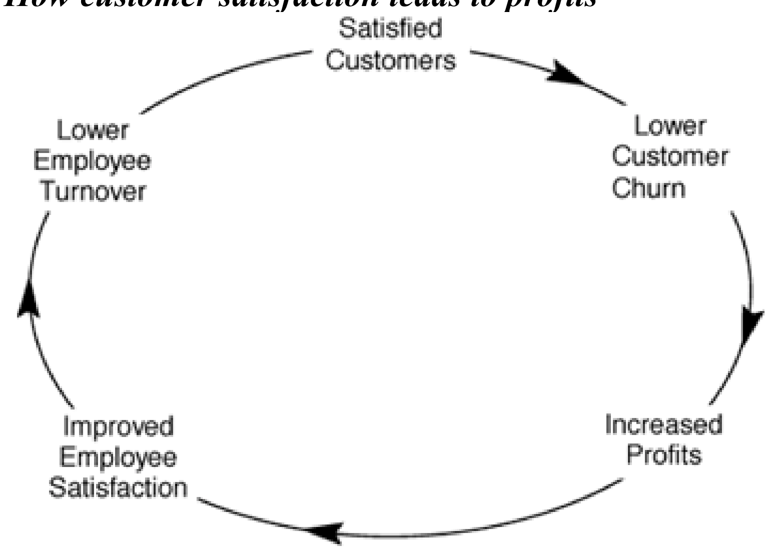
Customer Satisfaction Measurements: Do They Really Matter?

by Dr. Chuck Chakrapani

It all started with the quality movement. Puzzled by the market dominance of Japanese products, a major U.S. TV network sent a team of experts to Japan to figure out what it was doing right. This resulted in a documentary: "If Japan could do it, why couldn't we?" This was just about 20 years ago.

What the team discovered was very simple. The Japanese were concentrating on the quality of their products, using rigorous statistical methods of quality control. This resulted in increased customer satisfaction. That led to greater demand for the product, which in turn decreased the cost of production per unit. Profitability increased, which enabled the company to invest more money in improving the quality even further.

Exhibit 1.
How customer satisfaction leads to profits

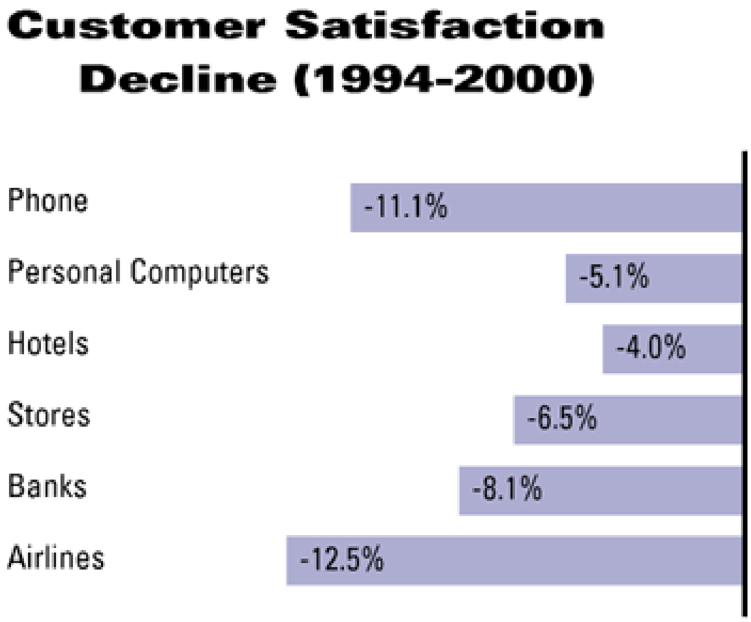


And who taught the Japanese this trick? It turned out it was an American statistician, W. Edwards Deming. When the Japanese invited him to give a talk in quality back in the 1950s, he simply drew a diagram on a black board which showed how quality resulted in higher customer satisfaction, which in turn, resulted in higher profits. The Japanese took him seriously and followed his advice with well documented results. (For the record, although the Japanese economy is suffering now, it is not because of the quality of its products.)

The key here is the customer. If there is quality improvement, it can result in higher profitability only if the customer notices it, is satisfied with it and, as a result, is willing to buy more of the product/service. So, in the mid-1980s most major companies started instituting some form of quality improvement in their products and services and started measuring customer satisfaction, hoping that this would translate into big bucks.

