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Adopting share of wallet as a basis for communications and customer relationship management

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Abstract

In the rapidly changing financial services market, established players are looking to maintain market share by increasing their share of existing customers' wallets through the use of CRM techniques. However, many find difficulty understanding the potential values and differing needs of their customers. This paper introduces ideas on how customer worth and share of wallet can be measured and applied to help facilitate intelligent CRM.

Business context

The structure of the financial services industry is going through a period of rapid change. As fast as the bigger players consolidate in an attempt to reduce the problem of oversupply (eg CGU Insurance, itself a product of a recent merger, and Norwich Union Insurance, or the Royal Bank of Scotland and NatWest Bank), alternative suppliers are springing up (eg First–E, Egg and Standard Life Bank, many of which are Internet-based spin-offs of 'traditional' financial services companies), making use of new technologies to gain access to customers without the expense of running a branch network. Some of these new players have been very successful, attracting large numbers of high-net-worth customers. One form of defence that the traditional players are adopting is to grow the volume of business that they do with existing customers by increasing the range of financial services they sell. This is increasingly referred to as growing the 'share of wallet' of their customers. One conventional wisdom is that it is more cost effective to sell new services to an existing customer than to attract a new one. Another is that the larger the number of types of product a customer purchases from you, the lower the risk of defection.

The concept of customer relationship management (CRM) is increasingly being adopted in the financial services sector as a tool for generating the customer-level view needed to apply 'share of wallet' strategies. Data-mining tools also have a role to play in identifying the optimal cross-sell strategy for any given customer. However, many of the bigger players are hampered in implementing segmentation strategies by legacy systems structured around accounts rather than around

Customer Relationship Manager

customers. Even in those organisations with modern CRM systems, there is still a fundamental issue that cannot be answered using in-house data, namely what is the level of business that my customer is likely to be doing with my competitors in product categories that I myself am already offering? Armed with this information, it would then be possible to adopt more appropriate strategies. Some organisations address this issue by distributing self-completion questionnaires to capture additional information on their customers, but this has its own difficulties, chief of which is the reluctance of many consumers to divulge to one financial services organisation their dealings with another. Another problem is the need to refresh the data at regular intervals, especially in today's fast-moving markets.

Using survey data to calculate share of wallet for a customer portfolio

MORI Financial Survey

At the product level one solution to this information requirement is the use of sample survey data. The MORI Financial Survey (MFS) database is derived from a representative sample of 48,000 adults who are interviewed at home throughout the year (2,000 per fortnight) Ownership of all of the major financial services markets is captured at brand level, together with a variety of diagnostic questions and batteries of customer satisfaction statements. The primary use of this research tool has been as a market monitoring device, examining brand share shifts over time and linking changes to other survey variables, such as consumer confidence or customer satisfaction, as well as external variables such as interest rate changes.

The use of this database to calculate share of wallet is a relatively recent development. It has been developed over time from a relatively crude volume-based measure of basic banking products to customised value-based measures across the whole gamut of financial services products.

Cross-sales analysis

Cross-sales analysis has always been an important function of the MFS database, answering questions such as how many of my current
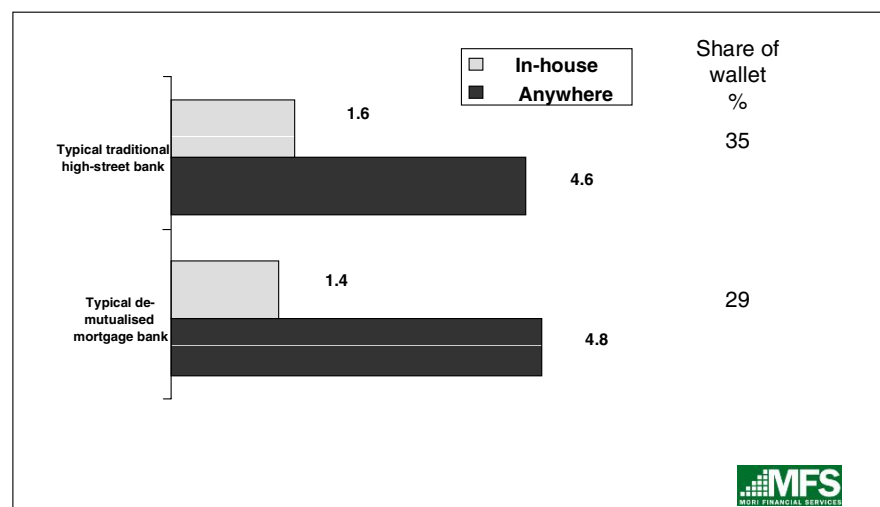

