Measuring Share of Wallet

Speaker: Lerzan Aksoy, Fordham University

Lerzan Aksoy's research interests include consumer satisfaction and its relationship to customer loyalty and firm performance, customer relationship management and managing customers as assets. She was recognized as the top young scientist of 2007 in Turkey by the Junior Chamber International, winning the TOYP Award for Scientific Leadership. Five years later, she received one of the most prestigious business and management awards in Turkey: the 2012 Management Honor Award (Yönetim Onur Ödülü), a lifetime achievement award for research contributions that affect management across international boundaries. Professor Aksoy also has received the Koc University Werner Von Siemens Award and the Fordham University Magis Award for research, teaching and social contribution.

Her 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. Her prior book, *Loyalty Myths*, was ranked as the No. 4 best business book of 2006 by *The Globe and Mail* newspaper in Toronto, Canada; was selected as 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. Professor Aksoy's research on the importance of loyalty has received more than a dozen prestigious scientific awards, including:

- NextGen Disruptive Innovation in Marketing Research Award.
- Citations of Excellence "Top 50" Award (top 50 management papers of approximately 20,000 papers reviewed that year) from Emerald Management Reviews.
- Outstanding Paper Award (best paper) from the journal *Managing Service Quality*, two years in a row: 2007 and 2008.
- Developing a framework for collecting and comparing information

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.

Professor Aksoy's articles have been accepted for publication in the *Journal of Marketing*, *Marketing Science*, *Sloan Management Review* and *Journal of Service Research*. She serves on the editorial review board of the *Journal of Service Research*, *Journal of Service Management* and *Journal of Relationship Marketing*. She has contributed interviews and articles to publications worldwide, including *The Wall Street Journal*, *BrandWeek* and *Harvard Business Online*. She was also selected "Best Reviewer of the Year" among the editorial review board members of both the *Journal of Service Research* and *Journal of Service Management*.

Professor Aksoy is a keynote speaker at academic and industry conferences and has presented in Belgium, China, Egypt, Greece, Jordan, Peru, Sweden, Turkey, the U.A.E. and the United Kingdom. She has provided executive training and consulting on consumer behavior, customer relationship management and loyalty management to Sony, Ford, Pfizer, AC Nielsen and L'Oreal. Prior to joining Fordham, Professor Aksoy was an associate professor at Koc University in Istanbul, Turkey.

Research Report

Linking Member Satisfaction to Share of Deposits: Applying the Wallet Allocation Rule in Credit Unions

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Associate Professor of Marketing
Fordham University

filene
RESEARCH INSTITUTE

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RESEARCH INSTITUTE

Progress is the constant replacing of the best there is with something still better!

— Edward A. Filene

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

The Institute is governed by an Administrative Board made up of the credit union industry's top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i^3, an assembly of credit union executives screened for entrepreneurial competencies.

The name of the Institute honors Edward A. Filene, the "father of the US credit union movement." Filene was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

Since its founding in 1989, the Institute has worked with over one hundred academic institutions and published hundreds of research studies. The entire research library is available online at www.filene.org.

Acknowledgments

I would like to start by thanking the Filene Research Institute for initiating and supporting this research. I would especially like to acknowledge and thank George Hofheimer, chief research and innovation officer, for his discovery of the *Harvard Business Review* article that introduced the Wallet Allocation Rule and for taking the lead in initiating the research; Benjamin Rogers, research director, for managing the research project process flawlessly from start to finish; and Monica Titley, project manager, for meticulously handling all the details.

This research would not have been possible without the generous support of 10 credit unions that agreed to send out the Wallet Allocation Rule survey instrument to their member base. I would like to thank Central City Credit Union, Local Government Federal Credit Union, McGraw-Hill Federal Credit Union, Mountain America Credit Union, Neighborhood Credit Union, Northeast Credit Union, Pen Air Federal Credit Union, St. Mary's Bank, Truliant Federal Credit Union, and Tyco Federal Credit Union for their kind partnership in this research.

The initial discovery of the Wallet Allocation Rule would not have been possible without my brilliant coauthors and collaborators: Timothy Keiningham, global chief strategy officer and executive vice president, Ipsos Loyalty; Bruce Cooil, the Dean Samuel B. and Evelyn R. Richmond Professor of Management at Vanderbilt University; Alexander Buoye, US head of loyalty analytics and senior vice president, Ipsos Loyalty; and Luke Williams, US head of research methods and vice president, Ipsos Loyalty. I would like to thank them for their vision, hard work, dedication, and friendship.

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by Ben Rogers,
Research Director

What Is the Research About?

In this report, Lerzan Aksoy, PhD, draws on a new tool—the Wallet Allocation Rule—to investigate how credit union managers can do a better job of translating high customer satisfaction and Net Promoter Score (NPS) levels into improved share of deposits.

The findings of the research by Dr. Aksoy and her coauthors with regard to the satisfaction and NPS metrics that credit union managers typically measure and manage are sobering. Satisfaction and Net Promoter explain less than 10% of the variation in members' share of deposits. This in large part explains why, despite the fact that credit unions hold the highest satisfaction levels for any industry tracked by the American Customer Satisfaction Index (ACSI), the share of deposits held by credit unions substantially lags that of their bank competitors.

It's not that satisfaction and Net Promoter levels are not important. Rather, it is the way these metrics are analyzed that is the overriding source of the problem. Analyzing member satisfaction using the Wallet Allocation Rule, Dr. Aksoy is able to explain 55% of the variation in members' share of deposits.

The key distinction of this approach is that instead of relying on the absolute satisfaction score or NPS, the Wallet Allocation Rule focuses on two critical factors in linking these metrics to share of deposits:

- The relative rank that this score represents vis-à-vis the other financial institutions that members also use.
- The number of different financial institutions that members use (i.e., "number of brands").

The good news for credit unions is that they are highly ranked by members. Sixty percent of members classify their credit union as their exclusive first choice (i.e., no other financial institution received an equal or higher satisfaction score out of all institutions used).

The number one driver of credit unions' high rank is the competitiveness of fees. This differs significantly from the most important driver of satisfaction, which is the in-bank service experience. Fortunately, competitive fees are a strong feature of credit unions compared to banks.

The bad news is that 65% of members also feel the need to use one or more competing financial institutions. The most important driver of a competing bank's ranking for credit union members is Internet banking services. Two prominent market barriers contribute to the reason that members feel the need to use banks: (1) perceived inconvenience of credit union locations and (2) perceptions of weak credit union ATM networks.

Implications for Credit Unions

Getting credit union members to move their deposits from banks will require directly addressing the reasons they use other financial institutions. In particular, credit unions—perhaps in partnership with Credit Union Services Organizations (CUSOs)—must seek to minimize banks' advantages in Internet banking, branch locations, and ATM networks.

The size of the problem makes this an issue that credit union managers must take seriously. Of those members who use more than one financial institution, each has on average about $25,414 in deposits going to competing institutions.

About the Author

Lerzan Aksoy, PhD

Lerzan Aksoy is an associate professor of marketing at Fordham University in New York City. She is the cocreator of the Wallet Allocation Rule and is widely regarded as one of the leading experts in the measurement and management of customer satisfaction and loyalty.

A prolific writer, Lerzan has authored and edited four books. Her most recent book, *Why Loyalty Matters*, is grounded in the most comprehensive study of loyalty ever conducted. The book provides undeniable evidence that when it comes to business success, satisfaction in relationships, and even overall happiness, loyalty is essential.

She is also coauthor of the book *Loyalty Myths*. The *Globe and Mail* (Toronto) counted *Loyalty Myths* as the number four best business book of 2006, and it was a finalist for the American Marketing Association's Berry Book Prize for the best book about marketing. She is coeditor of the books *Customer Lifetime Value* and *Profit Maximization through Customer Relationship Marketing* (2006 and 2008, Haworth Press).

Lerzan was one of the recipients of the Ten Outstanding Young Persons (TOYP) Award in Turkey, given by Junior Chamber International (JCI). JCI is an organization in 120 countries that is a worldwide federation of young leaders and entrepreneurs. Lerzan won the award for scientific leadership, one of the 10 categories in which applicants compete. In addition, her research on the importance of loyalty has received over a dozen prestigious awards, including:

- 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.
- Citations of Excellence "Top 50" Award (top 50 management papers of the approximately 20,000 papers reviewed that year) from Emerald Management Reviews.
- Outstanding Paper Award (best paper) from the journal *Managing Service Quality* (twice).
- Service Excellence Award finalist from the *Journal of Service Research*.

Lerzan earned a BS from Hacettepe University in Ankara, Turkey, and was awarded the Fulbright Scholarship to pursue her MBA degree at George Mason University in Fairfax, Virginia. She has a PhD in marketing from the University of North Carolina at Chapel Hill's Kenan-Flagler Business School.

Introduction: About This Research

The purpose of this study was to investigate the multi-institution behavior of credit union members. The goal was to gain insight into how and why members allocate their deposits among competing financial institutions. Specifically, it was designed to measure attitudinal and behavioral loyalty at both the brand and respondent levels (i.e., institution and member levels).

The focus on deposits (as opposed to loans and other credit union offerings) was twofold. First, deposits reflect an area of relatively high multi-institution usage. This represents polygamous loyalty, therefore making the data amenable to Wallet Allocation Rule analysis. Second, they typically reflect members' perceived relationships with the various financial institutions with which they conduct business. By contrast, loans tend to be situation- or need-driven discrete events. As such, they tend to be monogamous purchase decisions and therefore the data are not amenable to Wallet Allocation Rule analysis.

The study was undertaken in mid-2012. Respondents were current credit union members. Surveys were sent to members of the following 10 credit unions to ensure a wide variety of institutions under investigation: Central City Credit Union, Local Government Federal Credit Union, McGraw-Hill Federal Credit Union, Mountain America Credit Union, Neighborhood Credit Union, Northeast Credit Union, Pen Air Federal Credit Union, St. Mary's Bank, Truliant Federal Credit Union, and Tyco Federal Credit Union.

