

CHAPTER ONE

Dispelling the Myths

This book is based on the premise that organisations succeed by *doing best what matters most to customers*. Human beings seek pleasurable experiences and avoid painful ones, so tend to return to companies that meet or exceed their requirements whilst shunning organisations that fail to meet them. These self-evident truths are most easily described by the phrase ‘customer satisfaction and loyalty’. Customers whose needs are met or exceeded by an organisation form favourable attitudes about it. Since people’s attitudes drive their future behaviours, highly satisfied customers usually display loyal behaviours such as staying with the company longer, buying more and recommending it – all of which are highly profitable to the company concerned. This book is about how organisations can accurately monitor customers’ attitudes (satisfaction) in order to make decisions that will drive favourable customer behaviours (loyalty), thus making them more profitable – a concept that is simple as well as sensible. In recent years, however, there have been many attempts to complicate this process leading to confusion, doubt and many myths about organisations’ relationship with their customers; an unfortunate state of affairs that we intend to address in this first chapter.

At a glance

In this chapter we will examine the 6 main myths about measuring customer satisfaction:

- a) Customer satisfaction is old hat. It’s all about wowing the customer.
- b) Only loyalty matters.
- c) Improving customer satisfaction and loyalty is difficult.
- d) Surveys don’t work.
- e) Consulting customers isn’t the only way of monitoring customer satisfaction.
- f) Surveys reduce customer satisfaction and loyalty.

1.1 Customer satisfaction is a limited concept

This book is about how organisations succeed by putting customers at the top of their agenda. From the 1980s in America and by the 1990s in most other countries, customer satisfaction was rarely challenged as a key organisational goal. In more recent years however, a growing industry has developed around modifications or

enhancements to the concept of customer satisfaction spawning a multitude of words and phrases to describe it. The list is endless, but amongst the most common are customer loyalty, the customer relationship, the customer experience, customer focus, customer delight, wowing the customer, the loyalty effect, customer retention, the advocacy ladder, emotional attachment, service quality, service recovery, zero defections, customer win-back and the list goes on. Needless to say, people get very passionate about defending their own little set of words, but they're all just semantics. They're just different words that describe the same phenomenon – the attitudes or feelings that customers form based on their experiences with an organisation. Satisfaction is a convenient generic word to summarise all these attitudes and feelings.

We're in favour of anything that makes things better for customers. We think it's fantastic if organisations can delight their customers and even better if they can make customers feel some kind of emotional attachment to them. However, those feelings are no more than descriptors for the type of attitudes customers hold at the highest levels of satisfaction, just as disgust could describe extreme dissatisfaction and indifference the mid-range of the satisfaction spectrum.

KEY POINT

The word “satisfaction” is the most appropriate label for the range of attitudes and feelings that customers hold about their experiences with an organisation.

1.2 Only loyalty matters

Whatever you call these customer attitudes, they are massively important to all organisations since they determine customers' future behaviours. Collectively known as loyalty, it is the behaviours rather than the attitudes that really interest companies. The best concise description of what loyalty is and why it's so important is provided by Harvard Business School. They call it the 3Rs¹.

FIGURE 1.1 The 3Rs of customer loyalty

- **R**etention
 - **R**elated sales
 - **R**eferrals
-

The 3Rs are customer behaviours – staying longer, choosing to use more of the products or services supplied by an organisation and recommending it to others. For example, Starbucks discovered that a 'highly satisfied' customer spent an average of £4.42 per visit and made an average of 7.2 visits per month. By contrast an 'unsatisfied' customer spent £3.88 and visited 3.9 times per month². Over one year,

that's £381 compared with £181. See Chapter 14 for details on how Starbucks related these satisfaction attitudes and loyalty behaviours to the customer experience. There is conclusive evidence that loyalty behaviours such as these contribute hugely to corporate profitability. This is because a customer's value to a business typically increases over time, (known as customer lifetime value). One-off, transient customers are typically a cost, whereas loyal, long-standing customers become highly profitable. The evidence for the profitability of loyal customers is fully explained and referenced in Chapter 2 of this book.

Since these customer behaviours have such an obvious direct link with organisations' financial performance it has prompted some commentators to question the value of customer satisfaction, using phrases like 'the satisfaction trap'³. Some argue that since loyalty has a financial value, companies should focus all their efforts and resources on building customer loyalty^{4,5}. Following the same logic, the fact that satisfaction per se has no financial value would suggest that monitoring it is a pointless waste of resources, customer loyalty being the 'true measure'⁶. The fact that several companies including Xerox⁷, GM⁸ and Forum⁹ reported that satisfied customers do defect seemed to further devalue the whole concept of customer satisfaction, especially when Frederick Reichheld claimed in Harvard Business Review that 65% to 85% of customers that switched supplier were satisfied with their previous one¹⁰. This has prompted other authors to make claims such as "*one thing is certain: current customer satisfaction measurement systems cannot be used as a reliable predictor of repeat purchase*"⁶ or "*it is impossible to accurately forecast customer retention rates from levels of customer satisfaction*"¹¹.