Figure 1: Share of wallet

Three
10%

More than four
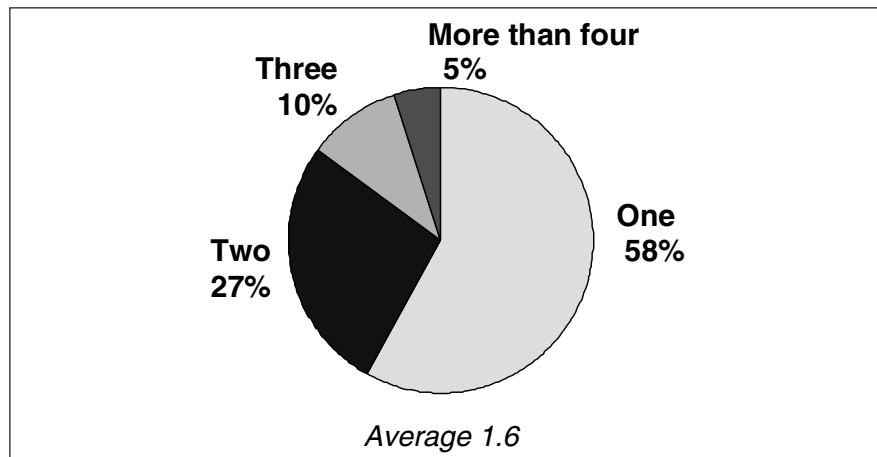5%

One
58%

Two
27%

Average 1.6

Figure 2: Average number of products held

account customers have my credit card, how many use another supplier, how many use both and of course how many do not use any supplier at all. The generalisation of this measurement was to define as a customer any consumer who held any of the basic banking products with that organisation. These were defined as mortgages, current accounts, savings, loans and credit cards. Using this definition, the average number of products held at that organisation could be calculated, while at the same time the average number of such products held in total could also be calculated. Figure 1 shows such output in graphical form. Perhaps the most revealing thing is the relatively low share that the selected organisations enjoy in their core markets. It is even more revealing to look at the distribution around this mean — Figure 2. Put starkly, most customers of the leading institutions have a one-product relationship with that organisation.

One product relationship

Another way of looking at the data is to segment the information by age and social class. Figure 3 typifies the pattern that is seen for most of the leading high-street banks. Looking at share by social class, it can
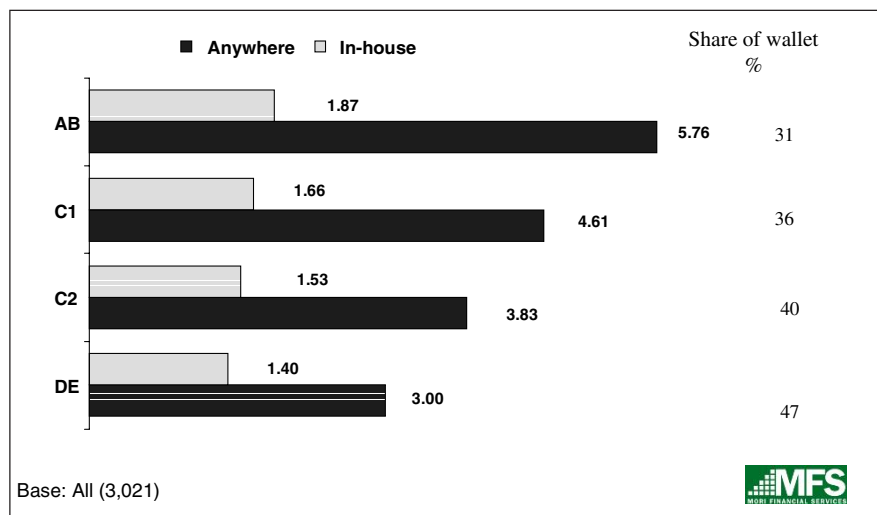

	Anywhere	In-house	Share of wallet %
AB	5.76	1.87	31
C1	4.61	1.66	36
C2	3.83	1.53	40
DE	3.00	1.40	47

Base: All (3,021)

Figure 3: Share of wallet — Traditional high-street bank

be seen that more affluent customers hold a larger number of products with a bigger range of suppliers, giving the big banks a smaller slice of the more attractive cake.

