOW to the position of harbinger of loyalty.

1. SOW is an indication of the past. It indicates what the customer did yesterday and is therefore not necessarily an indicator of what he is going to do tomorrow.
2. SOW is a single point measurement. It measures behavior at a single point in time; therefore, it is not reliable. Consider the three members whose purchase behaviors are shown in Figure 1:

Customer	SOW for Brand X (in %)		
	Period 1	Period 2	Period 3
A	33	30	25
B	15	20	25
C	15	5	25

Figure 1

Looking at the SOW in period 3 alone, one would conclude that all three customers are equally loyal to the brand X. A look at their behaviors across the three periods will tell you that Customer A is possibly disengaging from the brand, while customer C is probably still flirting with the brand. Customer B is definitely beginning to engage with the brand more and more.

3. SOW is transactional and therefore does not measure the customer's mindset. Hence, it misses out the customer's score on perceptual loyalty.
4. SOW is market insensitive. Different markets have differing levels of competition. The same SOW would mean different things in different markets. Look at Figure 2:

Market	Customer	SOW (In %)	No of competing brands in the market	Promotions by competitors during the period
North	A	23	6	2
South	B	23	4	1
East	C	23	3	Nil
West	D	23	2	Nil

Figure 2

All customers would appear to be equally loyal again. But obviously

customer A from the north zone is more loyal than others because he is giving your brand a higher SOW despite stiff competition and presumably alluring promotional offers from competitors.

As we can see, SOW is an indicator of loyalty, if it is used with a bouquet of other measures such as purchasing trends, opportunities to switch and attitudinal measures. By itself, SOW is one dimensional and is therefore incapable of indicating whether a customer is loyal or not. But then again, you could say that for a lot of other indicators as well. So where does that leave the marketing manager?

The answer is simple. Use SOW by all means as one indicator of loyalty; but always use it in conjunction with other measures. Otherwise, you could be counting the chickens before they hatch.

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