In reality, most customer experts now recognise such views as superficial, simply displaying a very poor understanding of how the relationship between organisations and their customers actually works. As Johnson and Gustafsson¹² of Michigan University point out, "*to argue that quality or satisfaction or loyalty is what matters misses the point. These factors form a chain of cause and effect, building on each other so they cannot be treated separately. They represent a system that must be measured and managed as a whole if you want to maximize results.*"

There are 4 key reasons why effectively monitoring customer satisfaction provides essential management information for organisations to optimise the benefits of their relationship with customers:

1.2.1 Attitudes precede behaviours

Whether we call them satisfaction, delight, emotional attachment or the latest conference buzzword, the attitudes customers hold about an organisation determine their future behaviour towards it. Measuring customer satisfaction is therefore the main lead indicator of future customer behaviours, which, in turn, will determine company profitability.

FIGURE 1.2 Attitudes and behaviours

CSM customer satisfaction measurement is totally focused on the first oval in Figure 1.2 – measuring customers’ attitudes about how satisfied they feel with the organisation. As lead indicators, customers’ attitudes provide by far the most useful data for managing organisational performance. Of course, customers’ behaviours, especially their loyalty behaviours, are extremely important to companies, but they have already happened. By the time a customer has defected or chosen an alternative supplier for a related product or service, the opportunities have been missed. That is not to say that customer behaviours should not be monitored. Information such as customer defection rates, average spend and complaints are all extremely useful measures of organisational performance, (and will be covered in Section 1.5) but they reflect what has already happened in the past and do not tell you how to improve on that. Providing information on how to improve in the future is the main purpose of customer satisfaction measurement.

KEY POINT

Customer satisfaction is a lead indicator that predicts future customer behaviours.

1.2.2 How satisfaction affects loyalty

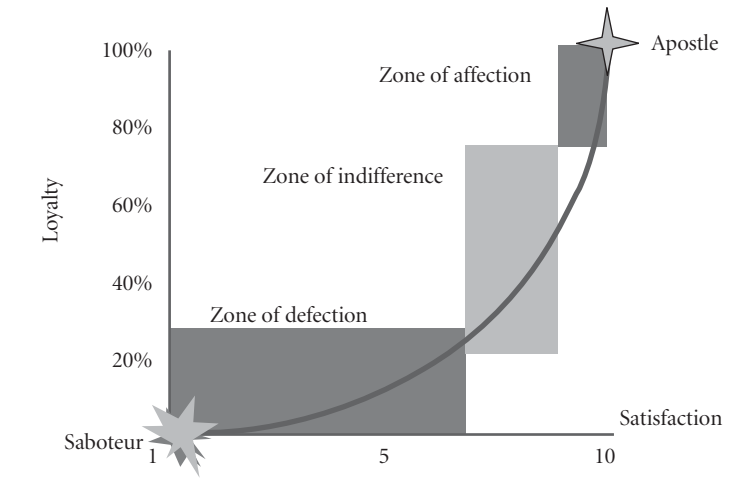
Understanding the difference between customers’ attitudes and behaviours, and how the relationship between them works, is crucial for managers involved in any aspect of customer management. Whilst it is broadly true to say that satisfied customers will be more loyal than dissatisfied ones, so customer satisfaction must be important, that is almost as simplistic as concluding that customer satisfaction can’t be important because some satisfied customers defect. In the real world, there are different levels of customer satisfaction and these can affect companies in widely differing ways.

In the 21st century, virtually all organisations perform sufficiently well to deliver a reasonable level of customer satisfaction; at least in markets where customers have choice and can switch suppliers with relative ease. Few perform badly enough to dissatisfy a significant proportion of their customer base. That may be progress compared with two or three decades ago, but customers’ expectations have also risen since then. In most markets suppliers need to do much more than not dissatisfy customers if they want to maximise the benefits of customer satisfaction. As Harvard point out, the zone of indifference just isn’t good enough¹.

Why would customers in the zone of indifference stay with a supplier other than

through inertia? Why would they buy an additional product or service or recommend the business? They wouldn't. These days most customers think they can do better than 'OK', 'average' or 'good enough'. To keep customers, suppliers have to deliver such great results that rational people will conclude that it would be difficult to do better elsewhere.

