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# HOW TO MEASURE CUSTOMER SATISFACTION WITH SUCCESS

In the first of a series of articles on successfully measuring customer satisfaction Jim Alexander looks at the benefits of satisfaction and how organisations should decide on which customers are worth the time and effort and which should be viewed as surplus to requirements

KEY POINTS

- **Understanding the needs of customers**
- **Setting up a customer satisfaction measurement**
- **Sorting out the good from the bad**

Why should we strive to satisfy customers? Perhaps this is a rhetorical question but nevertheless we should be clear about the answer. It is not because we want them to go away happy, it is because we want them to come back and spend more money!

Customers have more choice than ever before about suppliers and they are becoming increasingly aware of their power. Poor levels of service in consumer and industrial markets are not tolerated for long, except where a monopoly exists and thankfully there are not many of those left. Achieving high levels of customer satisfaction will result in a wide range of benefits which grow your business and this is why it should be our primary focus.

## Focus on profitable customers

It is often quoted that it costs five times as much to attract a new customer as to keep a current one. Retention investment is therefore much more effective than prospecting and if you are spending money to gather business it must be sensible to spend some to learn how to hold on to it.

At least, that is, assuming the customer is worth retaining. A further route to profitability is through customer segmentation. Figure 2 illustrates how different degrees of satisfaction might result in different customer behaviours. Satisfied, profitable customers who bring additional business are the ones to focus on but there will be some dissatisfied, unprofitable customers who may become 'terrorists' determined to damage you for example by:

- Picketing outside your computer store.
- Posting 'horror' stories on public websites.
- Making many/vociferous complaints.
- Making unreasonable or false claims for compensation.

These are the ones you might consider 'firing' by explaining that it is unlikely that you will ever be able to satisfy their demands and perhaps one of your competitors would be able to help them more, or in business to business markets by subtly changing terms of business. Segmentation requires information and a research programme should help you understand which information is of most use in deciding how to segment your customers and which marketing messages will be of interest to different segments.

## Customer satisfaction is a relative measure

The surest way of achieving customer satisfaction is to deliver exactly what customers want. If you can deliver more than they want you will begin to achieve customer 'delight' and if you deliver less than they want you will create disappointment. Before you can meet or exceed their needs it is fundamental that you understand what those needs are.

So it makes sense to regularly check how well you know your customers needs and the extent to which you meet them. In this way you can focus on

and invest in the improvements which will bring the most gain rather than simply address the weaknesses you may discover, some of which may not really matter to the customer.

Customer Satisfaction Research should be regarded as an investment, not a cost. If it does not make you money you are not doing it properly. Many companies would gain valuable strategic information from simply conducting one part of the research as the first objective is to discover what is important to customers and the level of priority placed on each element.

The most successful companies will focus on these things and maintain their focus as future research reveals how customers needs change. Ten years ago nobody used e-commerce and nobody thought it was important. Today most companies believe it is important and in ten years time everyone will be taking it for granted.

## New ISO standards

The revised ISO standards require that a properly structured measure of performance is taken, which must relate to customer requirements. The standard has become much tighter because it was realised that surveys designed by company management rarely focus on the things of most value to customers. At least 90% of those attending Leadership Factor training seminars tell us that their management designed their previous survey – and that it did not achieve the objectives intended. Measures devised in this way provide a measure of how good you are at what you do but this does not necessarily relate to your ability to do what customers want.

An organisation that attempts to perform satisfaction measurement without expert guidance is likely to make several fundamental mistakes. This may mean they:

- Ask the wrong questions.
- Involve the wrong people.
- Misinterpret the results, thereby focusing on the wrong things.
- Do little or nothing about them.
- Don't tell their customer what they learned.
- Don't involve their staff in the improvement process.

By involving some or all of your customers in a satisfaction measurement process you are setting an expectation that you will take note of their responses and that something will change as a result. If the survey is poorly designed you will have low confidence in its findings and may shelve it, but your customers will be likely to see this as evidence that you have taken up their time with an empty 'marketing exercise'. Customer satisfaction could be undermined as a result.

