Customer Satisfaction and the Success of Your Organization

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Maintaining customer satisfaction is hard work. How do you know your customers are satisfied with the product or service you provide? And just how satisfied are they? They stay with your company year after year—does that mean they're satisfied? If they are satisfied—does that mean they won't switch to another company?

Perhaps these are concepts you're beginning to consider. Or maybe you have been measuring customer satisfaction and loyalty, but are not sure you're getting the information you need to help you effectively run your business. The research we've assembled here, from large scale studies, professional associations, books, business journals, and peer-reviewed research journals, will help you understand the overall importance of measuring customer satisfaction, and start to clarify the payoff that comes with measuring and understanding what your customers think.

Contact Carson Research Consulting for help with your customer satisfaction program, and to order our follow up paper, "Understanding What Makes Your Customers Happy: What You Need to Know," which will continue to help you better understand the need to track the satisfaction of your customers.

It's been shown that companies with high customer satisfaction rates consistently outperform the S&P 500. To validate this, a portfolio was assembled by a professor at the Ross School of Business in Michigan, which was based on company's scores on the American Customer Satisfaction Index (ASCI). Stocks were traded based on ASCI levels, selling when ASCI scores were low and buying when they were high. In 2000 the S&P 500 fell by 12%, while the ASCI portfolio only fell by 8%. In 2001 the S&P fell by another 13% while the ASCI portfolio *gained* 13%.

source: Fornell, 2006.

What is Customer Satisfaction and Why is Measuring it so Important?

Customer satisfaction is the positive emotional state reached by a customer after purchasing a product or service. A customer is satisfied when they feel they have received at least as much from a buying experience as the effort they put in, and when they reach the conclusion that their buying experience was as good as they believed it would be.

The better you understand your existing customers, the more likely it is you will be able to:

- Increase their loyalty,
- Address any potential issues before they are tempted to defect, and
- Effectively attract—and keep—new customers.

Did you know it can cost up to twenty times as much to attract new customers as it costs to keep the ones you already have? The ratio of cost to win a new customer versus cost to retain a current customer varies from two to one to as high as twenty to one.[1]

If it costs more to win new customers, shouldn't you want to find out what it will take to keep the ones you have? The financial payoff for maintaining a satisfied customer base could be huge. Satisfied customers are more likely to remain loyal and make future purchases, and are often willing to pay premium prices for those purchases.[2, 3]

How does high customer satisfaction improve your bottom line? The payoff for increased customer service comes in many forms; one of them can be seen in your customer's purchasing behavior[4], explained in the table below. The increase you see in your bottom line may happen for reasons that will surprise you. It's not typically the result of over-the-top service, but rather solid service, such as being friendly, surpassing customer expectations, and avoiding unpleasant surprises (i.e. a reserved rental car that is not there when the customer arrives) that can increase the chance a customer will buy from you again. The largest boost occurs not from customers

1 TARP, 1986
2 Fornell, Mithas, Morgeson, and Krishnan, 2006
3 Homburg, Koschate, and Hoyer, 2005
4 TARP, 1986

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who receive outstanding service, but from customers who receive "good" service.[5]

Service Level	Increase in Likelihood of Repeat Purchase
Customer receives service beyond expectations	12%
Customer receives no unpleasant surprises	22%
Customer has friendly interaction with an employee	25%
Customer receives good service	32%

Simply asking customers about their level of satisfaction translates to increased sales, loyalty, and profitably.[6] On the other hand, dissatisfied customers are less likely to buy again, more likely to occupy management's time and resources, and more likely to pass their negative feelings on to other customers, and convince those customers not to buy from you.[7] When customers are unhappy, your business suffers.

And so do your employees. Did you know that high customer satisfaction can also increase your employee satisfaction?[8] The human component is key; emotions are contagious. If employees are constantly encountering unhappy, dissatisfied customers, there is a good chance the negative environment will cause them to be unhappy and unsatisfied with their jobs. Just as your customers like to encounter employees who are satisfied with their job, your employees prefer to work with customers who are satisfied with your company. Therefore, it is possible to use high customer satisfaction ratings as a benefit when recruiting new employees.