FIGURE 1.3 Satisfaction - Loyalty relationship



KEY POINT

Satisfaction is the main driver of loyalty, but 'mere satisfaction' is not enough. Customers have to be highly satisfied.

According to Jones and Sasser, most organisations don't understand the extent to which 'very satisfied' is more valuable than 'satisfied'⁷. Some managers with a poor understanding of the satisfaction-loyalty relationship, have expressed surprise when they have discovered that satisfied customers are not always loyal – using it as evidence that investing in good customer service is pointless. Perhaps if they had monitored the percentage of their customers that were in the 'zone of indifference' they would have been less surprised. Building on the Harvard work of Heskett, Schlesinger, Sasser, Jones¹⁷ and others, Keiningham and Vavra¹³ coined the phrase 'mere satisfaction' to emphasise the extent to which merely satisfying customers isn't enough for today's demanding consumers. To realise the full benefits of customer satisfaction, managers must understand the difference between *making more customers satisfied* and *making customers more satisfied*. This remains a widespread problem as evidenced by the frequent use of verbal rating scales and simple single question headline measures of overall satisfaction. (See Chapters 8 and 11). In reality, there is no universally applicable curve that reflects the relationship between

customer satisfaction and loyalty. Figure 1.3 merely illustrates the concept. In Chapter 14 we will explain how a company can identify its own satisfaction-loyalty curve in order to make the best decisions about how to manage customers for optimum loyalty.

1.2.3 Satisfaction is the main driver of loyalty

So whilst it is true that satisfaction is not an end in itself and that ‘merely satisfied’ customers do defect, it is also true that customer satisfaction is the main driver of the real goal of customer loyalty. In their excellent article “*Why satisfied customers defect*”⁷, Harvard’s Jones and Sasser point out the obvious answer. Satisfied customers defect because they’re simply not satisfied enough. Now that we fully understand the non-linear nature of the relationship between customer satisfaction and loyalty, it is clear that to ensure loyalty, most companies will have to make their customers highly satisfied, not ‘merely satisfied’.

Many studies in the 1990s concluded that customer satisfaction was a primary determinant of loyalty, including those by Rust and Zahorik¹⁴, Rust, Zahorik and Keiningham¹⁵ and Zeithaml, Berry and Parasuraman¹⁶. White and Schneider¹⁷ found that customers with better perceptions of service quality were more likely to remain customers and to tell other people about their experiences. In the Value-Profit Chain, Harvard’s Heskett et al state that the lifetime value of the most satisfied customers is 138 times greater than that of the least satisfied¹⁸.

However, the idea that customer satisfaction affects companies’ financial performance only through customer loyalty under-values the importance of customer satisfaction. Johnson and Gustafsson point out that customer satisfaction has direct effects on profit, including lower costs since dissatisfied customers are much more likely to consume organisational resources through handling complaints, resolving problems and asking for help. Based on the vast database of the American Customer Satisfaction Index¹⁹, Michigan University’s Fornell et al challenge the view that customer satisfaction is less important than loyalty since it is satisfaction measures rather than loyalty data that enable organisations to take action to improve their relationship with customers. “*The risk is that companies begin to focus too much on managing loyalty per se rather than building profitable loyalty through customer satisfaction.*”²⁰ It is actionability that we now turn to.

1.2.4 Taking action

To maintain the high levels of customer satisfaction needed to keep customers loyal, companies must continuously improve the service they deliver. Moreover, they must focus their improvement efforts in the right areas. To make customers highly satisfied, organisations have to *do best what matters most to customers*. It’s no use being good at

things that aren't important to customers²¹.

As we will explain in this book, the whole essence of CSM (customer satisfaction measurement) is about identifying the extent to which an organisation is *doing best what matters most to customers* (exceeding, meeting or failing to meet their requirements) and pinpointing the best opportunities for improving that performance. A good customer satisfaction survey is therefore based on customers' most important requirements so that it can provide specific, actionable information on where the organisation is falling short in customers' eyes and where it would achieve the best returns from investing in actions or changes to improve customer satisfaction. Chapters 12-15 explain how to produce actionable outcomes from a CSM survey.

Some organisations monitor measures that are simply not actionable. In his Harvard Business Review article '*The One Number you Need to Grow*'²², Reichheld maintained that since his tests showed propensity to recommend to be the single question that had the strongest statistical relationship to future company performance, there was no point asking any other questions in customer surveys. This led to his concept of the 'net promoter' score (achieved by subtracting the percentage of respondents who would not be willing to recommend from those who would be willing), as the only survey measure that organisations need to monitor. We would agree that of the range of loyalty questions that can be asked, recommendation is usually the closest proxy for loyalty for most (but not all) organisations. However, apart from the fact that a single item question is much less reliable and more volatile than a composite index (see Chapter 11), what actual use is a net promoter score for decision making? Customer research is not just about knowing a score or a trend, it's about understanding, so that managers can make the right decisions. If the headline measure (whatever it is), goes down or fails to meet the target, managers have to know what to action or change to improve it. Providing that information is the fundamental purpose of CSM.