In total, 4,712 current credit union member depositors were interviewed. Respondents were asked questions regarding all deposit institutions used, and this resulted in 8,799 total institution evaluations (i.e., credit unions plus competing institutions used by members).

To link member perceptions and attitudes to their share of deposits, this study applied the Wallet Allocation Rule, a powerful tool designed to link customer satisfaction (and other common survey-based loyalty metrics) to the share of business that customers give to the brands they use. The Wallet Allocation Rule was introduced in the *Harvard Business Review* and was awarded the Next Gen Disruptive Innovation in Marketing Research Award.

CHAPTER 1
Wallet Allocation Rule Overview

Tracking satisfaction is just a start. The Wallet Allocation Rule shows a better way to pull ahead of competitors.

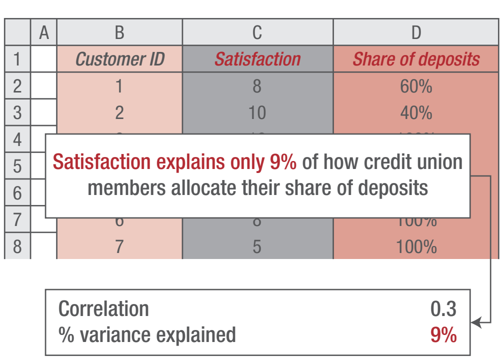
Credit unions spend a great deal of time and money trying to improve member loyalty by measuring and managing metrics like satisfaction and Net Promoter Scores (NPSs). As a result, credit unions have far higher satisfaction and Net Promoter levels than their retail banking competitors. In fact, the American Customer Satisfaction Index (ACSI) reported that in 2011 credit unions set an all-time record satisfaction level.

Paradoxically, despite having consistently higher satisfaction and Net Promoter levels over time, credit unions hold a small percentage

SATISFACTION AND NET PROMOTER ARE POOR PREDICTORS OF SHARE OF DEPOSITS

By using simple spreadsheet software (e.g., Microsoft Excel), credit union managers can easily see that the correlation between satisfaction/Net Promoter and share of deposits is very weak. If your credit union is collecting satisfaction and/or Net Promoter data, simply record customers' satisfaction ratings (or Net Promoter classifications) in one column and their share of deposits in another. Next, compute the correlation between satisfaction/Net Promoter and share of deposits.[1] Finally, to determine how much of the variance in share of deposits is explained by satisfaction/Net Promoter, simply square the correlation.[2] The percentage of variance explained will almost always be less than 10%—oftentimes far less—meaning that 90% or more of the variation in share of deposits is completely unexplained by satisfaction or Net Promoter.

Figure 1: Weak Correlation between Satisfaction and Share of Deposits



of total deposits relative to their retail banking competitors. As the ACSI scores clearly demonstrate, higher brand-level satisfaction scores do not result in correspondingly higher market shares for credit unions versus their lower-scoring retail bank competitors.

Part of the reason for this is that metrics like satisfaction and Net Promoter correlate poorly with the share of deposits that members allocate among the financial institutions they use. This fact runs counter to what most credit union managers believe. Much of the business press touts a positive relationship between satisfaction/Net Promoter and share of wallet (e.g., share of deposits). While this is technically true, the relationship is so weak that it is managerially irrelevant (see sidebar "Satisfaction and Net Promoter Are Poor Predictors of Share of Deposits").

The reality is that knowing members' satisfaction or Net Promoter levels explains very little of the variation in their share of deposits. In other words, the overwhelming reason for what drives a member's deposits with your credit union is completely unexplained by satisfaction or Net Promoter! As a result, changes in customer satisfaction or Net Promoter levels are unlikely to have a meaningful impact on the share of deposits that members allocate with your credit union.

This is not to suggest that these metrics are not important. The problem lies not in the metrics per se but in how these metrics are collected and analyzed.

The overriding issue is that it is not the absolute "score" that a member assigns that matters. What matters is a member's perception of performance relative to competitive alternatives that he or she also uses (see sidebar "Why Simple Metrics Do Not Work Well"). An easy way to think about this is to imagine that a member has rated your credit union a "9" (with 10 being the highest score possible). Most managers would consider this to be a good score. But suppose that this same member also uses another institution that he has rated a "10." Despite management classifying this customer as a Promoter, your credit union is his second choice.

It is very important for credit union managers to understand that correlations at the group level are typically much higher than at the individual level. This occurs because positive and negative extremes at the individual level cancel themselves out at the group level. As a result, aggregate-level correlations that differ dramatically from individual-level correlations should be treated with suspicion.

Now imagine that another member rated your credit union an "8." Few managers would consider this a good score. Suppose, however, that the next highest rating this member gives any competitor is a

"6." With this member, you're her first choice. As these examples demonstrate, we would clearly expect a member's relative ranking of competing institutions to be more strongly related to share of deposits than the absolute score given to each financial institution.

What is needed is a way to meaningfully tie these relative rankings to members' share of deposits. This can be done using a newly discovered, simple formula called the Wallet Allocation Rule. The discovery of the Wallet Allocation Rule is the result of an intensive investigation conducted between industry and academia.[3] It was introduced in the *Harvard Business Review* and received the Next Gen Disruptive Innovation in Market Research Award.[4]

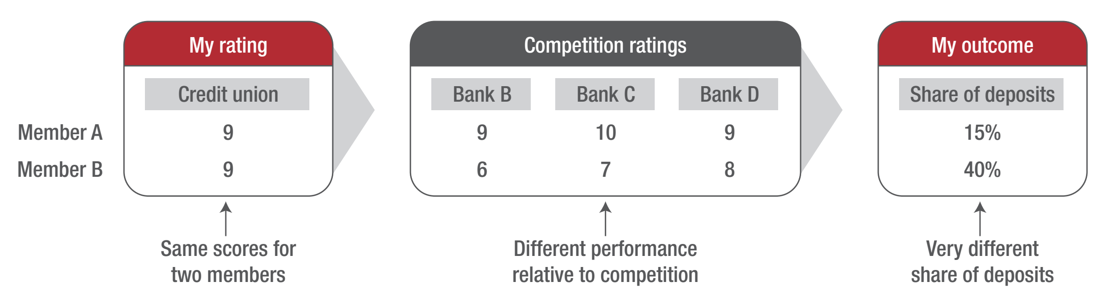
From company to company and industry to industry, the correlation between a brand's Wallet Allocation Rule score and its share of wallet is remarkably consistent—the average is greater than 0.9 (a perfect correlation is 1.0). Even more important, the strength of the relationship is very strong at the individual (as opposed to brand) level, typically above 0.7—in this study, the correlation is 0.74.

It is very important for credit union managers to understand that correlations at the group level are typically much higher than at the individual level. This occurs because positive and negative extremes

WHY SIMPLE METRICS DO NOT WORK WELL

Satisfaction is relative to competitive alternatives. As a result, absolute satisfaction levels are poor indicators of the share of deposits that credit union members allocate among the various financial institutions they use. Instead, what matters is the relative ranking that a member's satisfaction level represents vis-à-vis competitors also used.

Figure 2: Ratings Are Better with Competitive Context



at the individual level cancel themselves out at the group level. As a result, aggregate-level correlations that differ dramatically from individual-level correlations should be treated with suspicion.

When individual-level and aggregate-level correlations differ significantly, it is likely that the analyses will result in what researchers call the *ecological fallacy*—specifically, an aggregate-level correlation is incorrectly assumed to apply at the individual level. Therefore, researchers must first model what occurs at the individual level and then model how the individual and group levels are related. Only after this has been done should there be an examination of whether the group-level information provides additional insight into the relationship.

An overly simplified example should help demonstrate the problem of ecological fallacy. *National Geographic* produced a video designed to show the world's most "typical" person.[5] What *National Geographic* found is that the typical person is a 28-year-old Chinese man who makes less than $12,000 per year and has a cell phone but not a bank account. While that insight makes for fun trivia, it clearly isn't very useful when thinking about the best way to understand the needs and wants of individuals. That is because people vary dramatically from the average. For group-level information to be managerially relevant, the individuals within the group need to reflect the average—otherwise, the average gives wrong information about the people within the group.

Therefore, when presented with averages (e.g., the average Promoter holds XX% in share of deposits), credit union managers need to insist that their research partners provide them with the individual-level correlations corresponding to these averages so that they can gauge the usefulness of this information. Individual-level correlations from a credit union's survey research are typically very easy for researchers to provide. Furthermore, as research professionals know about the ecological fallacy, they will naturally want to minimize the possibility that managers will draw incorrect conclusions from their research.

Designing Research the Wallet Allocation Way

The essential distinction of the Wallet Allocation Rule is that it takes into account both rank—Is your credit union a customer's first choice? Second choice?—and the number of financial institutions in the set the member uses. Knowing these two values allows you to confidently predict share of deposits. (For a step-by-step demonstration of the calculation, see the sidebar "Using the Wallet Allocation Rule.") For example, if your credit union is one of only two financial institutions a member uses for a given purpose, the rule shows that the difference between being the first choice and being the second can have a major financial impact. In such a situation, even being tied has grave consequences: Half of each dollar you could be collecting from the member is going to your competitor instead. The flip side is that the negative impact of being second diminishes as the member's choice set increases.

Capturing the data necessary to apply the Wallet Allocation Rule is simple, and credit union managers need not completely overhaul their member measurement systems to gain insight into share-of-deposit dynamics. In fact, the Wallet Allocation approach may be used with any of the most commonly used loyalty metrics, including satisfaction and NPS. The key is to ensure that all members are asked to rate each of the financial institutions they use for their credit union and retail banking needs.

You can't assess brand performance as if it exists in a vacuum. That seems obvious, but in reality it's exactly what most managers do—measuring satisfaction, NPS, or other metrics that are based on members' perceptions of their brand alone. By gathering ratings across the usage set, we are able to apply the Wallet Allocation Rule. To see the benefits of the Wallet Allocation techniques typically requires little revision of current credit union member questionnaires.

