

Wallet Estimation Analysis

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1. Introduction

The total amount a customer can spend on a certain product category is an essential factor when planning customer management models. This amount is usually referred to as the "customer's wallet estimation" or the "opportunity" for that specific product category. This article will review the marketing advantages of accurate wallet estimations, while detailing the alternatives available for this process.

There are several uses for wallet estimations:

- Focusing all marketing efforts on customers with large wallets
- Allocating special sales resources towards customers with large wallets
- Combining wallet estimation with high purchase probability
- And more.

Wallet estimation is particularly essential to companies whose customers shop regularly in their stores, companies that are rapidly expanding, companies that have acquired others that bring with them additional market shares, and generally when sales are growing in the specific industry. All of these companies need to know their market share with the customers, in order to identify and focus on the growth potentials.

In order to identify where the customer spends a considerably low portion of his expenses in that category on the company's products, customer wallet estimation should include that customer's total expenditure on company's products within that category, and segmentation should be conducted on the different customer categories. This way, the company can reveal whether an entire sector of large wallet customers is being properly targeted by the company, or if it is owned by its competitors. Additionally, the analysis can include a prediction of long term wallet estimation utilization by the company, thus identifying the customers who are "increasing" the ratio of their expenses on the company out of their overall wallet estimation, and those who are "reducing" it.

In the past, the classic approach, "The customer's life span", has generated significant revenues to companies. This approach disregards "large wallet" customers, and focuses on customers with a small wallet estimations, considering them to have the highest potential of generation revenues for the company.

Wallet estimation is equally important in order to identify partial churn or quiet weariness, which takes place when customers spend more in a certain product category, without increasing the total sum spent on company products.

2. Customer Wallet Estimation

There are two approaches of estimating customer wallets:

1. Top to bottom: in order to calculate the customer's wallet, we begin by generally estimating the sum of industry opportunities in a given country, and divide the estimation by the number of customers, according to an assessment based on the customer's characteristics. For instance, if the customers are companies, the opportunities can be relatively distributed between the companies based on the number of their employees.
2. Bottom to top: Straightforward customer wallet estimation, based on an assessment or on prediction models, according to the customer information. The first stage is a random sampling of the customers/potential customers, using a primary research (a survey where sample customers report their wallet size). The second stage is the development of a model to estimate customer wallet for the rest of the customers/potential customers.

3. Challenges

Designing a wallet estimation model ("bottom to top") holds a few challenges:

1. Minimizing the initial research (survey) factor, due to its high costs, questionable reliability and general relevance only to the overall wallet estimation.
2. Examining model validity, though customer wallet is usually an unknown for most customers.
3. Determining wallet estimation: the total amount spent by the customer on that product category and in general, in comparison to his expenditure on all of that company's products.

The final model should perform several evaluations, considering the general data about the companies. The resource for this data can be Dun & Bradstreet, which registers information about all the companies in the US and the world:

- Information about company size: revenues and number of employees, long term trends.

- Different levels of industrial classification: type of industry, the industry, the industry niche, etc.
- Company location: city, state, country, continent.
- Company structure: legal status, position in the corporate hierarchy (headquarters, affiliates), etc.
- Additional resources for private customers are socio-economic data provided by the states or by companies that have survey data about many of the households in that country.

All of this data will, of course, be supported by the information about all of the company's transactions, according to product category.

4. Conclusion

- Wallet estimation has great potential, however there are hardly any studies in the matter.
- The difficulty in estimating customer wallet stems mostly from the lack of reliable data about the customer's purchasing potential in the company, as well as the lack of clear validation of the actual measurements.
- Using external data and educated estimations, a reliable estimation of customer wallet can be easily achieved.
- Wallet estimation combined with the calculation of the chances of a customer's purchase enable effective planning of marketing and sales efforts.

About Synergy

Synergy is a consulting company specializing in information based customer management, assisting organizations to maximize the business potential of their end customers, while providing them with tools of improving their marketing, service and retention activities.

Synergy's solutions revolve around customer management, and include Analytical CRM, Operational CRM, Loyalty and Web solutions, as well as Marketing Resource Management solutions.

Synergy Advanced Analytics Division perfects the business consulting services of Synergy, and adds another layer of insights and analytical tools to support the company's already thriving activities. In addition to the division's activities, **Synergy** established an **Advisory Board** which functions as a consulting panel, with the objective of bridging between the business and technological knowledge. Panel members are leading statisticians in the international business and academic arenas, and their professional support is an integral element in the division's activities.

Synergy was established in 2003 and operates from Israel, the UK and Poland, working with local and international organizations. Among our customers are the foremost industry leaders in the Israeli and international markets, in industries such as communications, finance and retail, among which are banks, credit card companies, insurance companies, mobile operators, internet service providers, international call providers and television networks, as well as large membership clubs in the food, fashion and aviation industries.

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