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# Competitive context is everything: Moving from absolute to relative metrics

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ABSTRACT

This research informs management theory and practice concerning the efficacy of utilizing relative metrics to link consumer perceptions and attitudes and to share of wallet. The article starts with a brief discussion of the theoretical foundations for a shift from absolute to relative metrics. We then compare and contrast absolute satisfaction and relative "ranked" satisfaction data from 1714 consumers from nine countries in a banking context and report preliminary insights from a small-scale qualitative study. The results conclusively demonstrate the superiority of relative ranked satisfaction to absolute satisfaction measures in this context and, for the first time, point to statistically significant country-specific effects when linking relative satisfaction to share of wallet. We also discuss how researchers and managers might use perceptual and attitudinal metrics if the goal is linkage to customers' buying behaviors.



Scientific researchers specialize in examining data, identifying patterns, and developing models to predict outcomes. Moreover, accessibility to data regarding consumer behaviors has grown significantly, as has the ability to identify patterns to guide management decision-making. The result has been an increased emphasis on data analytics, and a significant decline in market research in many organizations (Knowledge@Wharton, 2014).

The ability to build better predictive models is clearly a good thing. But analyzing behavioral data alone lacks a key ingredient in terms of creating and implementing great strategy: an understanding of why. To quote Wharton Marketing Professor Eric T. Bradlow, "Can you possibly predict what people are going to do? Yes, you can. However, the science of psychology – why people are doing what they are doing – in traditional marketing research provides a great complement to what can be measured" (Knowledge@Wharton, 2014).

The problem for researchers has been an inability to strongly link customers' perceptions and attitudes to their actual buying behaviors. Models that use behavioral data frequently demonstrate much stronger linkages to customers' future spending behaviors than models that are reliant on perceptions and attitudes alone. Consequently, many managers have taken a "watch what customers do, not what they say" approach.

Unfortunately, this approach typically lacks the competitive context necessary to make well-informed strategic decisions. This is because companies tend to have good information on customers' buying behaviors with their firms, but almost no information about their buying behaviors with competitors, which often leads to erroneous assessments regarding customers. For example, managers often believe that their best customers (in terms of spending) do most of their category spending with their firm. However, a study by McKinsey found that a firm's high-spending customers often spend a great deal with competitors as well (Cameron, 2014). McKinsey recommended two major changes in this regard: (1) measure share of spend, and (2) discover why customers use the competition.

The problem with implementing these recommendations, from a practical perspective, is that the perceptual and attitudinal metrics that managers track to measure and manage customer loyalty do a terrible job of linking to share of wallet (Hofmeyr, Goodall, Bongers, & Holtzman, 2008; Keiningham, Gupta, Aksoy, & Buoye, 2014). Without this linkage, it is very difficult to identify correctly what managers must do to reduce customers' perceived needs to use the competition (Keiningham, Aksoy, Williams, & Buoye, 2015).

However, recent research has found that the primary problem with linking customer perceptions and attitudes to share of wallet is not with the metrics themselves, but rather in the way these

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metrics are measured and analyzed. Specifically, it is not the absolute level of these metrics that is of primary importance; rather, these metrics need to be put into a competitive context so that they reflect a firm's or brand's relative position vis-à-vis competitive alternatives. For example, studies have shown that relative "ranked" satisfaction levels are much more strongly correlated to share of wallet than are absolute satisfaction levels (that is, the numerical value associated with customers' satisfaction levels) (e.g., Hofmeyr et al., 2008; Keiningham, Cooil, Malthouse, et al., 2015). Other studies have shown that relative consumer commitment (affective, normative, and calculative) levels are much more strongly linked to share of wallet than are absolute commitment levels (Keiningham, Cooil, Aksoy, Buoye, & Kandampully, 2015).

The goal of the present study is to spur change in current management practice and academic research with regard to the measurement and management of consumers' perceptions and attitudes. We argue that researchers need to shift from using absolute ratings to relative metrics (that is, the focal brand in comparison with competitive alternatives) when linking to customer spending behavior. We briefly discuss the theoretical foundation for a shift to relative metrics and provide empirical support by examining data from 1714 consumers from nine countries regarding their satisfaction with their banking relationships in order to compare and contrast a relative metrics approach with the traditional approach using absolute satisfaction levels. We also include insights from a preliminary, small-scale qualitative study designed to better understand consumer perceptions of relative metrics in their day-to-day purchase experience. The results of this investigation demonstrate the superiority of relative metrics to absolute metrics in linking to share of wallet.