USING THE WALLET ALLOCATION RULE

Calculating a financial institution's share of wallet requires just three steps and the application of a straightforward formula.

Figure 3: Using the Wallet Allocation Rule

1. Establish the number of brands (i.e., financial institutions) that members use for their credit union and retail banking needs.
2. Obtain satisfaction or other loyalty scores for each brand used, and convert the scores into ranks.
3. To arrive at a financial institution's share of wallet for a given member, plug the brand's rank and the number of brands used by the member into the Wallet Allocation Rule formula:

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

Wallet Allocation Analysis

Once we have surveyed customers across their usage sets, we convert member ratings into ranks. In the case of a tie, we take the average—for instance, if two institutions tie for first place, we assign each a rank of 1.5. We repeat the calculation for each member and financial institution. To obtain a brand's overall share of deposits, we take the average of all members' share of deposit scores. From there we are able to conduct driver analyses and simulations that explain how member experiences and attitudes affect share of deposits. That is to say, we can determine how much improvement is required in member experiential touch-points to drive increases in satisfaction, recommendation, and other traditional loyalty scores that are sufficiently high to change rankings and therefore share of deposits. What distinguishes a Wallet Allocation driver analysis is that it identifies what attracts members not only to your credit union but also to the competing institutions that they use. If the goal is improved share of deposits, managers cannot simply enhance what they are already doing well. They must give members less of a reason to use the competition.

Using the Wallet Allocation Rule, we can now have a clear understanding of what is driving share of deposits. That means we can move from looking at simply what drives satisfaction and NPS to what drives real-world outcomes.

CHAPTER 2
Satisfaction with Credit Unions and Banks

Credit unions consistently outscore banks in satisfaction, so why do banks surrender so little market share?

Long after their US origin in the early 1900s, modern credit unions retain their cooperative principles and have expanded beyond just the company-based credit unions of the past to include community-based credit unions, military credit unions, government-based groups, and state employee credit unions.

Today, credit unions remain focused on their principled beginnings. This discipline has ensured both financial security and a reasonable source of financing (if not modest financial investment) for their membership.

Despite strong growth late last year and a small public movement toward credit unions, credit union managers are rightfully concerned that the momentum is not enough. Clearly, many Americans have simply decided to bear out fees and waning service with their larger traditional banks.

Undertaken in mid-2012, this investigation was initiated to study the sentiments and financial behaviors of current credit union members, in particular to see how they divide their deposits among the various financial institutions that they use, and to measure how they feel about these institutions.

This study interviewed 4,712 current credit union member depositors, resulting in 8,799 total institution evaluations (i.e., credit unions plus competing institutions used by members). It was designed to measure attitudinal and behavioral loyalty at both the brand and respondent levels (i.e., institution and member levels). First, this study successfully validated the use of the Wallet Allocation Rule. Second, the study succeeded in determining not only general behaviors and attitudes but also the critical factors that drive them.

Sentiment and Size: Credit Unions versus the Competition

As a result of their historical role in the banking market and their unified ambition to serve their constituency above themselves, credit unions enjoy very positive perceptions in the minds of their members. Credit unions are often regarded as community partners that conduct their banking both honestly and conservatively.

This is very easy to see in the relative NPSs members assign to their credit unions relative to the banks with which they also conduct business. Clearly, in terms of Net Promoter levels, this investigation finds that credit unions have an incredibly strong advantage over their retail bank rivals.

These findings appear comparable to those reported annually by the ACSI. Therefore, it appears that credit union members hold similar opinions toward credit unions and retail banks as the general US market (although it is important to note that credit union members are much harsher on banks than the market at large).

Net Promoter and satisfaction are widely reported in the business press to track the market performance of companies.[6] Net Promoter leaders are said to "outgrow their competitors in most industries by an average of 2.5 times."[7] Similarly, customer satisfaction data are reported to be linked to firm performance metrics such as corporate revenue growth, earnings growth, and stock market performance.[8] In fact, given that credit unions recorded the highest satisfaction level of all industries tracked by the ACSI since its inception, the

Figure 4: NPS by Credit Union Members for Their Credit Unions vs. Different Banks Also Used

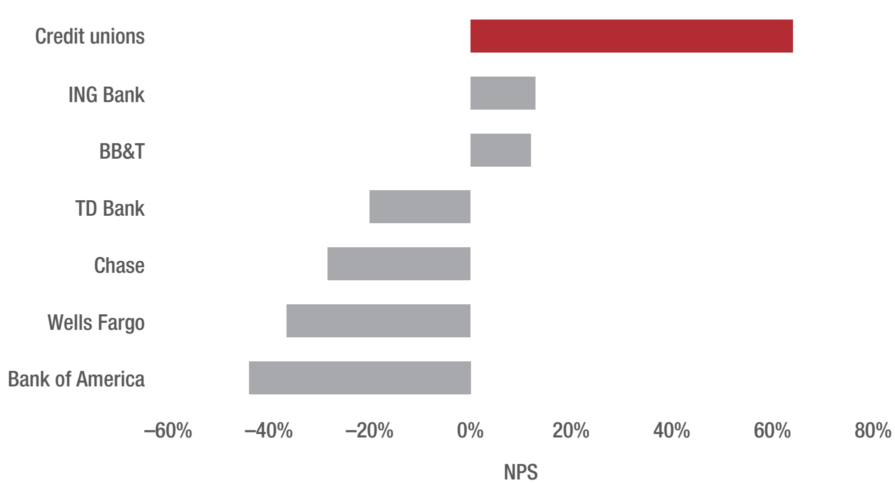
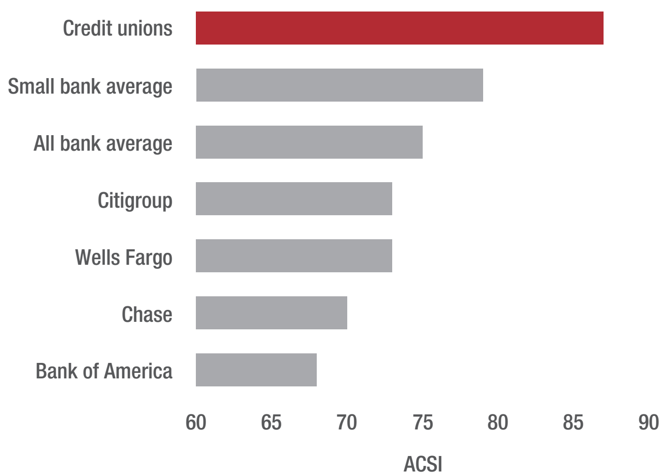


Figure 5: Market-Level Comparison of Credit Union and Bank Satisfaction Levels



organization reported that the "challenge" for credit unions will be dealing with the "major influx of new customers." Specifically, the ACSI writes:

Because of their size, both small banks and credit unions benefit from an ability to provide more personalized service. . . . The challenge for these smaller institutions will be how best to maintain high levels of customer service with minimal or no fees amid a major influx of new customers.[9]

Even assuming that there was a meaningful increase in new credit union members, credit union managers would no doubt have difficulty classifying the situation as a "major influx" that taxed their ability to maintain service levels.

The reality is that even with very high satisfaction and Net Promoter levels, in terms of deposits, credit unions lag behind their retail bank competitors. Credit unions hold less than 10% of US deposits despite representing more than 29% of the US population.[10]

This raises the question: Given that credit unions do a much better job of satisfying their members, why is it that retail banks hold the vast majority of deposits?

It is important to note that this does not mean that member satisfaction is not important. No credit union will last for long without satisfied members. It does mean, however, that if the goal of credit union managers is improving share of deposits, simply striving to improve satisfaction (or Net Promoter) levels is unlikely to significantly change members' deposit shares.

Given that credit unions do a much better job of satisfying their members, why is it that retail banks hold the vast majority of deposits?

Instead, credit union managers need to understand where their institutions fit in fulfilling their members' total banking needs. This requires understanding exactly what drives members to credit unions. But it also requires understanding exactly why members also use competitors. Winning share requires reducing members' need to use the competition.

CHAPTER 3

Members' Wallet Allocations and the Money at Stake

Credit unions always win the member satisfaction battle, but the Wallet Allocation Rule can help a credit union turn satisfaction insights into growth insights.

CEOs across industries consistently rank customer loyalty as one of the top five challenges that they face.[11] Given this, managers are keenly interested in gauging the loyalty of their customers.

For credit unions, gauging member loyalty is typically done through customer surveys. Traditional metrics like satisfaction and Net Promoter are collected and reported with great interest. Scientific research, however, consistently demonstrates that the relationship between these metrics and members' loyalty-related behaviors is very weak.[12] In other words, these metrics (at least as they are currently analyzed) do a poor job of gauging members' actual loyalty. Loyalty is not simply an attitude. Loyalty manifests itself in an individual's behavior. In the case of credit unions, the ultimate demonstration of loyalty is the share of wallet (e.g., share of deposits) that members allocate with their credit union.[13]

This issue represents the core problem facing credit unions with regard to member loyalty. Members clearly hold very positive perceptions of their credit union, but they do not hold correspondingly high deposit levels with these same credit unions.

Measuring Loyalty as Both Attitude and Behavior

Real loyalty, then, is measured not just in what people say or feel but in what they do—specifically in how they allocate their money and with whom they allocate it. Now, this is not to say that members' perceptions and attitudes are not important. On the contrary, they are critical to understanding share of deposits. They must, however, be examined in the context of alternatives and other existing relationships that members have.