KEY POINT

The main purpose of measuring customer satisfaction is to make decisions on how to improve it. Actionable information on how to make customers more satisfied is therefore a crucial outcome.

1.3 Improving satisfaction and loyalty is difficult!

Improving customer satisfaction is not difficult. It's not very difficult. It's extremely difficult.

In reality, few managers would claim that it's easy, but organisations' behaviour

demonstrates that they don't fully appreciate the difficulty or importance of the task. Yes, they want to improve customer satisfaction, but they also want to minimise costs. Few get this balance right. Responsibility for customer satisfaction is often vested in just one of the organisation's departments, often called Customer Service. In some businesses its head isn't even a main board member and, due to many organisations' predominant focus on controlling or reducing costs, 'quick wins' to improve customer satisfaction become highly attractive, if not the only option for the 'head of customer service'. So desperate are many managers to make a difference at no, or virtually no cost, that they become real suckers for the latest quick fix hype that they've heard at a conference or read in a book.

1.3.1 My daughter's ruined the policy document

One of the authors recently attended a conference where the keynote speaker waxed lyrical about the imperative of touching customers' emotions and related the following anecdote to illustrate how organisations could attain this great prize at very modest cost.

A customer of a UK insurance company, he said, telephoned the call centre asking for a replacement policy document as her daughter had scribbled all over the original. It transpires that this company gave each of its call centre operatives a £25 budget to use any way they wished to improve customer satisfaction. The operative involved used some of this budget to enclose a pack of crayons and a colouring pad for the child with the replacement policy document. A nice touch. The customer was no doubt very pleased. It may or may not have influenced the customer's loyalty behaviour at renewal time. But even if it did, how much difference is this kind of approach going to make to the ability of a large insurance company with millions of customers to achieve the financial benefits of maximising customer satisfaction and loyalty?

According to Barwise and Meehan²¹, not much. They maintain that: *"Branding and emotional values are great if you are already providing an excellent functional product or service. Outside the box strategy is terrific – when it works. But because even some of the best organizations are performing badly on the basics, we recommend that they start inside the box, ensuring that they reliably meet customers' reasonable expectations on the product or service itself. Once the basics are securely in place, the organization has a solid platform for great emotional branding and for more radical innovation."*

It's not the £25 budget or the crayons and colouring pad that are the problem. It's the fact that many organisations place considerable emphasis and hope on strategies of this ilk, which, at best can make only a very marginal difference to the satisfaction and loyalty of the total customer base if the organisation is not consistently meeting customers' basic requirements. To quote Barwise and Meehan again, organisations *"must focus on what matters most to customers, usually the generic category benefits that all competing brands provide, more or less, and not unique brand differentiators....."*

Everything hinges on giving customers what matters most to them, even if that proposition seems less exciting than focusing on novelty, uniqueness or the latest management or technology fad.” They illustrate their view with the contrasting fortunes of two of the big players in the UK mobile telephony market.

KEY POINT

Customer satisfaction is not improved by low cost gimmicks and quick fixes. It takes real investment in the basic essentials of meeting customers’ most important requirements.

1.3.2 Doing best what matters most to customers

Having been awarded identical and simultaneous licences, and with access to exactly the same technology, but following completely different strategies, One2One and Orange became the 3rd and 4th companies to enter the UK mobile phone market in September 1993 and April 1994 respectively. One2One pursued differentiation and a strong customer acquisition strategy, offering free off-peak local calls. This appealed to consumers, differentiating One2One from the business-focused strategies of the incumbents, Vodafone and Cellnet, and enabled it to acquire twice as many customers as Orange in its first six months of operation.

Orange focused on getting the basics right. It was well known in the industry that customers were dissatisfied with the frustrations of mobile telephony; frequent call terminations, inability to get through due to lack of capacity and coverage, the perceived unfairness of the operators, onerous contracts, and extortionate pricing strategies such as full minute billing. Orange simply addressed these drivers of dissatisfaction, offering per-second and itemised billing and investing in network reliability.