## Relative thinking

Comparisons are fundamental to consumers' decisions to use a firm or brand and to their post-purchase evaluations (Rust, Danaher, & Varki, 2000; for a review of the psychology of relative thinking in consumer decision-making, see Keiningham et al., 2014). In fact, the field of economics is often described as the study of scarcity and choice (Backhouse & Medema, 2009; Robbins, 1932). Although the question or whether individuals make *rational* choices has been the subject of considerable debate (e.g., Hollis & Nell, 1975), economics is nonetheless a field that examines the impact of individuals' comparisons of alternatives and their ultimate choices. This idea has reached even greater prominence with the advent of behavioral economics (Kahneman, Slovic, & Tversky, 1982). Comparisons are a core proposition of prospect theory (Kahneman & Tversky, 1979); specifically, the evaluation of an alternative is relative to a reference point.

Moreover, the need for choice is important to our sense of identity and individualism (Markus & Kitayama, 1991). Therefore, it is not surprising that that this need carries over to our consumption experiences. In fact, the inability to choose between alternatives – referred to as "forced commitment" – tends to result in significantly lower satisfaction levels and increased customer intentions to defect, even if there are few or no alternatives (Keiningham, Frennea, Aksoy, Buoye, & Mittal, 2015).

Despite widespread agreement that relative thinking strongly influences consumer decision-making, managers and researchers overwhelmingly rely on absolute metrics, which can be misleading.

Managers tend to view particular scoring thresholds as being either "good" or "bad" scores. For example, many firms have adopted the Net Promoter Score (NPS) to gauge customers' loyalty to their firms (Reichheld, 2003). The NPS classifies customers into one of three categories based upon their responses to a recommend likelihood question measured on a scale from 0 to 10. Customers who rate their likelihood of recommending at between 0 and 6 are classified as "Detractors," from 7 to 8 as "Passives," and from 9 to 10 as "Promoters." The goal of this approach is to have customers rate their recommend likelihood as 9 or 10.

While the simplicity of such a classification system makes it easy for managers to understand and communicate within their organizations, these groupings convey a false rating level equivalence across customers. First, customers do not behave uniformly simply because they assign the same rating level. For example, in the case of NPS, being classified as a Promoter does not equate to recommending the brand. Kumar, Petersen, and Leone (2007) clearly demonstrated that most customers who indicate that they will refer a brand do not actually do so. Second, demographic and cultural characteristics impact how customers respond to survey-based rating scales (e.g., Iacobucci, Grisaffe, Duhachek, & Marcati, 2003; van Herk, Poortinga, & Verhallen, 2004). For example, research has found that Chinese and Japanese respondents are more likely to use the mid-points of a scale, whereas USA respondents are more likely to use the extremes (Chen, Lee, & Stevenson, 1995). Third, different respondents do not interpret scores or scale-labels in a uniform manner. For example, an "8" (where 10 is the maximum) may correspond to very good performance for some respondents and may only correspond to an average level of performance for others.

## Relative thinking in a financial services context

Because this investigation examines retail financial services, we conducted a small-scale qualitative study designed to elicit preliminary insights into the customer experience of relative decision-making regarding customers' selection and usage of different financial institutions.

Using the United States banking context, we conducted telephone interviews with a convenience sample of 10 participants: five women and five men aged 22–58, all of whom do business with more than one financial institution. After the participants had shared the names of the institutions they deal with and briefly described when and why they originally chose them, participants were prompted to reflect on how and why they chose, used, and remained with more than one financial institution. Follow-up questions related to when and why participants used each of the institutions and what competing financial institutions could do to make participants choose them more often elicited rich data in the form of stories and anecdotes; these were coded following Batra, Ahuvia, and Bagozzi (2012).

Using an iterative process guided by theory (Spiggle, 1994), our analysis of verbatim interview transcripts elicited insights into how customers perceive and characterize their banking experiences. Not surprisingly, customers cited convenience, customer service, rates/fees, and significant life changes (such as marriage, having children, attending college, or moving) and recommendations from family or friends as primary reasons for choosing their banking institutions. Examination of relative choice, however, unearthed some additional reasons for engaging more than one financial institution. Table 1 presents the results of this analysis.

The results of this qualitative investigation lend support to our overarching argument that relative thinking impacts consumers' purchasing behaviors. Moreover, this thinking extends to customers' selection of their financial institutions, and customers' allocation of their money held by these institutions.

## Relative metrics

A number of researchers have noted that relative metrics would be preferable to absolute metrics in terms of linking to customers'