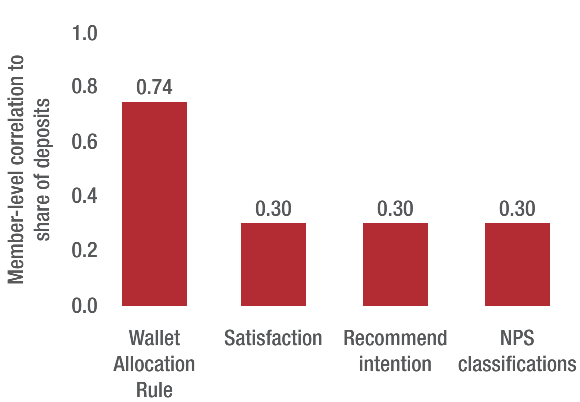
The Wallet Allocation Rule provides insight into where they allocate their money (see formula below). First, instead of relying on the absolute satisfaction score or the NPS, the Wallet Allocation Rule focuses on two critical factors in linking these metrics to share of deposits:

- The relative rank that this score represents vis-à-vis the other financial institutions that members also use.
  - The highest-rated firm/brand based on the overall satisfaction/loyalty question would be ranked 1, the next highest 2, etc.
  - In the case of a tie, take the average of the places the brands would have occupied had they not been tied. For example, if two brands are tied for first place, they would occupy spots 1 and 2. As a result, each brand's rank would correspond to 1.5. The next potential rank, assuming no other ties, would be 3.
- The number of different financial institutions that members use (i.e., "number of brands").

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

Examining satisfaction (or Net Promoter) in this way provides a strong correlation to the share of deposits that credit union members allocate to the various financial institutions they use. Specifically, this investigation finds that using the Wallet Allocation Rule provides a 0.74 correlation (the maximum possible is 1.0) with share of deposits, which corresponds to approximately 55% of the variation in customers' share of deposits being explained (i.e., $0.74^2 = 55\%$). By contrast, commonly used metrics such as satisfaction or NPS explain less than 10% of the variation in customers' share of deposits (i.e., $0.30^2 = 9\%$).

Figure 6: Relationship of Various Metrics to Members' Share of Deposits



At the financial institution level (i.e., brand level), the correlation between the Wallet Allocation Rule and average share of deposits is an extremely strong 0.95. At the institution level, NPS (at 0.82) and satisfaction (at 0.84) provide misleadingly high correlations. Correlations at the group level are typically much higher than at the individual level due to positive and negative extremes at the individual level canceling out at the aggregate level. As a result, aggregate-level (i.e., brand level) correlations that differ dramatically from individual-level correlations should be viewed with suspicion. It is highly likely that these aggregate correlations suffer from what researchers refer to as the *ecological fallacy* (i.e., incorrect assumptions are made about individuals based on aggregate data). Therefore, researchers must first model what occurs at the individual

Figure 7: Relationship between the Wallet Allocation Rule and Share of Wallet (at the financial institution level)

level before assuming that group level data will accurately reflect individuals within the group.

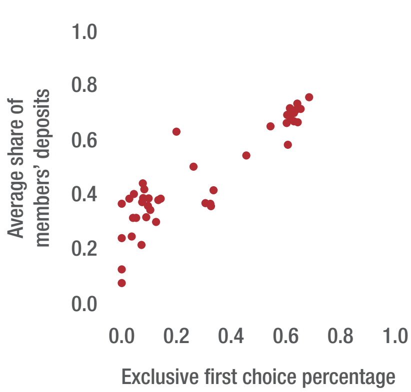
Given that both the member-level and institution-level correlations are strong for the Wallet Allocation Rule—which is not the case with satisfaction and Net Promoter—we can be confident that the Wallet Allocation Rule measures tracked at the overall credit union level reflect reality for individual credit union members.

Given the very weak correlations between satisfaction/recommend intention/NPS and share of deposits at the member level, correlations at the brand level are unlikely to reflect individual credit union members. Therefore, if credit union managers wish to effectively measure and manage these metrics in the pursuit of greater deposit share, they will need to be transformed via the Wallet Allocation Rule (or another power law found to link these metrics to share of wallet).

The New Benchmarks

Given that the Wallet Allocation Rule focuses on rank as opposed to the absolute score, it is important to monitor performance in a way that corresponds to this new perspective. The issue for managers is how to do this in a way that is both simple for everyone in the organization to grasp and reflective of the way members allocate their deposits with the credit union.

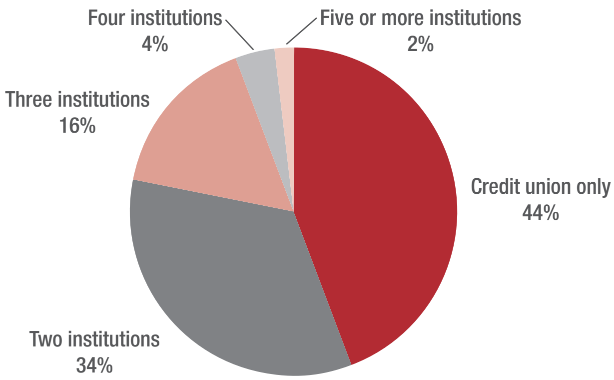
Figure 8: Relationship between First Choice Percentage and Share of Wallet



An easy way to do this is to track the percentage of customers who give your brand their highest satisfaction rating among all brands that they use. In other words, is your brand really a customer's first choice, or do members view your credit union as being the same as or worse than competitors? Looking at the percentage of members who rate a financial institution higher than all other competitors used correlates strongly with share of deposits. While it is not quite as strongly correlated to share of deposits as the complete Wallet Allocation Rule calculation (in this case 0.93 vs. 0.95), using first choice percentage allows for an easy-to-understand and easy-to-use metric while keeping the focus on where the credit union ranks vis-à-vis the competition.

The good news for credit unions is that approximately 60% of their depositors classify their credit union as their exclusive first choice (i.e., no other financial institution received an equal or higher satisfaction score out of all institutions used by a member). This high percentage reflects the very high satisfaction levels credit unions have enjoyed vis-à-vis their retail banking competitors for many years.

Figure 9: Number of Institutions Used by Credit Union Depositors



The other metric that is of importance for linking to share of deposits is the number of competing financial institutions that credit union depositors use. In this case, however, over 65% of credit union depositors use one or more competing financial institutions.

This raises several issues. First, despite high first-choice numbers, credit union depositors feel the need to spread their deposits over multiple institutions. Members have logical reasons for using every institution that they do. Therefore, these multi-institution users must have certain needs that they perceive to be better fulfilled by competing institutions. Second, while the percentage of depositors who classify their credit union as their exclusive first choice is high, for those members who feel the need to use more than one institution, only around 32% rank their credit union as their first choice.

This makes clear that the real opportunity for credit unions to increase their share of deposits lies with reducing members' perceived need to use competing institutions, with the goal of eliminating competitors from members' usage sets entirely.

The Financial Impact

Because multi-bank deposit behavior is quite common among credit union depositors, it's only natural to consider the financial impact of this split behavior. As part of this investigation, the study collected information regarding the size of deposits members held with the various financial institutions they used. The results indicate that there is a significant opportunity from consolidating members' deposits.

Of those credit union depositors who use more than one financial institution, each member has on average about $25,414 in deposits going to competing institutions.

CHAPTER 4
Driving Satisfaction versus Driving Rank

Understanding the elements that drive rank is useful for managers, but it requires gathering ratings for yourself and your competitors.

As noted earlier, credit union members are far more satisfied with their credit unions than they are with the banks with which they also conduct business. This holds true regardless of whether the credit union is relatively large or small, or whether the bank represents a large money center or a more traditional retail operation.[14]

The most important driver of satisfaction for credit unions with less than $1.5 billion (B) in assets is in-bank service. Similarly, for credit unions with more than $1.5B in assets, in-bank service is the second most important driver of satisfaction—resolution of complaints is the most important for members in this group.

In-bank service is not the most important driver of rank for credit union members, however. In fact, it does not even land among the top three drivers of being members' first choice for either small or large credit unions. As a result, efforts to improve service levels within the credit union are unlikely to result in major changes in members' share of deposits.

Figure 10: NPS for Banks and Credit Unions (by credit union members)