## Creating differentiation for your company

Historically it was product quality that differentiated suppliers and in theory customers would queue up to pay premium prices for top quality. This is still true but the product difference has greatly diminished (take Skoda as an example of rapid quality improvement) and it is the quality of service which will fill the gap. Establishing a thorough knowledge of what customers want and of their perceptions of you as a supplier is a vital part of strategic decision support information.

In the course of this series of articles, we will show you how the process of Customer Satisfaction Measurement works. The series will explain how to ensure that you ask the right questions, how to ensure that the survey is properly representative of your customer base and business structure, how to select the appropriate research methodology. Question design, rating scales, segmentation and achieving high response rates will

*Bear in mind that a customer who is merely 'satisfied' rather than 'highly satisfied' is more likely to be open to competitor offerings. Highly satisfied customers have a lot to lose by changing to an untried supplier*

**FIG 1 CUSTOMER PROFITABILITY**

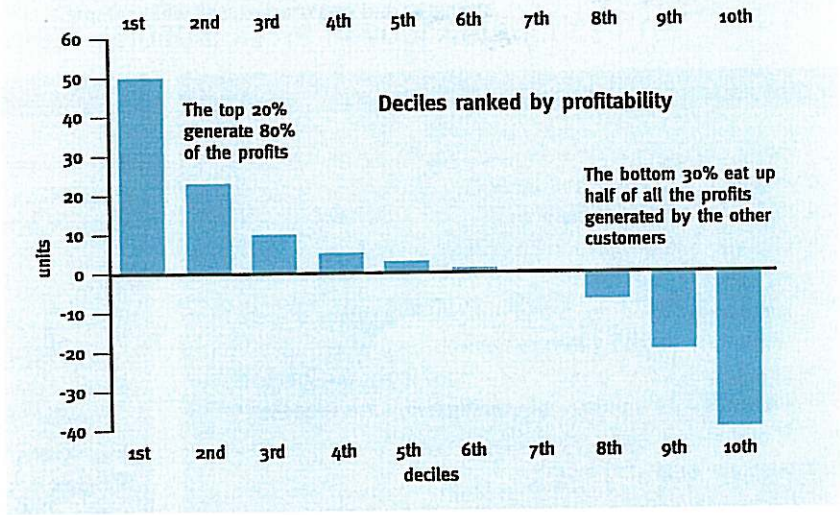
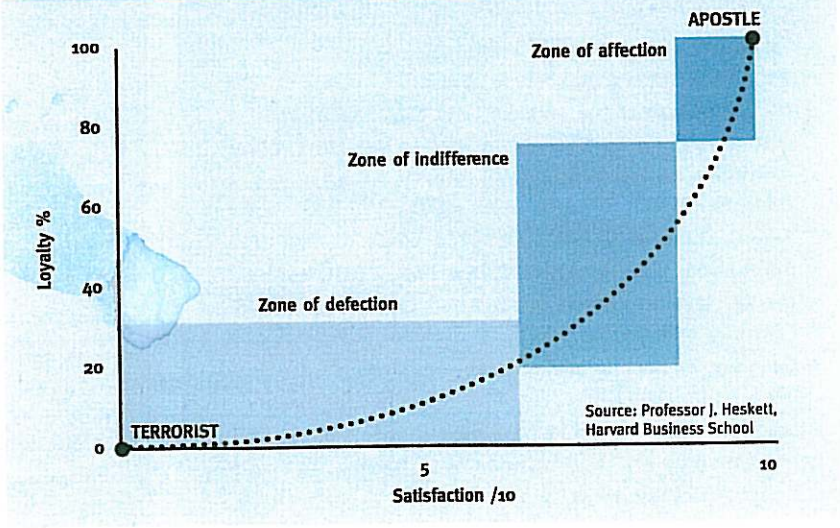



**FIG 2 SATISFACTION ZONES**



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AUTHOR INFORMATION

Jim Alexander is a full member of the Market Research Society and is a Director of The Leadership Factor, a research agency specialising in Customer Satisfaction and Loyalty measurement. He holds the fundamental belief that business success is driven by customer retention and is joint author of the "Handbook of Customer Satisfaction and Loyalty Measurement" published by Gower. Jim Alexander can be contacted at The Leadership Factor on 01484 467002 or e-mailed on JimAlexander@LeadershipFactor.com

all be discussed. Further articles will cover statistical analysis, data interpretation, using customer comments to clarify results and involving employees in the improvement process.