Meanwhile, One2One had attracted large numbers of price sensitive customers who clogged its limited network capacity with their free off-peak calling and became frustrated with its poor service. By the end of 1996 there was telling evidence of who was doing best what mattered most to customers. A Consumers’ Association survey²³ found that whilst 14% of Orange customers reported that they could not always connect with the network, nearly four times as many One2One customers couldn’t always connect; a figure that was double the industry average. The survey also showed Orange’s customers to be far more loyal than those of the three other suppliers. Moreover, at £442 Orange had already achieved the industry’s top per customer revenue figure. One2One was over £100 behind at £341. Orange was also demonstrating that satisfied customers will pay more. By this time it was around 5% more expensive than Vodafone and Cellnet and its prices were a massive 30% higher than those of One2One.

Conventional strategy would have dictated that a late entrant into a commodity market needed a USP, a ‘silver bullet’²¹, like One2One’s free off peak calls to stand any chance of success. Instead, by focusing on getting the basics right, Orange acquired customers at a slower rate, but kept them longer and made more profit out of each one, and in doing so delivered three times the shareholder value achieved by One2One. In August 1999 Deutsche Telekom bought One2One for £6.9 billion. Two months later Mannesmann acquired Orange for £20 billion.

1.4 Surveys don’t work

Over the years we have met quite a few managers at conferences and similar events who have lost faith in their customer satisfaction surveys. Many of them work for large organisations that have been monitoring customer satisfaction data for many years but claim that whatever they do, they don’t seem to be able to improve customer satisfaction; their headline measure typically fluctuating within a fairly narrow range but showing no upward trend. Why is this happening? Is the real problem that they can’t improve customer satisfaction or that their customer satisfaction surveys simply don’t show it? There is plenty of evidence that it’s the latter. In *“The one number you need to grow”*²², Reichheld has this to say about customer satisfaction surveys. *“Most customer satisfaction surveys aren’t very useful. They tend to be long and complicated, yielding low response rates and ambiguous implications that are difficult for operating managers to act on.”* Based on research conducted by Texas University²⁴, Griffin⁶ makes very similar statements, saying that customer satisfaction measures suffer from a number of problems that tend to inflate the score such as positively biased questions and flaws in self-completion surveys. This is rather like reporting to shareholders that the company is struggling to make a profit but it’s because the accounts produced by the finance department aren’t very accurate!

Professor Myers²⁵ from the Drucker School, Claremont Graduate University, has expressed serious concern about the methodologies used by many organisations to measure customer satisfaction, *“from overly sophisticated experiments by academics to overly simplistic surveys conducted by many market research firms.”* Many organisations even fail to ask the right questions in their customer satisfaction surveys, making it extremely unlikely that they will produce information that will help them to improve satisfaction and loyalty. We will address this problem in Chapters 4 and 5. Failing to understand the difference between customer satisfaction and other forms of market research, some organisations use scales that are not sufficiently sensitive to detect the relatively small changes in customer satisfaction that typically occur. In Chapter 8 we explain how to develop a CSM process that will make it possible to ‘move the needle’.

KEY POINT

Many organisations monitor flawed measures that don’t reflect how satisfied or

dissatisfied customers feel and are of no value for improving customer satisfaction.

When we question the people who tell us their organisation can't improve its customer satisfaction scores, we almost invariably discover serious problems in their CSM methodology. As we point out in the next section, improving customer satisfaction and loyalty is difficult enough without attempting to achieve it with the handicap of misleading information generated by flawed surveys.

1.5 Customer surveys are not the only way of monitoring customer satisfaction

Surely there are many other ways of monitoring how successfully an organisation is meeting its customers' requirements that are easier and less costly than conducting customer satisfaction surveys and often can be done with information the organisation already possesses. Analysing complaints is a good example. Other possibilities include analysing customer defections, feedback from employees or simply monitoring whether sales are increasing. Internal metrics such as speed of solution, percentage of deliveries on time or speed of answering the telephone can provide accurate information on service quality at little cost. Mystery shopping can also generate detailed information on the customer experience.

1.5.1 Incomplete measures

Customers' feelings about their total experience with an organisation form the attitudes that drive their future behaviours. Consequently companies cannot manage this process without a complete understanding of these feelings and attitudes. Consulting customers is the only way of producing this level of understanding.

All alternative measures are incomplete. Internal metrics can provide accurate and useful information on the hard factors but not the soft ones such as how friendly and helpful the staff are. The way an organisation handles problems is an important part of the customer experience, but again only part of it, so analysing complaints doesn't come close to an understanding of customer satisfaction. Nor do exit interviews with lapsed customers, who may give views on their entire customer experience, but form only a small part of the customer base, and have levels of satisfaction that are not representative of customers generally.