Understanding customer satisfaction is as much a psychological challenge as a measurement challenge, and understanding human behavior often means distinguishing between thoughts, feelings, and behaviors. Truly comprehending your customers' satisfaction means being able to successfully measure all three.

When and Why Do Customers Complain?

Customers complain when they're unhappy. But how much they complain, and who they complain to vary by product, price, and industry.[9] For packaged goods and other small ticket items (everyday purchases such as food, office supplies, a cup of coffee), 96 percent of unsatisfied customers do not complain. If they decide to voice their dissatisfaction, it is typically to the retailer where the item was purchased, not to the manufacturer. Even for big ticket items like computers and cars, only half of customers complain to a front line staff person such as a cashier or salesperson, and only five to ten percent of those unsatisfied customers escalate their complaint to local management or corporate headquarters. There is a good chance that you—the manufacturer or service provider—may never hear about the problem or have a chance to correct it.

We all want customers to sing our praises. Unfortunately, customers are more likely to speak about us when things go wrong rather than when they go right. On average, customers are twice as likely to talk about a bad experience as they are to share a positive one. An influential customer satisfaction study conducted for the Coca-Cola Corporation in 1981—when the study of customer satisfaction was just emerging—found that for small ticket packaged items, on average five people would hear about a good experience but ten would hear about a bad one. A subsequent study for a domestic auto manufacturer found that about eight people were told about positive auto repair experiences (for higher cost repairs) while on average 16 people heard about negative experiences.[10]

Whether or not a customer complains is also related to the cost of their negative interaction, both in hard dollars and emotions. Problems resulting in monetary loss typically have higher complaint rates—50 to75 percent—while customer mistreatment, poor quality, and feelings of incompetence evoke only five to 30 percent of the complaints seen at the front line. For example, only three percent of passengers unhappy about an airline meal comment about it. And those

5 TARP, 1986
6 Dholakia and Morwitz, 2002
7 Szymanski and Henard, 2001
8 Luo and Homburg, 2007
9 TARP, 1986
10 Corporate Consumer Affairs Department of The Coca-Cola Company (conducted by TARP), 1981

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who do speak only with a flight attendant, not to the airline's corporate office or with Consumer Affairs.[11]

How does customer satisfaction relate to whether or not customers will buy from you again? The relationship between satisfaction and repeat purchasing is weaker for products than it is for services. Customers who are satisfied with a service are more likely to purchase that service again than are customers who are satisfied with a product. Product satisfaction is just one of many factors a customer uses to make purchasing decisions, because feelings, level of satisfaction, and opinion of service are all emotions and as a result, can be very subjective. In other words, intangible feelings play a strong role in decisions to purchase intangible services.[12]

Whether your customers will let you, or anyone else, know they are unsatisfied depends on what they are buying and why they are unhappy. The purchase of a stapler, for example, has practical concerns: Is it comfortable to hold? Does it use standard size staples? Does it function consistently? Customer satisfaction for an item like this is more likely to be based on logic rather than emotion.

Customers eating at a restaurant are purchasing a product as well as a service, and have certain expectations about the emotional state they will achieve during the experience. Take Starbucks. Selling coffee is only a fraction of what they do. They are selling an emotional experience, which is why the chairs are comfortable, the staff is trained to satisfy customers' every coffee-related need (half-caff, no foam, soy latte, anyone?) and the music is handpicked, all with the desired outcome of a relaxing, complete customer experience.

And when these experiences don't meet expectations, customers need the opportunity to voice their concerns, even though hearing what they have to say may be painful. Give them the tools they need to be heard; even the simple act of implementing a toll-free number at a company headquarters will, on average, double the number of calls received.[13]

How Important is Customer Loyalty?

Loyal customers are those who purchase from you repeatedly, and they are generally considered an asset to your organization. Ideally, a loyal customer will continue to purchase from you even in the face of certain challenges, such as cheaper prices offered by other companies. Truly loyal customers will continue to buy from you even after a customer service failure where their expectations are not met and they have a negative experience, such as a service not provided as specified, a broken product, or a delayed delivery. We want to develop loyal customers, because we hope that in the face of a customer service breakdown they will forgive and forget.