When viewed by age, the position is even more sobering. Having recruited customers into the bank mainly through a current account or low-value savings-based account, the share of wallet decreases sharply with age as bank customers go elsewhere for the added-value products that are required in the family-formation age groups.

There has been much talk of bancassurance in the high street — indeed, this was the rationale behind NatWest's bid for L&G which was to prove the trigger which led to its loss of independence to the Royal Bank. Typically, the average number of bancassurance products held by a typical traditional high-street bank customer rises to seven, reducing share of wallet by volume to less than a quarter for most organisations. This obviously looks very attractive to those people seated round a bank's boardroom table — so much to go for and with a better-known brand name surely an easy win. To date this opportunity has proved to be largely illusory, but with the development and implementation of the systems described later in this paper, someone should be able to make this concept work. The rewards would be dramatic.

Measuring share of wallet on a value basis

The next stage of development of this work has been to move from a volume-based share measurement to a value-based one. Every organisation has a different costing structure, so it is necessary to build in flexibility to allow the calculation of a more realistic share of wallet, which by definition is value based. The basic concept is to assign different values to different customers by product holding and behaviour. Taking the credit card as an example, customers who pay off their balances in full each month contribute only the merchant service charge fee to the bottom line, while the customer who regularly revolves his
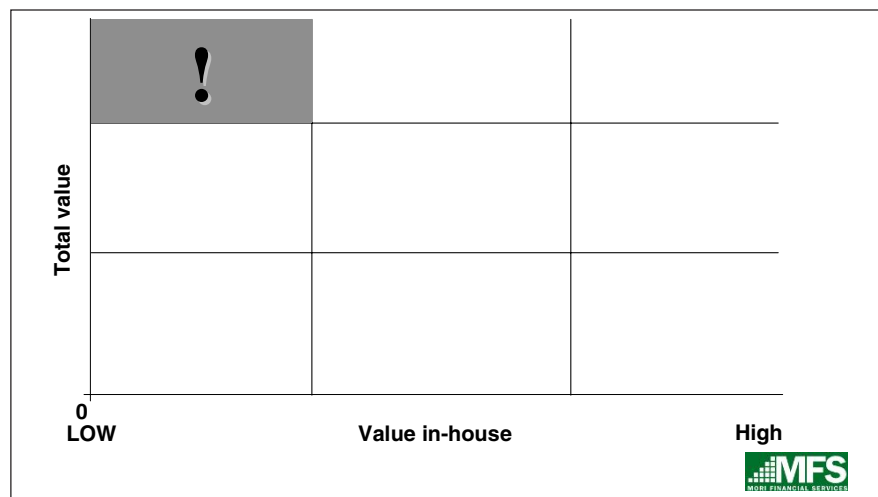
Share of wallet decreases with age

Bancassurance

Attributing customer value

Figure 4: 'An attractive customer segment that could be overlooked without taking a holistic customer view'

outstanding balance (without defaulting) is usually of greater value. This concept can be refined to take account of size of spend, level of outstanding balance and card dormancy. By applying values across markets, we are in a position to define those customers who are worth targeting; Figure 4 shows the basic concept. Without this approach, it might be concluded that low-value customers should be valued at minimum cost. However, there is a subset of these low net worths on whom it would be worth making considerable marketing effort, as they are in fact high-value customers with other organisations.

Developing this theme further, this approach allows one to target high-value customers where there remains considerable potential for business development.

Taking share-of-wallet calculation from portfolio to customer level

These results from market research provide marketers with a powerful argument for adopting share of wallet as a basis for developing appropriate customer communications. Theoretically it provides an ideal basis for tailoring products, services and channels to meet the demands of financial services customers. However, the challenge of how to operationalise share of wallet so that it can be used to drive communications with individual customers is formidable.

Operationalising share of wallet

First, the marketer needs to find a method for calculating the likely 'size' of customers' wallets, whether on a customer-by-customer basis or by customer segment. Next, the actual level of customer activity needs to be measured against this benchmark. Then the marketer needs to generate appropriate communications strategies, applicable to each individual or segment, based on current value and on share of wallet. Finally, these strategies need to be applied at all the contact points through which the provider interacts with consumers, in clear, understandable and actionable ways.

Calculating share of wallet

There are essentially two types of information required to calculate share of wallet: the value of the business currently being transacted with the provider in question, the numerator to the calculation; and the consumer's overall value to providers in the financial marketplace, the denominator to the calculation.