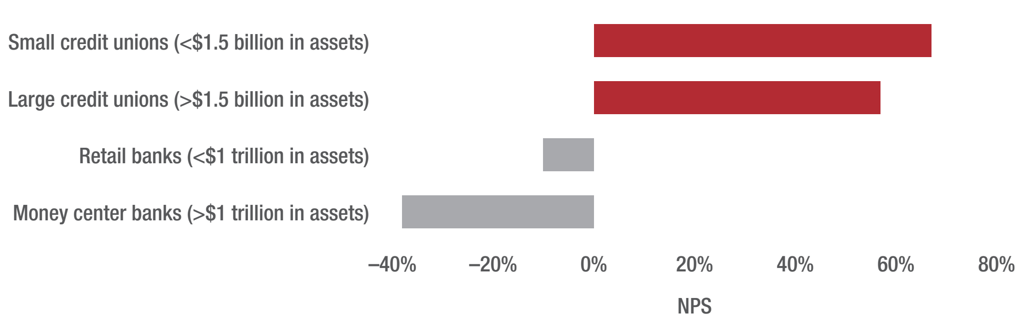
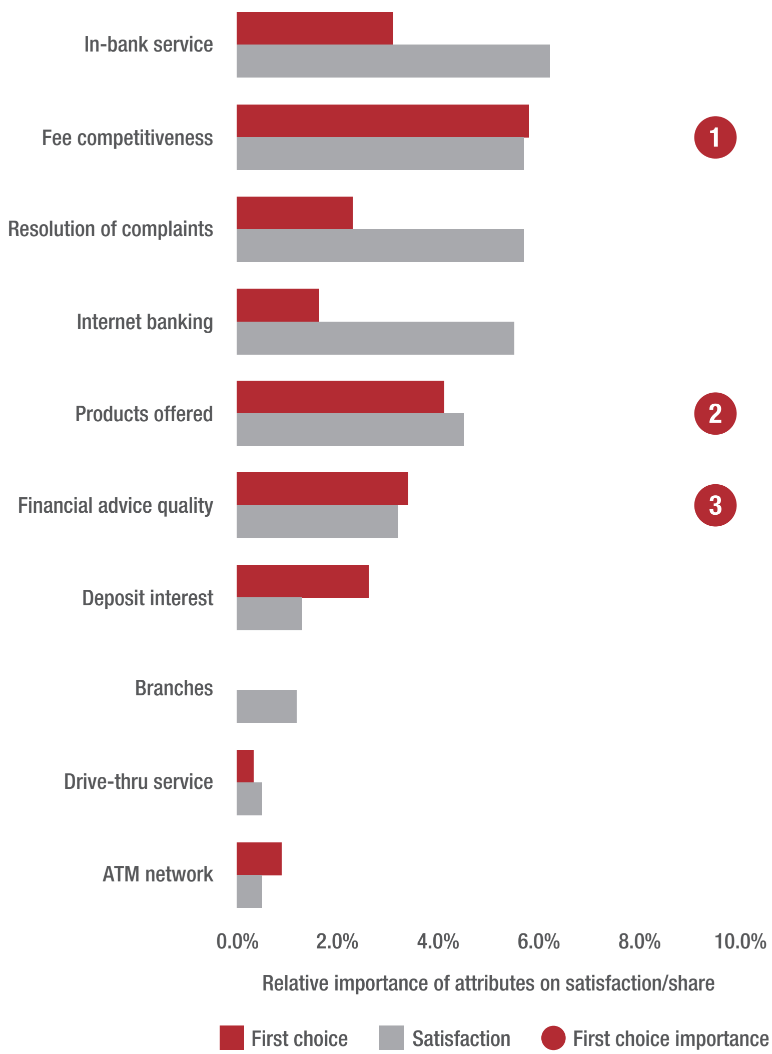
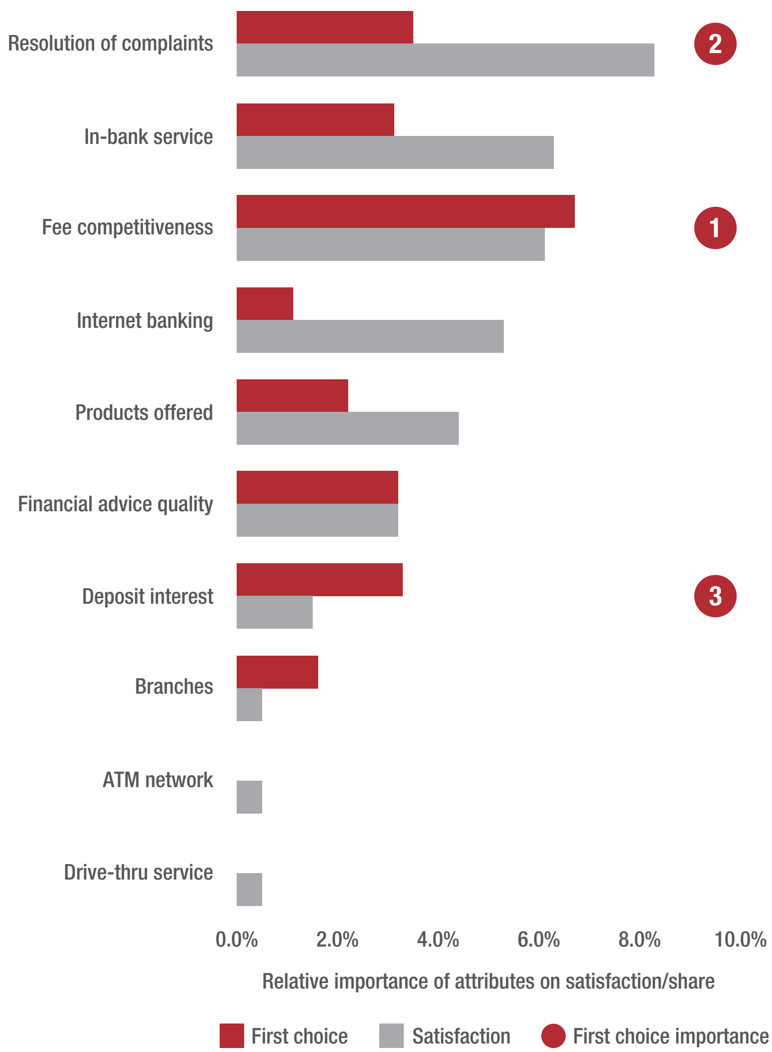


Figure 11: Drivers of First Choice vs. Drivers of Satisfaction for Small Credit Unions (<$1.5 billion in assets)



Rather, the most important reason for credit unions to be the first choice for members relative to the other financial institutions that they also use is the competitiveness of their fees. Fortunately for credit union managers, this is something on which their institutions typically perform much better than their bank competitors.

Figure 12: Drivers of First Choice vs. Drivers of Satisfaction for Large Credit Unions (>$1.5 billion in assets)



Unfortunately, this also means that there may be very little upside (or even opportunity) to reduce fees further.

As a result, for credit unions to gain shares from their bank competitors, they must first understand precisely why their members feel the need to use these institutions. This requires understanding both the drivers of rank for banks and the market factors that impact demand. Only then can credit unions adequately address members' total credit union/banking needs and thereby minimize their need to use competitors.

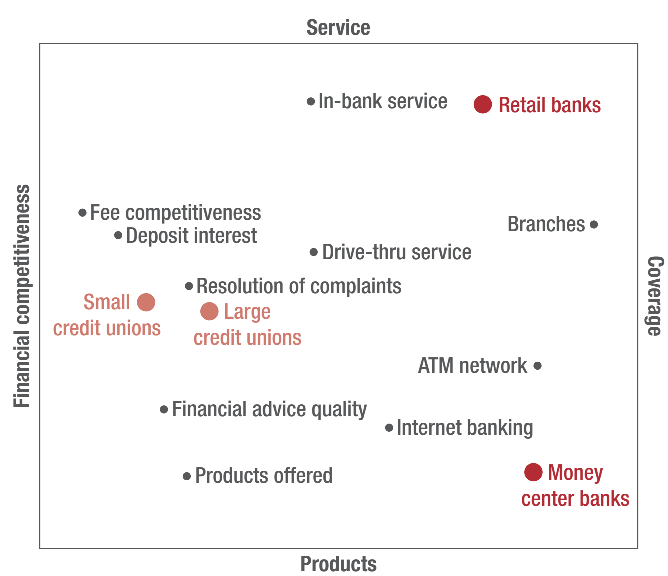
CHAPTER 5
Competitive Analytics for a Competitive Landscape

Understanding the competition leads to strategies for gaining deposit share. Money center banks, retail banks, large credit unions, and small credit unions all have different barriers.

Satisfaction (and Net Promoter) is always relative to competitive alternatives. Therefore, before embarking on any strategy to improve business outcomes through satisfaction, managers need to understand exactly where their firms' offerings fit within customers' total needs in the category.

Figure 13 is a map of how credit union members perceive the various financial institutions that they use. The four sides of the map—service, financial competitiveness, coverage, and products—indicate the overarching dimensions by which all financial institutions are categorized in the credit union members' minds. The subdimensions described inside the box and labeled with small bullets indicate specific attributes that are important in forming image perceptions of financial institutions. The closer the subdimension bullet is to the side of the square, the more indicative it is of that overarching dimension. For instance, the attributes "branches" and "ATM network" are close to the right side of the square, labeled "coverage." Thus, these attributes are seen as part of an overall dimension that can be labeled "coverage." Finally, small credit unions, large credit unions, retail banks, and money center banks are placed on the map in proximity to the attributes or subdimensions that credit union members use most strongly to describe these four categories of financial institutions. Not surprisingly, given what drives first choice for credit unions (discussed in Chapter 4), credit unions are seen as being more competitive on fees, complaint resolution, and deposit interest (and hence are closer to these attributes on the map). On the other hand, banks are seen by credit union members as being superior in providing

Figure 13: Importance of Attributes by Institution Type

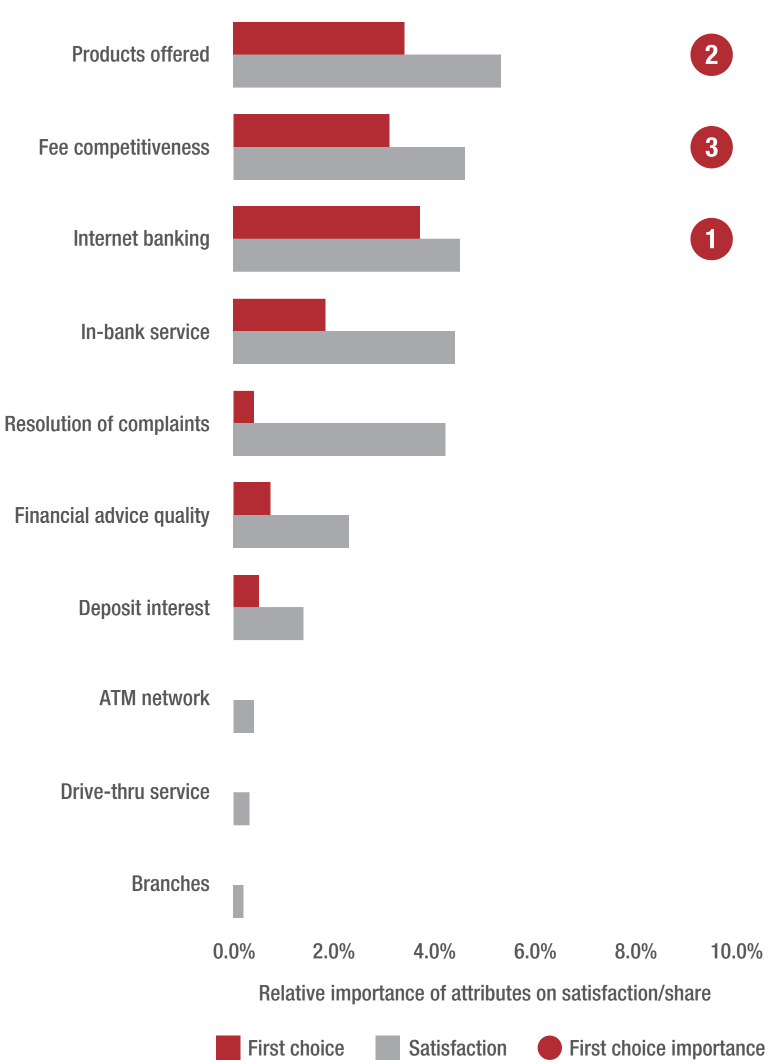


coverage through their branch and ATM networks and through Internet banking.