1.5.2 Lagging measures

Gathering feedback from lost customers highlights another disadvantage. It's too late. Whilst a thorough exit interview process may recover a few defecting customers, the unsatisfactory aspects of their customer experience that led to their behaviour happened in the past. Organisations need much earlier feedback on areas of

customer dissatisfaction in order to address the problems before they drive customers away. Equally, rising or falling sales are very good indicators of customers' loyalty behaviours, but not of the attitudes that caused those behaviours. A good customer satisfaction measurement process provides current information on whether the organisation is succeeding or failing to make customers more satisfied with their experience. If the latter, it provides a lead indicator of problems that lie ahead for the business in time to address them.

1.5.3 Performance measures

Even on the hard issues, internal metrics provide only half the picture. As Tom Peters pointed out over 20 years ago – perception is reality²⁶. Even if customers do form mistaken perceptions about completely factual aspects of a supplier's performance, these are the attitudes on which they are basing their loyalty and supplier selection decisions. If companies want to manage their future stream of revenues from customers, they need to be inside the customers' heads, understanding how they see their customer experience and how it is leading them to form attitudes about the organisation that will drive their future behaviours. Feedback from staff, as well as being incomplete and often biased, can only provide information on how the supplier believes it has performed with customers. Since many customers don't voice complaints or compliments, employees can never fully understand how customers feel.

1.5.4 Mystery shopping

Some organisations view mystery shoppers as customer substitutes. True, they have to go through a typical customer journey. If they're mystery shopping a hotel, they will stay overnight, eat dinner and breakfast and use any other facilities such as a health club. But are they the same as real customers? Of course they're not. Professional mystery shoppers are exactly that. They are trained to observe and record many detailed aspects of the service delivery process and consequently provide highly detailed information that is very useful to operational managers. Examples might include whether the hotel receptionist was wearing a name badge, addressed the customer by name and provided clear directions to the room. They can record waiting times at check-in and check-out as well as in the restaurant. They can also make judgements on levels of cleanliness or staff friendliness and helpfulness. Technology even permits surreptitious video recording of staff, though companies need to think carefully about the implications of this for organisational culture and values²⁷. So mystery shopping provides many practical benefits for operational managers for use in staff training, evaluation and recognition, but can't provide understanding of how customers feel about the customer experience and the attitudes they are forming about the company.

Since mystery shoppers' profession is to make observations on companies' customer

service performance, they cease to be normal customers, becoming highly aware and often much more critical than typical customers²⁵. Whilst this is good for their role, it doesn't provide an accurate reflection of how normal customers feel²⁸. Morrison et al reported other inconsistencies with mystery shopping such as males and older people producing less accurate reports than females or younger ones²⁹.

KEY POINT

Mystery shoppers are not the same as real customers. Reliable information about customers' attitudes and their likely future behaviour will be generated only from consulting the customers themselves.

Smile school

In their book "Loyalty Myths", Keiningham et al use the experience of Safeway in America to illustrate the dangers of mystery shopping²⁷. They explain how Safeway based its strategy in the 1990s on delivering superior customer service and invested in an extensive mystery shopping programme to monitor employees' performance in delivering it. Employees were expected to do things like thank customers by name, offer to carry their groceries to the car, smile and make eye contact: all very desirable customer service behaviours which should lead to customer satisfaction. And they did. Throughout the 1990s Safeway's customer satisfaction levels and financial returns were very high. However, in stark contrast to the teachings of the Service-Profit Chain¹, customer satisfaction and employee satisfaction were moving in opposite directions. This was because employees who failed to achieve a target mystery shopping score were sent for remedial training (called Smile School by the employees), and could be dismissed if their performance failed to improve. Moreover, female employees' concern that the smiling and eye contact could send the wrong signals to some male shoppers was confirmed by an increase in the number of sexual harassment incidents committed by customers. This led to a number of charges filed against Safeway by the employees' union and some individual female employees. In the end, the Service-Profit Chain wasn't wrong. Poor employee morale adversely affected customer satisfaction and Safeway's financial performance. According to the ACSI¹⁹, Safeway's customer satisfaction levels rose substantially from 70% to a high of 78% by 2000 as a result of its focus on customer service. However, as problems with employees intensified, the customer satisfaction gains were virtually all lost, Safeway's score falling back to 71% by 2003.

In the European Union there are restrictions on the use of mystery shopping that prevent it being used for disciplinary purposes against individual employees. It is increasingly recognised by good employers that mystery shopping is best used for factual rather than judgemental aspects of service and to provide positive feedback and recognition to employees. Good companies also understand that it provides operational information rather than a reliable measure of how satisfied or dissatisfied customers feel.