In principle the numerator is relatively easy to calculate once a complete customer view has been assembled from the data warehouse or customer database that most financial services providers are setting up by bringing together the various individual items of account information into a single place. Very often, this is also summarised in relevant ways for our purposes. At its simplest level, the numerator could take the form of the number of accounts that the individual holds with the provider. Greater sophistication may be added by means of calculation of customer worth or potential lifetime value based on the manner in which these accounts are used, for example using average loan balances, values of ISAs or insurance premiums paid.

Alternatively, this information may be summarised in the form of a bespoke behavioural segmentation system that might typically classify

customers into a number of discrete segments based on behavioural data. Whichever method is used, the objective is the same — to compare the current activity level or profit contribution of that consumer against a realistic norm (whether of activity or contribution) for that type of consumer across all financial services providers.

Until recently all options had serious limitations. One method of calculating a denominator was through asking each consumer a range of detailed questions. Another was to use geodemographic data, which, being driven by area rather than individual data, usually lacked the level of discrimination and detail required at the individual customer level. A third option was to use lifestyle survey questionnaire data which, of necessity, provide incomplete coverage of the customer file and whose questions, though they may cover most products offered by the supplier, have little to say on the level of usage and profitability of those accounts.

The use of person-level financial classification systems

In order to fill this gap a number of information vendors have developed methodologies to provide financial segmentation systems working at the individual and/or household level. Claritas, for example, has developed Psycle specifically to assist financial services organisations to quantify the likely levels of financial activity of any individual consumer. Berry Consulting has developed FRuitS for similar applications, and Financial Strategy Segments, developed by Experian, is another example of such a system.

Financial Strategy Segments

Financial Strategy Segments, for example, classifies every consumer on the electoral roll into one of 31 detailed types and seven broader groupings. The classification is built by means of clustering the propensities for each consumer to have certain financial behavioural characteristics. The propensities themselves have been built using responses on a wide range of lifestyle questions, applied across all adults in the country using a range of individual-level demographic and postcode-level socioeconomic variables. These variables have been obtained from public sources and cover over 90 per cent of UK adults (Figure 5). The resulting 31 segments are then profiled in terms of their detailed financial behavioural characteristics by cross-tabulating the codes with the MFS. Hence very rich descriptions can be produced (Figures 6 and 7).

Aspirant millionaires

The Financial Strategy Segments type 'Aspirant Millionaires', for example, are 10.5 times as likely as the average consumer to possess a gold card, 5.2 times as likely to hold a unit trust, 1.6 times as likely to have a mortgage but only 0.8 times as likely to have an overdraft.

Increasing discrimination

Tests demonstrate that for most products, services or channel preferences a person-level financial segmentation system will discriminate between 1.5 and 10 times as effectively as geodemographic classifications built using postcode-level data. In the case of Financial Strategy Segments, the extremities of segment indices are as much as 16 times that of geodemographics (MOSAIC) for houses with a value

- **The '*MOSAIC* / pixel matrix' places each elector into one of 330,000 cells based on:**
  - **Gender**
  - **Age**
  - **Years at address**
  - **Household composition**
  - **Address type**
  - **Shareholdings**
  - **Directorships**
  - **MOSAIC type**

- **Each cell in the *MOSAIC* / Pixel grid is evaluated in terms of its potential for financial services:**
  - **Savings and loan products**
  - **Value of these products**
  - **Insurance products**
  - **Treatment of end of month balances**
  - **Income**
  - **Home ownership, value and equity**
  - **Channel usage and intentions**
  - **Loyalty**

- **The 330,00 *MOSAIC* / Pixel grid cells are 'clustered' into 31 categories based on their similarities of financial behaviour and potential**
- **MORI Financial Research responses are overlaid to understand each category further**
- **Thirty-one categories are named and described and arranged into seven groups**