Interestingly, if you simply looked at the drivers of satisfaction for banks, you would find that in-bank service is very important. In fact, for money center banks, it is the most important driver of satisfaction. (It was similarly number one or two for credit unions depending on asset size.)

Looking at what drives rank for credit union members who also use banks, however, offers a very different picture. The number-one driver of first choice for these members is Internet banking, for both money center and retail banks. This is an area where credit unions are typically weaker than their larger bank competitors. If the goal is gaining members' share back from the banks that they also use, then it is an issue that should not be ignored.

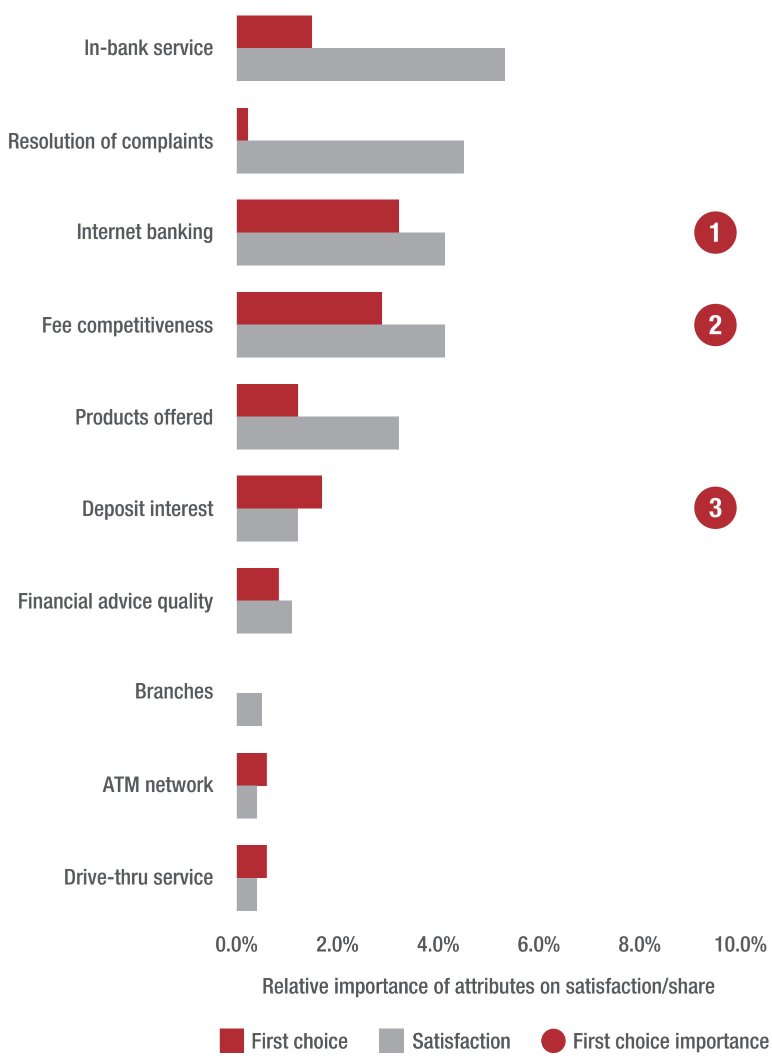
Figure 14: Drivers of First Choice vs. Drivers of Satisfaction for Retail Banks (<$1 trillion in assets)



Figures 14 and 15 show the relative importance of the various attributes investigated on changes in a brand's rank vis-à-vis competitors. When looking at the drivers, however, it is important to understand that linking these metrics to share of deposits (via the Wallet Allocation Rule) is driven by two things: (1) the relative ranking of the brand and (2) the number of competitors used by members. Thus, understanding precisely what will happen when focusing on a driver is not quite as simple as saying "improving my rank by X% results in Y."

As a result, managers need to work with their research partners to model how increases in rank and reductions in usage set work in tandem. This is because a credit union's improvement on key attributes would not only be expected to increase the share of deposits within a member's current usage

Figure 15: Drivers of First Choice vs. Drivers of Satisfaction for Money Center Banks (>$1 trillion in assets)



set but could also lead some members to discontinue using a competitor entirely.

In this investigation, the primary lever for increased share of deposits results from eliminating competitors from the usage set. For example, getting 10% of members who use multiple institutions to drop their lowest-rated institution increases the average share of their deposits by 1.5 points.

Figure 16: Barriers to Using More—Retail Banks (<$1 trillion in assets)

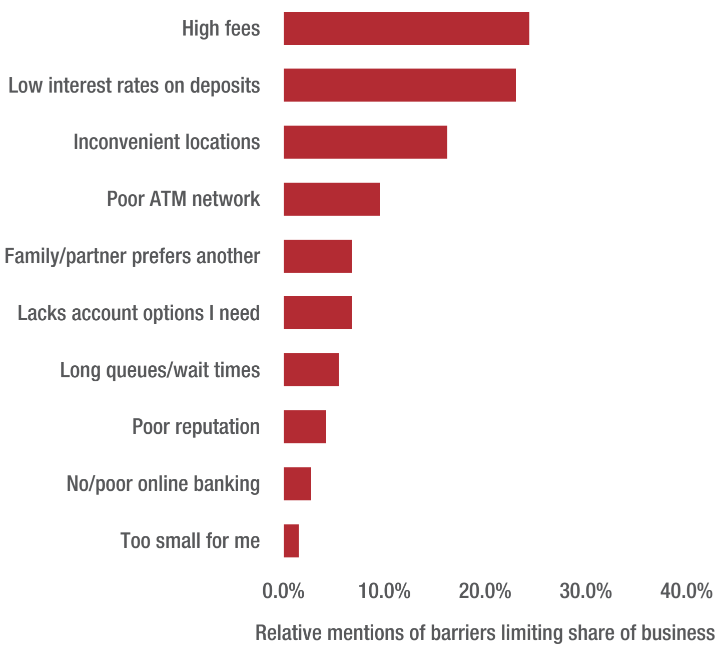
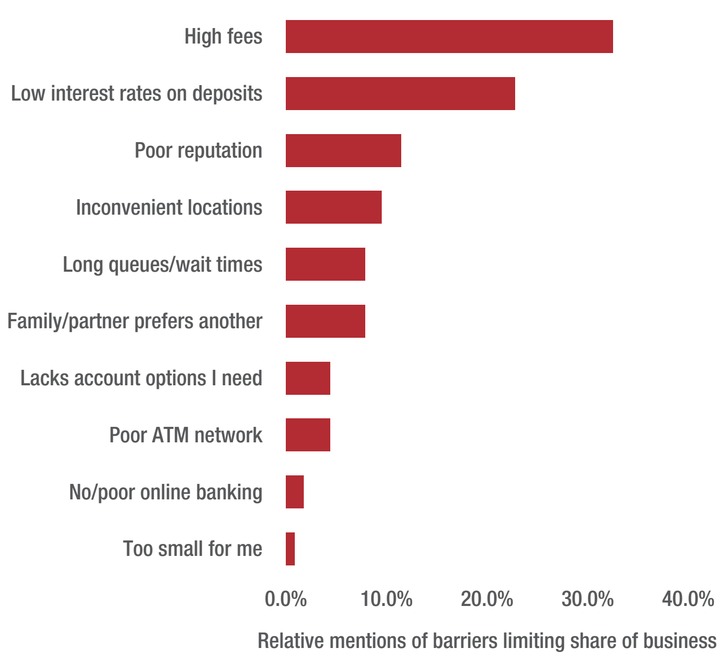


Figure 17: Barriers to Using More—Money Center Banks (>$1 trillion in assets)



Market Barriers

It is important for credit union managers to realize that there are market factors that influence members' deposit allocation decisions that are distinct from the drivers of satisfaction and first choice. These market barriers can dramatically impact members' willingness to do more business with their credit union.

For banks, the greatest barrier to their gaining greater share of credit union members' business is their relatively high fee structures. Credit unions have successfully exploited this weakness, which helps explain why fee competitiveness is the most important driver of credit unions being perceived as members' first choice.

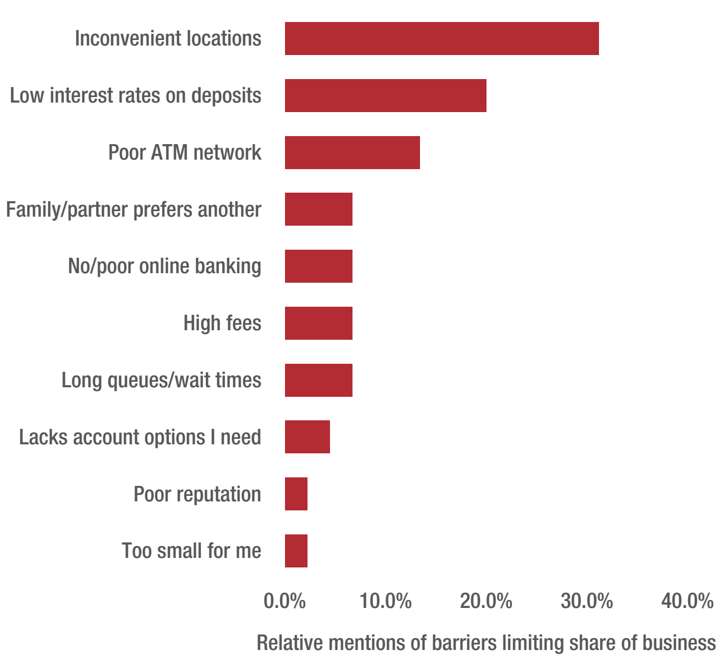
However, credit union managers must recognize that they, too, face their own equally difficult market barriers. The most pernicious barrier to greater share is the member perception that, in general, credit unions lack convenient locations and have relatively poor ATM networks.