But the relationship between loyalty and company success is more complicated than you might expect. Reducing customer turnover by only five percent can increase bottom line profitability from 25 to 85 percent.[14] But even though loyalty has a financial benefit, it's not the only thing that determines whether a repeat customer translates to profitability. Companies need customers who are loyal *and* satisfied.

Think about the person who regularly complains about their cable provider, but never switches companies. That individual is loyal but not satisfied. Are they really a benefit to the organization? What is he or she saying to friends and family about that company? A satisfied and loyal customer will provide good word of mouth referrals, and continued positive purchasing behaviors.

It's important to understand why customers stay. Sometimes they remain because it's easier to be unhappy and loyal than it is to leave. Consider for example, multi-year wireless phone service contracts, which restrict customers with fees if they break their contract early. As a result they may keep a customer from leaving for a period, as will complicated service plans, and the comfort that comes with having been with the same company for a time.[15]

11 TARP, 1986
12 Szymanski and Henard, 2001
13 TARP, 1986
14 Reichheld and Sasser, 1990
15 Seo, Ranganathan, and Babad, 2008

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Whether or not customers are loyal to the company because they are satisfied with the organization is just as important as whether or not they *act* loyal by making repeat purchases or providing referrals. Studies have shown that loyal customers are 26 to 54 percent more likely to refer a company to others.[16] A study by Frederick Reichheld showed that in an industry where the company in question was not a monopoly, customer recommendations were predictors of future growth for that company.[17] The idea—that a customer recommendation can be the sole predictor of future growth—is known as the Net Promoter Concept and it has garnered a lot of recent press, including an article in the Harvard Business Review. Major corporations, including General Electric, Intuit, and American Express have used this "ultimate question"[18] to measure their customers' satisfaction.

While knowing a customer would recommend a company, service, or product is an important indicator of future customer satisfaction, the concept of a single element predicting something as complex as company growth is overly simplistic. Follow up studies have been unable to replicate his findings.[19] There are a number of other customer-related issues to consider, such as the intent to make future purchases, and loyalty to a brand over time. Furthermore, company growth is impacted by many business factors in addition to customer satisfaction, such as market conditions, managerial style, employee satisfaction and other characteristics of a resilient organization. Only together can they serve as complete measures of customer satisfaction.

Despite the accepted belief in their value, and contrary to what was discussed earlier in this paper, some loyal customers are not always cheaper to serve than new customers.[20] Loyal customers are increasingly aware of their value and may exploit this knowledge to get a little more or a little better performance from an organization. Many customers believe their loyalty entitles them to lower prices than newer customers.

Consumer loyalty has a direct impact on a company's bottom line. The positive word of mouth associated with promoters has actually been shown to reduce advertising costs.[21] High customer satisfaction rates can actually maximize the impact of advertising, sales, and marketing communications budgets at the corporate level.

Next Steps

Understanding how your customers feel about your products and services can help you make better strategic decisions, improve employee interactions with customers, and be an asset in the creation of better products and services to meet future customer needs. But to best exploit that knowledge you must first clearly understand the relationship between how people think and feel, and how that relationship impacts their decision to purchase from you again or to refer you to others.

Know where you stand with your customers by regularly and consistently tracking their satisfaction, either as a stand-alone process or as part of a larger customer relationship management program. For a more in-depth discussion of customer satisfaction research, including an explanation of successful customer satisfaction measurement tools, see our white paper, *"Understanding What Makes Your Customers Happy: What You Need to Know."*

16 Reinartz and Kumar, 2002
17 Reichheld, 2003
18 Reichheld, 2003
19 Keiningham, Cooil, Askoy, Andreassen, and Weiner, 2007
20 Ranaweera, 2007
21 Luo and Homburg, 2007

About the Author

Taj Carson, PhD, president of Carson Research Consulting, works with organizations of all sizes to help determine the information needed to make strategic business decisions, and obtain this information in a timely manner. Dr. Carson has over 10 years of research experience, with a strong background in both qualitative and quantitative methodologies, specifically in the area of performance measurement, including survey development, document analysis, individual interviewing, and focus group development and coordination. She has helped numerous organizations conduct assessments, develop strategic plans, implement data collection systems and strategies, evaluate programs, and build capacity for performance measurement.

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