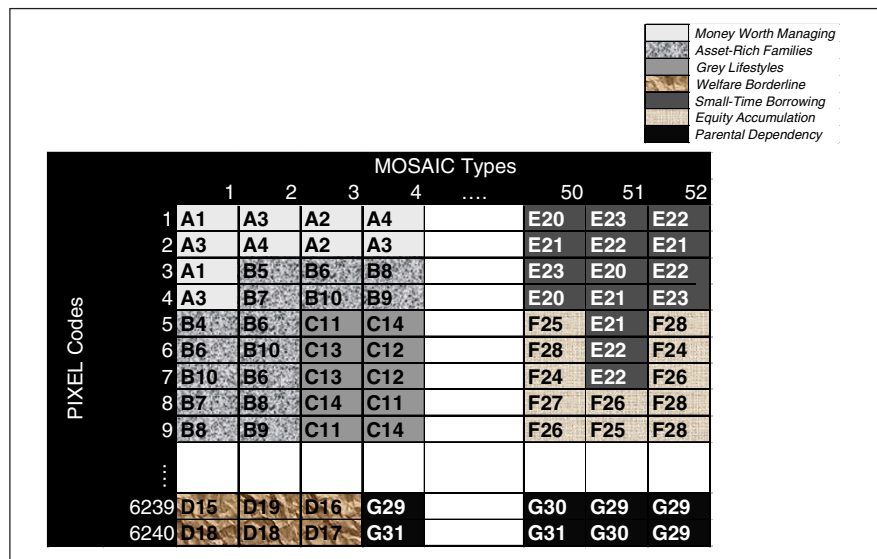**Figure 5:** Building financial strategy segments

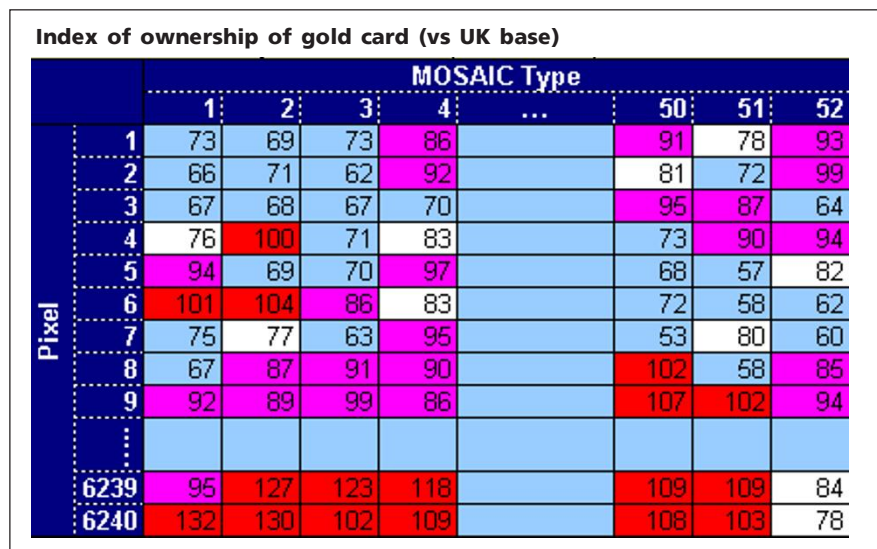**Figure 6:** Clustering the MOSAIC/Pixel matrix

Figure 7: Example of propensity grid for each MOSAIC/Pixel permutation

over £120,000, 8 for higher-rate tax, 3 for both American Express card and county court judgments, 2.5 for phone banking, 1.7 for overdrafts and 1.3 for funeral plans.

It has already been explained that the MFS data can show the typical number of financial accounts held by a respondent, or can be used as the basis for calculating the value of a respondent. By cross-tabulating these or the values with Financial Strategy Segments, marketers effectively arrive at the denominator for every consumer to whom they can append a Financial Strategy Segment. Since the codes are applied to all adults on the electoral roll, the system can usefully be applied not just to existing customers but also to prospects at first point of contact, perhaps in a call centre.

Applying Financial Strategy Segments

Hence the share of wallet can be calculated for any customer by, in its most simplistic form, dividing the number of accounts held by the consumer with that provider by the average number of accounts held by the consumer's Financial Strategy Segment. It is now straightforward to distinguish between, for example, two customers who have a similar level of activity or number of accounts with an organisation, one of whom is placing all his limited financial activities with one organisation and another who is placing only a very small proportion of a significant worth with that provider.

Using results from the MFS research database it would be possible to identify not just the difference in the product profile of this market segment but also the extent to which the average value of balances, savings and mortgages were different from the national norm. Applying accounting formulae to the profile of the segment, it is not impossible to form an evaluation of the average profit contribution per consumer each segment makes to the UK personal financial services sector.

Given this knowledge, it is now possible to incorporate share-of-wallet understanding into an organisation's customer contact strategies.