One of the main objectives will be to show how the wealth of valuable information produced by such a survey can be used to focus attention on the things you can do which will produce the most effective increase in satisfaction in the shortest time for the least investment.

It is often said that 'You can't manage what you don't measure'. Setting in place a properly constructed survey will increase the likelihood of a successful outcome.

Of course it will involve a financial outlay but many companies take far greater risks by running marketing campaigns with not much more than a 'gut feeling' that they work.

## Gambling not a good idea

If you were going to put £20,000 on a horse, would you try to minimise the risk of losing your investment by studying previous form, learning about its strengths and weaknesses, see what competition it was up against, learn something about its rider, training regime etc. or would you just stick a pin in the paper? And if you owned the horse, surely you would ensure that it received the right treatment in terms of food, housing, training, a solid team around it. If you didn't how could you expect it to win. Winners do not come along by accident, they are carefully built, nurtured, and developed. Performance is carefully monitored and action is swiftly taken to correct any weaknesses.

You can translate the above analogy to fit to whatever turns you on – from Formula 1 to darts, from skiing to Pavarotti. The only area where continuous effort to get better does not work is gambling.

You can pour money into a fruit machine for ever and your chances of getting it back remain as slim as when you started. Don't gamble on your company's success, work on it.

This is the principle of Customer Satisfaction Measurement. Some organisations do it because they have to, to get ISO accreditation for example, but the real winners do it because they know it works.

## CUSTOMER BEHAVIOUR

A highly satisfied customer is likely to:

- Buy from you again (and again).
- Buy additional items from you.
- Give you a larger proportion of their spend.
- Be easier to deal with.
- Spread your good reputation – a satisfied customer may recommend you to 5 new customers.
- Be less concerned about price – price is not the greatest motivator – 68% of defecting customers leave because of bad service, not price or product quality.
- Generate good staff morale.

All these attributes result in a progressively lower cost of sale, significantly increasing profitability and market share.

A dissatisfied customer is likely to:

- Not give you a second chance.
- Not tell you about the problem (less than 10% of unhappy customers make an official complaint so you can not rely on a complaints system to tell you what the majority of customers feel).
- Take their business elsewhere.
- Spread your poor reputation (one unhappy customer on average tells nine others about it and 13% tell more than 20).
- Only buy from you on price.
- Generate low morale among staff.

Figure 1 (see p41) illustrates how most of your profit is likely to be generated by a small proportion of customers and how this can be significantly offset by poor return from another group.

## EMPLOYEE BEHAVIOUR

It is worth giving some thought to the staff morale issue, since this in itself can be a strong determinant of profitability. Highly satisfied staff are likely to:

- Stay with the company longer, reducing recruitment costs.
- Become better at their jobs, reducing error rates and therefore recovery costs.
- Know their customers better and are more likely to deliver what satisfies them.
- Generate more ideas for improvement and cost-savings.
- Promote a positive company image by saying good things about it.
- Take less time off due to illness.

Dissatisfied staff are likely to:

- Leave more quickly, costing around 4 times their annual pay to replace.
- Lose interest in their jobs, making more mistakes that are costly to fix, reduce efficiency and dissatisfy customers.
- Promote a negative company image by being publicly critical of the company (and again, bad news travels furthest).
- Cause dissent amongst other employees, creating a negative spiral.

Bear in mind that a customer who is merely 'satisfied' rather than 'highly satisfied' is more likely to be open to competitor offerings. Highly satisfied customers have a lot to lose by changing to an untried supplier.