1.6 Surveys reduce customer satisfaction and loyalty

It has been claimed that consulting customers to find out how satisfied they are with their customer experience and to gather feedback on improvements they would like to see actually offends customers and reduces their satisfaction and loyalty³⁰. The argument is that since many people have busy lives, a survey is seen as such an inconvenient and unwelcome intrusion that it has a negative effect on respondents' attitudes and behaviours.

In fact, academic tests prove the opposite to be true. Paul Dholakia from Houston's Rice University and Vicki Morwitz at New York University's Stern School of Business were interested in the many research studies that had shown that surveys had a tendency to increase customers' loyalty³¹ and their propensity to buy a company's product^{32,33,34} but felt that the studies were too restricted, focusing on short term attitude change or one-off behaviour like a single purchase^{35,36,37}. They determined to understand whether surveys had a more permanent effect on customers' attitudes and behaviour. To do so, they undertook a field experiment with over 2,000 customers of an American financial services company. One randomly selected group of 945 customers took part in a 10-minute customer satisfaction survey by telephone. The remaining 1,064 customers were not surveyed and acted as the control group. A year later the subsequent behaviour of all the customers in the sampling frame was reviewed, demonstrating unequivocally that customer satisfaction surveys make customers more loyal^{38,39}. According to Dholakia and Morwitz's conclusions:

- The customers who took part in the customer satisfaction survey were much more loyal. They were:
 - More than three times as likely to have opened new accounts.
 - Less than half as likely to have defected.
 - More profitable than the control group.
 - Even 12 months later people who had taken part in a ten minute customer satisfaction interview were still opening new accounts at a faster rate and defecting less than customers in the control group.
- Customers like to be consulted.
 - The authors conclude that customers value the opportunity to provide feedback, positive or negative, on the organisation's ability to meet their requirements.
- Surveys can also heighten respondents' awareness of a company's products, services or other benefits, thus also influencing their future behaviour.

KEY POINT

Conducting customer satisfaction surveys has a very positive effect on the organisation's reputation in the eyes of participants.

Conclusions

1. Customer satisfaction is simply a convenient phrase to describe the attitudes and

- feelings that customers hold about an organisation.
2. It is an irrelevance to consider the relative merits of satisfaction and loyalty. They are different links in a chain of cause and effect – satisfaction attitudes driving loyalty behaviours. Both must therefore be monitored and managed to achieve organisational success.
 3. Since attitudes precede behaviours, customer satisfaction is a lead indicator of future organisational performance. Loyalty behaviours are extremely important but are lagging measures.
 4. It is true that satisfied customers often defect in some markets. That's because they're not satisfied enough.
 5. To reap the full benefits of customer loyalty, companies need to make customers highly satisfied. The zone of indifference, or 'mere satisfaction' is not good enough. This highlights the importance of understanding the difference between making more customers satisfied and making customers more satisfied.
 6. Even though the relationship between satisfaction and loyalty is not linear, it is widely recognised that satisfaction is the main driver of loyalty.
 7. Since customers' loyalty behaviours are driven by their attitudes (primarily satisfaction levels), loyalty must be managed through satisfaction rather than directly, emphasising the importance of producing actionable outcomes from customer satisfaction surveys.
 8. Many organisations have failed to use the information generated by customer surveys to improve satisfaction. This is not because customer satisfaction surveys don't work but because many are based on flawed methodologies.
 9. Even with accurate and actionable information from surveys, it is extremely difficult to improve customer satisfaction. Many organisations attempt to achieve it on the cheap, forcing the managers responsible to opt for faddish quick wins rather than the long game of getting the basics right and doing best what matters most to customers.
 10. Some also attempt to monitor it using misleading substitute measures such as internal performance metrics, complaints analysis or mystery shopping.
 11. In the light of conclusions 8, 9 and 10 together, it's not surprising that most companies do not achieve sufficiently high levels of customer satisfaction and loyalty to derive the full financial benefits.
 12. Organisations that conduct professional customer satisfaction surveys can expect their CSM process to have a positive impact on customers' views of the company.

References

1. Heskett, Sasser and Schlesinger (1997) "The Service-Profit Chain", Free Press, New York
2. McGovern, Court, Quelch and Crawford (2004) "Bringing Customers into the Boardroom", Harvard Business Review, November