Defining contact strategies based on share of wallet

It is self-evident that simply knowing the share of a consumer's wallet that is held with a particular provider is not the whole answer to the dilemma of how to interact effectively with that consumer. Many other factors will come into play, such as the value of existing accounts and recent behavioural activity. However, it forms a very sound basis around which strategies can be developed. Figure 8 illustrates this.

Share of wallet based strategies

For example, a provider would wish to apply very different strategies to customers in the cells in the top left of the grid, where a large share of a significant wallet makes a club-based proactive retention and upsell-based strategy appropriate, to those in the bottom left corner, where it is unlikely
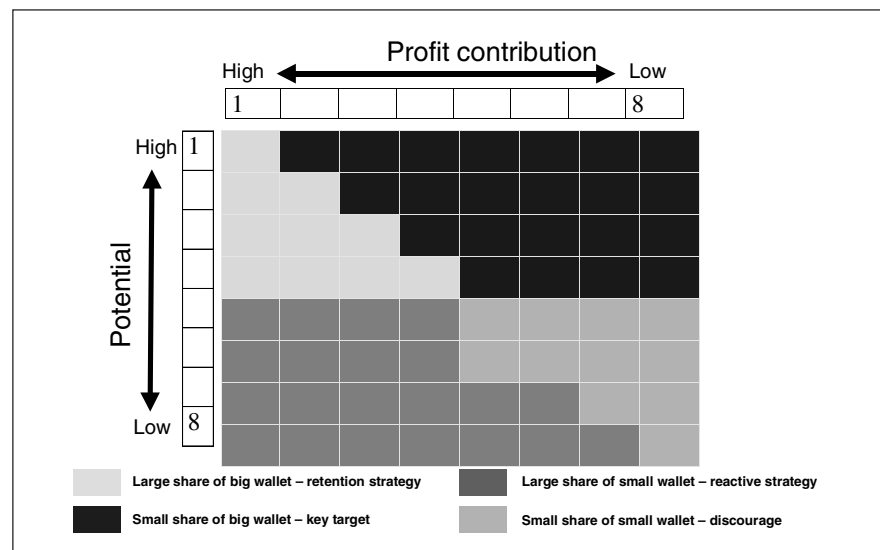

Figure 8: Share-of-wallet strategies

**Contact strategies
in the customer
service environment**

that significant additional profits can be derived from the consumer since the customer is already giving one supplier a virtual monopoly of his or her business. The bottom right segment is one where there is little value in attempting to upsell or indeed even to retain the customer, unlike the upper right quadrant where affluent customers are undertaking the majority of their lucrative business with one or more competitors.

The understanding of share of wallet provides a framework within which more detailed customer strategies can be developed. These would typically take account of the nature of existing accounts, behavioural data and product, service or channel propensities.

Operationalising contact strategies based on share of wallet

Having defined an individual or segment-based share of wallet and having determined appropriate strategies on the basis of this and other factors, it is then necessary to make these strategies operational at the point of contact with the consumer. That may be via proactive channels such as outbound direct mail or telemarketing, but the convergence of sales with service delivery makes it increasingly urgent that such data are made available via interactive channels such as call centres, the Internet, kiosks or digital TV. Clearly it is very advantageous if consistent strategies are applied across whatever combination of channels the customer makes contact through. Difficulties in delivering real-time decisions through distributed networks are clearly a far greater challenge than applying segmentation to outbound direct mail. The fact that it has mostly been in direct mail that segmentation has up to now been applied does not necessarily mean that it is should not be in interactive marketing that the application of share-of-wallet strategies will not have the greatest commercial return.

The secret to the implementation of segmentation strategies operational at the person (as opposed to the postcode) level lies in their integration with name and address matching software that can return a unique identifier for each individual. This unique identifier is then matched on to the behavioural files from which existing profit contribution values are calculated, as well as on to overlay databases containing person-level segmentation systems such as the Financial Strategy Segments. From direct entry of the name and address, or customer ID, it is possible to gain online access to both the numerator and the denominator of the share-of-wallet calculation, and to devise appropriate contact strategies from a preconfigured rule base.

Strategies can then be selected as in the illustration above. More detailed strategies, for example identifying optimal upsell opportunities, demand access to more detailed product-holding data and product propensities. This could all be done on-the-fly at point of contact, but in practical terms it is more satisfactory for strategies to be pre-coded at regular intervals and overridden where appropriate in special circumstances by event data, an example of which would be a customer complaint. Thus, at point of contact, it is still only necessary for the name and address matching software to add the strategy code and any

overriding event data. The decision rules based on these codes then trigger the script or message.