This should not be taken as a call for credit unions to embark on a massive branch and ATM network development effort. It is first and foremost a reminder that no effort to improve the member experience will offset what members perceive to be real barriers to their ability to do more business with your credit union.

Addressing market barriers is often one of the most difficult tasks for managers—but that is precisely the job of management. Fortunately, technology can provide credit union managers with greater opportunities for minimizing the psychological barriers of convenience. In fact,

Figure 18: Barriers to Using More—Small Credit Unions (<$1.5 billion in assets)

Figure 19: Barriers to Using More—Large Credit Unions (>$1.5 billion in assets)



if addressed properly, this may very well dovetail with the most important driver of first choice for members with regard to their bank (as opposed to credit union) relationships: Internet banking.

Addressing these issues may require greater resources than is feasible, particularly for smaller credit unions, so credit union executives should unite in their call for the Credit Union Services Organizations (CUSOs) with which they conduct business to offer services and strategies that will directly address these structural barriers (e.g., branch locations, ATM networks) and Internet banking (the number one driver of first choice for banks by credit union members). By doing so, credit unions will truly be able to translate their substantially better member satisfaction into business results.

CHAPTER 6
Summary and Conclusions

Changing the focus of your metrics can improve your market share strategy. It's more useful to focus on competitive rankings than on absolute scores.

The current study provides further evidence that credit unions offer a superior member experience vis-à-vis their bank competitors. Credit unions have significantly higher satisfaction scores and NPSs than the bank competitors that members also use.

Unfortunately, this has not translated into increased share of deposits relative to banks. Credit unions hold less than 10% of bank deposits despite representing almost 30% of the US population.

Part of the problem is that satisfaction and Net Promoter levels are poor indicators of the share of deposits that members hold with their credit unions, explaining less than 10% of the variation in members' share of deposits. This is because it is not a member's absolute satisfaction score or NPS that matters. Instead, what matters is the relative rank that this score represents when compared with other financial institutions that members also use.

Examining satisfaction (or Net Promoter) data in this way via the Wallet Allocation Rule allows credit union managers to strongly link their member satisfaction data to the share of deposits that their members give to their credit unions. In this study, the Wallet Allocation Rule explains 55% of the variation in members' share of deposits.

Given that rank is superior to the absolute satisfaction score or NPS, credit union managers need to add a rank-based metric to the customer measures they track. To keep the metric simple while remaining aligned with the "rank matters" philosophy, it is recommended that credit union managers track the percentage of members who would classify the credit union as their exclusive first choice.

The good news for credit unions is that the exclusive first-choice score for members is 60%. The most important reason for members to select their credit union as their first choice is the competitive fee structures the institution offers. This differs significantly from the primary driver of satisfaction with credit unions, which is the in-bank service experience. As this makes clear, efforts designed to simply improve satisfaction are unlikely to drive changes in share of deposits.

The bad news for credit unions is that 65% of their members also use one or more competing financial institutions. (It is important to remember that the Wallet Allocation Rule focuses on both rank and the number of competitors that a member uses.) The opportunity cost associated with this is very high. As reported in this study, of those credit union depositors who use more than one financial institution, each member has on average about $25,414 in deposits going to competing institutions.

Members use competitors for different reasons than they use their credit unions. While an important driver of satisfaction for both credit unions and banks is in-bank service, the most important driver of rank for both money center and retail banks is Internet banking. This is an area where credit unions are generally viewed as being weaker than their bank competitors.

There are also market barriers that credit union managers need to recognize and address where possible. Two of the most prominent structural barriers will likely be no surprise to credit union managers: convenience of locations and ATM network. Nonetheless, until these are addressed, many credit union members will continue to feel the need to use a bank in addition to their credit union. As the Wallet Allocation Rule makes clear, the use of more institutions will dramatically lower the share of deposits available to credit unions.

Addressing the most important reasons that credit union members feel the need to use an additional financial institution may require greater resources than most credit unions can afford. Therefore, it may require that credit union executives call for the CUSOs with which they conduct business to work with them to provide strategies and services that will allow them to mitigate banks' advantages in these areas.

Credit unions have done a superb job in servicing their members. In fact, few industries can approach the level of satisfaction that credit unions enjoy (as demonstrated by credit unions receiving the highest satisfaction rating by the ACSI since its inception). Translating that satisfaction level into higher share of deposits, however, will require focusing not only on what credit unions currently do well, but also on mitigating banks' advantages in areas important to credit union members. Fortunately, this is doable. And the financial rewards for doing so are worth the effort.

Wallet Allocation Rule Quick Start Guide

What Is the Wallet Allocation Rule?

At its core, the Wallet Allocation Rule says that a customer's share of wallet is expected to equal one minus the inverse of a customer's rank of the firm/brand relative to the competitors the customer uses.

This simple formula would be all we need if all customers used exactly two firms/brands in a category. But since many customers use one or more than two, we need to weight this based on the number of firms/brands used to make them comparable. This weight equals two divided by the number of firms/brands used by a customer.

Mathematically, the formula we use to do this is:

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

The steps for using the Wallet Allocation Rule to predict share of wallet are:

1. Establish the firms/brands in a product category that customers use.
2. Ask an overall satisfaction/loyalty question to gauge performance for each firm/brand a customer uses.
3. Assign a performance rank for each firm/brand for each customer (i.e., the highest-rated firm/brand based on the overall satisfaction/loyalty question used would be ranked 1, the next highest 2, etc.).
4. Calculate a customer-level Wallet Allocation Score (i.e., the customer's predicted share of wallet) using the rank and number of brands used by the customer.
5. If firm- or brand-level scores are desired, simply average the Wallet Allocation Scores for each firm's/brand's customers.

The ramifications of the Wallet Allocation Rule are profound. Using this simple formula, managers can easily and strongly link their customer metrics with share of wallet. These findings also point to the need for a new approach for identifying opportunities designed to enhance the customer experience and share of wallet simultaneously.

Using the Wallet Allocation Rule Formula: A Simple Example

Don't let the math worry you. Using the Wallet Allocation Rule is a very simple process.

Figure 20 shows the satisfaction ratings for three financial institutions used by customers John, Jane, Mary, and Tom (1 = completely dissatisfied, 10 = completely satisfied).

Figure 21 shows the ranks of the three financial institutions based on the satisfaction scores provided by John, Jane, Mary, and Tom. In the case of a tie, as was the case for Tom with Brand Y and Brand Z, assign each a rank for the average of the two places they would have occupied had they not been tied. Brands not used are treated as missing and are not assigned a rank, as was the case for Jane with Brand Y.

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. For example, calculating John's share for Brand Z would be done as follows (see Figure 22).

Figure 20: Satisfaction Ratings for Three Financial Institutions

	Brand X	Brand Y	Brand Z
John	8	9	10
Jane	7	Not used	9
Mary	6	9	8
Tom	7	9	9

Figure 21: Ranking the Three Financial Institutions

	Brand X	Brand Y	Brand Z
John	3	2	1
Jane	2	—	1
Mary	3	1	2
Tom	3	1.5	1.5

Figure 22: Calculating Wallet Allocation

	Brand X	Brand Y	Brand Z
John	3	2	1

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

$$= \left(1 - \frac{1}{3 + 1}\right) \times \frac{2}{3}$$

$$= (1 - 0.25) \times 0.667$$

$$= 50\%$$

	Brand X	Brand Y	Brand Z
John	16.7%	33.3%	50.0%
Jane	33.3%	0.0%	66.7%
Mary	16.7%	50.0%	33.3%
Tom	16.7%	41.7%	41.7%

Wallet Allocation Rule Strategy

Several important strategic implications flow directly from the Wallet Allocation Rule. First and foremost, managers cannot evaluate their firms without taking the competition into account. While this seems obvious, the reality is that managers typically evaluate their performance on the basis of customer perceptions of their firm only. As a result, the target objectives used to evaluate and compensate managers are almost never based on changing the perceived rank of the firm vis-à-vis the competition. Rather, they are based on achieving a particular score for the firm.

It is rank, however, that actually matters! Every manager knows that it is better to be number one than number two. The Wallet Allocation Rule makes it very easy for managers to determine the financial implications of that. The difference between first and second is typically quite large. Making that jump can have a tremendous financial impact.

But the Wallet Allocation Rule also makes clear that it is not enough to be tied for first place. Parity hurts! There must be a reason for customers to prefer your firm. Otherwise, you evenly divide your customers' share of wallet with your closest competitors.

It is important to remember, however, that while rank is imperative, it isn't the only thing that matters. The number of competitors that your customers use has a significant impact on share of wallet. Being first in a field of three is much better than being first in a field of six. That's because every brand used by a customer gets some percentage of his or her wallet. So the more brands used, the lower the potential for everyone.

These strategic issues have practical implications for how we identify opportunities for improving share of wallet. The traditional approach for identifying opportunities can be thought of as trying to find the answer to "What can we do to make you happier?" Whether it is analyzing customers' open-end survey responses or deriving importance through statistical analysis, the focus is virtually always on improving satisfaction with what the firm/brand currently offers.

Performance, however, is relative to competitive alternatives. Obviously, improving satisfaction is important. This is primarily because, at some point, increases in satisfaction make a brand more attractive to customers relative to competitors. But that is not enough. Managers also need to understand exactly why customers use each of the brands that they do. Customers have legitimate reasons for using multiple brands in a category. Therefore, efforts designed to improve share of wallet that do not address precisely why your customers also use your competitors are doomed.

One of the most common reasons that customers use multiple brands is that they perceive there to be unique benefits associated with each brand used. For example, credit union and retail bank managers often find that customers use one institution because of lower fees and another because of better Internet banking services. Therefore, reducing fees further for the fee-differentiated institution is unlikely to be the best opportunity to improve share of deposits despite it being the strongest driver of its customers' satisfaction and loyalty—the competition is being used for another reason.

Another common reason that customers use multiple brands is structural barriers that distort demand. In other words, some market force causes people to buy something other than their preferred brand. The most common of these is a lack of access. The more difficult a brand is to find, the more likely it is to be substituted. So improving customers' experience with the brand will have little impact on share of wallet until the barriers to purchasing it are removed.