3. Reichheld, Markey and Hopton (2000) "The Loyalty Effect – the relationship between loyalty and profits", *European Business Journal* 12(3)
4. Bhote, Keki R (1996) "Beyond Customer Satisfaction to Customer Loyalty: The Key to Greater Profitability", American Marketing Association
5. Gitomer, Jeffrey (1998) "Customer Satisfaction is Worthless, Customer Loyalty is Priceless", Bard Press
6. Griffin, Jill (2002) "Customer Loyalty: How to Earn it, How to Keep it", Jossey-Bass, San Francisco
7. Jones and Sasser (1995) "Why Satisfied Customers Defect", *Harvard Business Review* 73, (November-December)
8. Hill and Alexander (2006) "The Handbook of Customer Satisfaction and Loyalty Measurement", 3rd Edition, Gower, Aldershot
9. Stum and Thiry (1991) "Building Customer Loyalty", *Training and Development Journal*, (April)
10. Reichheld, Frederick (1993) "Loyalty-Based Management", *Harvard Business Review* 71, (March-April)
11. Stewart, Mark (1996) "Keep the Right Customers", McGraw-Hill, London
12. Johnson and Gustafsson (2000) "Improving Customer Satisfaction, Loyalty and Profit: An Integrated Measurement and Management System", Jossey-Bass, San Francisco, California
13. Keiningham and Vavra (2001) "The Customer Delight Principle", McGraw-Hill, Chicago
14. Rust and Zahorik (1993) "Customer satisfaction, customer retention and market share", *Journal of Retailing* 69(2)
15. Rust, Zahorik and Keiningham (1994) "Return on Quality (ROQ): Making service quality financially accountable", Marketing Science Institute, Cambridge, Massachusetts
16. Zeithaml, Berry and Parasuraman (1996) "The behavioral consequences of service quality", *Journal of Marketing* 60
17. White and Schneider (2000) "Climbing the Commitment Ladder: The role of expectations disconfirmation on customers' behavioral intentions", *Journal of Service Research* 2(3)
18. Heskett, Sasser and Schlesinger (2003), "The Value-Profit Chain", Free Press, New York
19. The American Customer Satisfaction Index, www.theacsi.org
20. Fornell, Claes et al (2005) "The American Customer Satisfaction Index at Ten Years: Implications for the Economy", Stephen M Ross School of Business, University of Michigan
21. Barwise and Meehan (2004) "Simply Better: Winning and keeping customers by delivering what matters most", Harvard Business School Press, Boston
22. Reichheld, Frederick (2003) "The One Number you Need to Grow", *Harvard Business Review* 81, (December)

23. Which? Online (1996) "Mobile Phone", Consumers' Association, (December)
24. Peterson and Wilson (1992) "Measuring Customer Satisfaction: Fact and Artifact", *Journal of the Academy of Marketing Science*, (Winter)
25. Myers, James H (1999) "Measuring Customer Satisfaction: Hot buttons and other measurement issues", American Marketing Association, Chicago, Illinois
26. Peters and Austin (1986) "A Passion for Excellence", William Collins, Glasgow
27. Keiningham, Vavra, Aksoy and Wallard (2005) "Loyalty Myths", John Wiley and Sons, Hoboken, New Jersey
28. Szwarc, Paul (2005) "Researching Customer Satisfaction and Loyalty" Kogan Page, London
29. Morrison, Colman and Preston (1997) "Mystery customer research: cognitive processes affecting accuracy", *Journal of the Market Research Society* 46 (4)
30. Snaith, Tim (2006) "Why customer research is undermining customer loyalty", *Customer Management* 14 (6)
31. Reinartz and Kumar (2000) "On the Profitability of Long-Life Customers in a Non-contractual Setting: An Empirical Investigation and Implications for Marketing", *Journal of Marketing* 64
32. Morwitz, Johnson and Schmittlein (1993) "Does Measuring Intent Change Behavior?", *Journal of Consumer Research* 20 (June)
33. Fitzsimons and Morwitz (1996) "The Effect of Measuring Intent on Brand-Level Purchase Behavior", *Journal of Consumer Research* 23 (June)
34. Fitzsimons and Williams (2000) "Asking Questions Can Change Choice Behavior: Does it do so Automatically or Effortfully?", *Journal of Experimental Psychology: Applied*, 6 (3)
35. Spangenberg and Greenwald (1999) "Social Influence by Requesting Self-Prophecy", *Journal of Consumer Psychology* 39 (August)
36. Morwitz and Fitzsimons (2000) "The Mere-Measurement Effect: Why Does Measuring Purchase Intentions Change Actual Purchase Behavior?", Working Paper New York University, New York
37. Fitzsimons and Shiv (2001) "Nonconscious and Contaminative Effects of Hypothetical Questions on Subsequent Decision Making", *Journal of Consumer Research* 28, (September)
38. Dholakia and Morwitz (2002) "How Surveys Influence Customers", *Harvard Business Review* 80 (5)
39. Dholakia and Morwitz (2002) "The scope and persistence of mere-measurement effects: Evidence from a field study of customer satisfaction measurement", *Journal of Consumer Research* 29 (2)