Practical examples of the implementation of share-of-wallet strategies

Based on the experience of one of the UK's leading CRM consultancies, what then is the extent of the use of share of wallet in the financial sector? And what other industries are adopting an equivalent approach?

At present there are two key ways by which share of wallet is being applied to individual customer records: by collecting information on each customer through some kind of questionnaire approach, or through the application of an external segmentation wherein the share of wallet within the segment is obtained through market research, and customers are attributed to a segment in order to understand their likely behaviour.

Practical examples

— *A retail asset management company collects and uses individual-level marketwide investment data.* This organisation collects individual-level data about overall portfolio value and demographics in order to apply a service tiering approach. The individual-level data are compared with the level of funds invested to construct a customer management strategy. Response rates have been sufficient to justify the production of a 'personalised' customer magazine. Interestingly, customer profitability and individual share of wallet have been combined to determine the CRM strategy.

— *A large insurer uses factfinds for individual customer value and share-of-wallet prediction.* The use of factfind information, a compulsory requirement for vendors of life insurance and investment products, is much less widespread in customer management than customers might expect. However, this company uses these data to help fuel models that describe customer marketwide value and customer actual value. Again, service tiering is introduced, with 'gold' customers being looked after by a personal account manager, 'silver' being actively managed remotely by telephone and mail, and 'bronze' being left alone with no proactive management unless they apply for a product.

— *Two banks use marketwide segmentation, FRuitS, attributed to their customer base to support targeting of direct communications.* In these cases individual-level data have only been used as predictor variables to help attribute customers to their marketwide segment. The FRuitS product, which is a segmentation of UK consumers over the age of 18, is derived from market research and is defined by characteristics of life stage, financial strength and product portfolio. As a result, for any FRuitS segment, the likely range of financial product holdings is known, as well as typical values where applicable. Consequently, by attributing an individual to a FRuitS segment, it is possible to use this as a proxy for likely product ownership; and by comparing this with actual product holdings a share of wallet by product type can be derived, albeit on a probabilistic basis. Having achieved the attribution, the

segmentation is mainly being used at present to drive the targeting of outbound product offers, presumably because the level of accuracy expected for targeting by a consumer is going to be lower for an outbound mailshot than for a telephone call or salesman's visit, where it is more difficult to rely on probabilistic data.

— *A unit trust company builds its own segmentation involving share of wallet and attributes this to its customer base.* In this case, where the methodology was similar to the FRuitS example, the key difference was that the company commissioned their own telephone survey to collect product holdings on a sample of the customer base. A bespoke segmentation was then developed and attributed to the rest of the base. The specific dimensions of this segmentation are investment activity and total assets. The company is using the segmentation to assign management strategies to customers.

— *One door-to-door retail friendly society uses share of wallet at a market segment level to drive strategy.* In this case no attempt was made either to collect or attribute individual share-of-wallet information. In a quite different approach, a sample of the customer base for which existing product holdings are known was matched to a geodemographic system. In parallel, the same geodemographics were matched to NOP's Financial Research Survey. The result was a comparison of market penetration by the company with its key competitors, both at an overall geodemographic segment level and within each segment by product. This share-of-wallet output was then used to plan aggressive or defensive strategies by segment.

Opportunities for the use of share-of-wallet strategies outside financial services

Outside of the financial services industry there are great opportunities for applying share-of-wallet techniques. One last example is a brewer which has developed their own marketwide segmentation as the basis for both database management and targeting above-the-line advertising. The approach is one that could be applied across all major FMCG companies. The company commissioned their own 'share-of-throat' survey by setting up a panel of adult males who recorded their beer-purchasing and beer-drinking habits over a lengthy period. Using these data, which also collected basic demographics, a segmentation was developed using life stage and social grade as the key dimensions. For each cell the company was able to understand share of throat by brand category. Owing to the nature of the dimensions used for the segmentation, the brewer was then able to develop an attribution approach for their sales promotion database, and provide suitable audiences for targeting non-direct media.

Applying the approach in other markets

These six examples of the practical application of share-of-wallet theory show the great opportunities that there are for the use of this technique as a key customer knowledge item for customer management. However, only a minority of financial services companies have an individually attributed approach, and for FMCG share of wallet is only just starting to appear on the corporate radar screen.