Managers can gather this information as part of the Wallet Allocation Rule survey process. This process doesn't have to be complex. It can be as simple as asking customers something like the following:

When choosing between brands, what tends to be the deciding factor in choosing one over the other?

I choose [Brand 1] when …

I choose [Brand 2] when …

With an understanding of why their customers use their brand as well as competitive brands, managers can identify what it really takes to be the first choice of their customers. And because the Wallet Allocation Rule is tied to share of wallet, managers can prioritize their efforts by their potential impact on future revenues.

Identifying Opportunities for Improving Share of Wallet

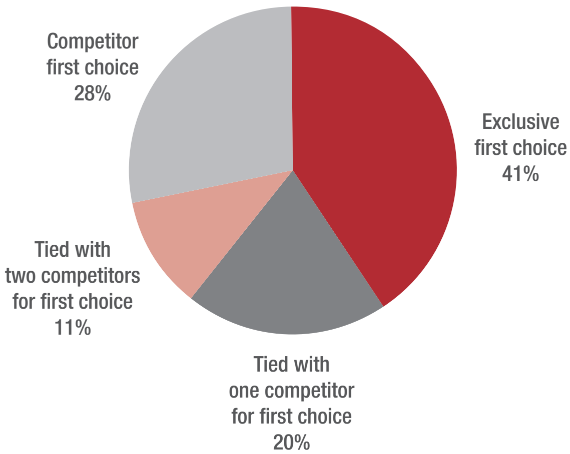
Traditionally, managers have focused on understanding the drivers of satisfaction with their brand. The problem has been that these models tend to ignore the competition and focus on changes in the absolute satisfaction score instead of shifts in the relative ranking of the brand vis-à-vis the competition. As a result, while satisfaction scores may improve by focusing on the drivers uncovered in these models, share of wallet tends to show very little improvement.

To understand what drives changes in share of wallet, managers need to shift their focus from the drivers of satisfaction to the drivers of rank. Clearly, managers should work with their research teams to develop statistical models for identifying these drivers.

But managers do not need to wait for complex statistical models to begin using the Wallet Allocation Rule to identify opportunities. That is because at its core, improving your brand's rank means minimizing the reasons your customers have to use competitors. Below is an easy-to-follow six-step process that managers can use right away:

1. Survey a statistically valid sample of your customers.
2. Use the Wallet Allocation Rule to establish the share of wallet for each competitor used by your customers.
3. Determine how many of your customers use each of the various competitors.
4. Calculate the revenue going to each competitor from your customers.
5. Identify the primary reasons your customers use your competitors.
6. Prioritize opportunities by estimating the cost to address the reasons a specific competitor is used by your customers versus the potential financial return. (Don't forget to consider the cumulative impact for issues that span multiple competitors.)

Figure 23: Percentage of My Members Who Consider the Credit Union Their First Choice



Figures 23–26 are a simplified example of some of the information that managers could use from a Wallet Allocation Rule approach to guide their strategy.

Managers first need to identify where they stand in the minds of their members. As the Wallet Allocation Rule uses ranks, it is recommended that credit union managers monitor the percentage of members who consider the credit union their exclusive first choice.

The Wallet Allocation Rule also uses the number of competitors used by members as a key component in the calculation of share. As a result, managers need to understand how and with whom members allocate their deposits.

Credit union managers can then use this information to calculate the share of deposits going to their credit union and to their competitors. The advantage of knowing share is that it is very easy to translate into dollars. To understand which competitors represent the greatest threat and the greatest opportunities, managers need to establish how much money is going to their competitors from their members.

The next step is to identify exactly what drives first choice not only for your credit union but also for your competitors. Members have a logical reason for using each institution that they do. Winning back share requires minimizing the reasons members have for using the competition.

Figure 24: Percentage of My Members Holding Deposits with Other Financial Institutions

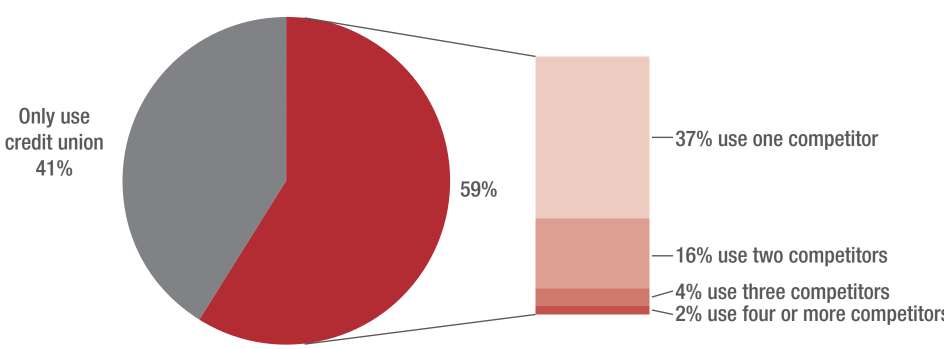


Figure 25: Total Deposits Going to the Competition from My Members ($ millions)

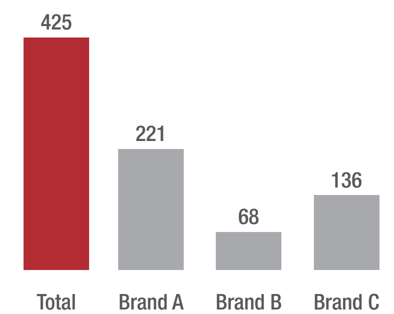
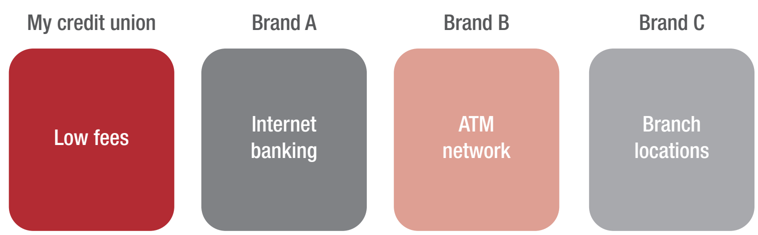


Figure 26: Primary Reason My Members Use My Credit Union and the Competition



In the case of Figure 26, first choice for the credit union is largely driven by its low fee structure. Competitors, however, are competing on different aspects of coverage: Internet banking, ATM network, and branch locations. One of the important things about examining the drivers of first choice in this way is that it quickly becomes clear which competitors are easier and which are more difficult to address in the short term. In this example, competing against Brand C will be more difficult in the short term as it requires that credit unions address the convenience of branch locations.

Knowing this allows managers to focus on their greatest near-term opportunities—in this case either Internet banking or ATM networks. Brand A, however, is doing a much better job of capturing members' share of deposits. As a result, managers should first consider the feasibility of addressing Brand A's point of competitive advantage.

Conclusion

The key to growth is improved share of wallet. While most managers instinctively know this to be true, the problem has always been how to do it. The Wallet Allocation Rule now makes it possible to understand what it really takes to be number one.

1. The formula for computing a correlation in Excel is =CORREL(*array1*, *array2*).
2. The formula for computing a squared correlation—i.e., R-square—in Excel is =CORREL(*array1*, *array2*)^2.
3. The discovery of the Wallet Allocation Rule was made by Timothy Keiningham, global chief strategy officer at Ipsos Loyalty; Lerzan Aksoy, associate professor of marketing at Fordham University; Alexander Buoye, senior vice president at Ipsos Loyalty; and Bruce Cooil, the Dean Samuel B. and Evelyn R. Richmond Professor of Management at Vanderbilt University's Owen Graduate School of Management.
4. Timothy L. Keiningham, Lerzan Aksoy, Alexander Buoye, and Bruce Cooil, "Customer Loyalty Isn't Enough. Grow Your Share of Wallet," *Harvard Business Review* 89 (October 2011): 29–31, hbr.org/2011/10/customer-loyalty-isnt-enough-grow-your-share-of-wallet/ar/1; The Market Research Event, "2011 Next Gen Market Research Disruptive Innovation Winners," www.themarketresearcheventblog.com/2011/11/live-from-tmre-2011-ngmr-2011.html.
5. "7 Billion: Are You Typical?—National Geographic Magazine," YouTube video, 2:56 posted by National Geographic, March 2, 2011, www.youtube.com/watch?v=4B2xOvKFFz4.
6. For example, Frederick F. Reichheld, "The One Number You Need to Grow," *Harvard Business Review* 81, no. 12 (December 2003): 46–54.
7. NetPromoter.com, "The Ultimate Question," www.netpromoter.com/why-net-promoter/the-ultimate-question/.
8. The ACSI, "Economic Indicator," www.theacsi.org/about-acsi/economic-indicator.
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10. *CUSP (Credit Union Strategy & Performance) Online*, 3rd Quarter 2010, p. 22, digital.turn-page.com/issue/24868/33; Mike Werstuik, "Benchmarking Deposit Share—A Look at the Trends and Leaders," CreditUnions.com, March 12, 2007, www.creditunions.com/benchmarking-deposit-share-a-look-at-the-trends-and-leaders/.
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12. Timothy L. Keiningham, Bruce Cooil, Lerzan Aksoy, Tor Wallin Andreassen, and Jay Weiner, "The Value of Different Customer Satisfaction and Loyalty Metrics in Predicting Customer Retention, Recommendation and Share of Wallet," *Managing Service Quality* 17, no. 4 (2007): 361–84.
13. Thomas O. Jones and W. Earl Sasser, Jr., "Why Satisfied Customers Defect," *Harvard Business Review* 73 (November–December 1995): 88–99.
14. For the purpose of this investigation, credit unions were divided into two groups on the basis of their asset size. Credit unions with less than $1.5 billion (B) in assets were labeled "small credit unions," while those with greater than $1.5B were labeled "large credit unions." Banks were similarly divided into two groups. Those with greater than $1 trillion in assets were labeled "money center banks," while those with less than $1 trillion were labeled "retail banks."

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