Size of wallet

Introduction

The **size of wallet** is one of the important **Customer Value Metrics** belonging to the field of **Customer Relationship Management** (CRM).

Definition

The wallet of a customer can be defined as: “The total amount of money a customer can spend on a certain product category”\(^1\). It is a very important piece of information in terms of planning marketing and sales activities. The wallet of a customer is separated into different shares of wallet (also see **Individual Share of Wallet (ISW)** and **Aggregate Share of Wallet (ASW)**). Obviously every company wants to gain the biggest share of wallet from customers.

Challenge

The difficult part of knowing the size of wallet is, that most of the companies don't have any external (i.e. outside their own company) information of the customer's buying behavior. It is fairly easy to know how much money a customer spends by buying your products. But it is very difficult to guess or estimate which amount of money the customer spends while buying at competitors.

Addressing the problem from a marketing point of view shows that a customer's share of wallet can be huge but the size of wallet is small. On the other hand the share of wallet can be small but the size of wallet can be huge. The two situations obviously require different marketing and sales strategies.

Why?

Main idea of a company is to make profit and grow. Growth is possible either by:

- selling more to their existing customers or
- gaining new customers.

Since gaining new customers is very expensive, they are trying to sell more their existing customers. If a company doesn't want to launch a new product, it has to increase the spend of customers who are not giving the company their full share of wallet. \(^2\)

Further Links

http://forteconsultancy.wordpress.com/2010/12/30/know-each-customers-share-of-wallet-understandi
1) Saharon Rosset et al.: Wallet estimation models. Predictive Modeling Group IBM. T. J. Watson Research Center Yorktown Heights, NY. online

2) Forte Consultancy Group