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Editorial comment

Invited Commentary – Loyalty in a hyper-competitive world

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The Latin root of the word competition means to "conspire together"—the act of conspiring (i.e. pushing each other to reach higher limits). Thus competition was considered an essential component of a firm's success. A firm's success was essentially dependent on its ability to attract and retain customers. In other words, success required fostering customer loyalty to the firm or brand.

The idea of loyalty in today's ever-changing market place, however, has become an elusive concept primarily because customers seldom assign their allegiance towards a single firm's products or services (monogamous loyalty). Rather, they use multiple firms to fulfil their product/service needs (polygamous loyalty). Thus, as a strategy, the traditional monogamous view of customer loyalty has become less reliable.

The changing demography and the growing influence of Generation Y customers has only exacerbated the customer loyalty challenge. Generation Y customers, strong in both number and affluence, represent the largest population of young people in US history (Bolton et al., 2013). Deloitte (2010) reports that Generation Y boasts a collective income of over $1.89 trillion and their cumulative earnings are projected to increase by 85% within the next 10 years, surpassing those of their Baby-Boomer parents by as much as $500 billion. More importantly, researchers have found that Generation Y exhibit less loyalty to a firm or brand, but are strongly influenced by their networks of friends. This would imply that traditional strategies that are aimed at securing customer monogamous loyalty are even less likely to meet with success.

Of course, that does not mean that consumers do not feel loyalty towards the brands they use. It means that they do not feel exclusive loyalty towards them. As such, the concept of share of wallet provides a solution to this dilemma by highlighting the importance of customers' purchase patterns (i.e. how customers divide their purchases across competing firms) and the strategies a firm could adopt to increase its share of customers' total purchases in the category. The endeavor to improve share of wallet should have a greater financial impact on the company than would a mere focus on customer retention and loyalty. In support of this assertion, McKinsey & Co. report that improving customers' share of wallet and customer retention can produce ten times more value for a company than focusing on customer retention alone (Coyles & Gokey, 2005).

The problem with a focus on share of wallet, however, has been the very weak relationship between the metrics firms use to gauge and improve customer loyalty (e.g. satisfaction, recommend intention, etc.) and customers' share of category spending (aka share of wallet). This problem, however, is solvable by placing these metrics in the competitive context that consumers actually make their purchasing decisions. While we have only begun to scratch the surface on the potential of relative metrics, the research of Keiningham, Buoye, and Ball demonstrates remarkable improvements in linking "relative" measures of customer satisfaction to share of wallet over traditional absolute methods. As a result, researchers can now get a much clearer picture of why customers divide their spending among competing brands, and managers can make better strategic decisions as to what they need to do to gain a greater share of their customers' wallets.

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