Something funny happened on the way to the bank. Most of these programs failed to result in higher profits. Several surveys showed that customer satisfaction did not result in higher sales. A vast majority of those who defected to competitors were not at all dissatisfied with the product or service they had been using! To add insult to injury, customer satisfaction has been going down since these service quality and customer satisfaction programs were put in place. Exhibit 2 shows how customer satisfaction went down in different industries after the CSM came to prominence.

Exhibit 2.
Declining Customer Satisfaction*



We are left to ponder questions like these:

- Can increased quality result in decreased customer satisfaction?
- Can customer satisfaction result in customer defection?

We know intuitively that the answers to such questions cannot be yes - that would contradict everything we know about human psychology and consumer behaviour. So what is happening?

There are many explanations. Here are a few:

1. Lack of isomorphism between reality and CSM. Marketing researchers assume a one-to-one relationship (isomorphism) between reality and measurements. Suppose we measure customer satisfaction on a 10-point scale, we tacitly assume several things such as:

- Higher satisfaction ratings imply higher satisfaction levels; lower ratings imply lower satisfaction levels. Thus we can judgmentally assume a rating of 8 or higher implies a high degree of customer satisfaction.
- All statistically significant differences are meaningful differences. Therefore, if our average rating increased from 4 to 7 or from 7 to 9, and if this is statistically significant, then we have substantially increased customer satisfaction (and presumably this should lead to customer loyalty).

Such assumptions can be fallacious. A rating of 7 may be much higher than a rating of 5, but the increased rating may have no effect on purchase behaviour. A satisfaction rating that strongly correlates with purchase or repeat purchase could be 10; a rating of 9 may be close to 10 and may be very comforting but it may only weakly correlate with buying or repeat buying.

2. Lack of sensitivity of measurements. Many customer satisfaction measurements (especially the customer satisfaction index) are notoriously insensitive. There are many reasons for this. First, consumers do not change their evaluations radically (even when they are not satisfied). Unless something glaringly changes, consumers tend to evaluate products and services very similar to the way they rated them previously. Customer satisfaction initiatives very seldom result in glaring changes. Second, customer dissatisfaction tends to be localized. For instance, if billing service deteriorates and affects 10% of your customers, their dissatisfaction will be masked by the other 90% who are not dissatisfied with billing. This problem gets worse when we use a customer satisfaction index, in which billing may constitute only a small part of the index.

3. Ignoring saliency. Most customer satisfaction studies measure the "trivial many" rather than the "vital few". For example, most customer satisfaction questionnaires we receive (such as from financial institutions) ask us about our satisfaction on 30 or 40 attributes. Do they know what really matters to us? What, if we are satisfied with 35 of the 40 attributes but the only attributes that really matter to us are the ones we are not happy about?

4. Worrying about courtesy when the problem may be competency. In many cases, customer satisfaction arises out of incompetence of service. Service that is efficient and competent seldom results in customer dissatisfaction. On the other hand, incompetent and inefficient service is unlikely to result in customer satisfaction, even if it is delivered with a smile. A common belief seems to be that customer satisfaction is the result of being nice to the customer and fixing the problem promptly. In reality, being efficient and not giving rise to the problem in the first place may be key to customer satisfaction. Which institution would you rather deal with: One with smiling employees who get all your accounts wrong or the one whose employees deliver what they are supposed to, smiling or not? For example, in data from the U.S.-based Council of Better Business Bureau on phone service, only 39% related to factors like unresponsiveness and rudeness. The remaining 61% related to lack of efficiency e.g., inaccurate information and long wait time. Very few firms seem to believe that a high degree of competence is a prerequisite for a high degree of customer satisfaction. How many companies consider employee competency as the sine qua non of customer satisfaction and spend money training their employees to be highly competent?

5. Concentrating on people instead of on the processes. Most customer satisfaction programs depend on exhorting the employees work harder and deliver satisfaction to customers. But by what means are the employees supposed to achieve this? (For instance, in the previous paragraph, I suggested that competency training is one of the processes through which we may be able to deliver customer satisfaction.) The commonly prevailing methods of ensuring the delivery of customer satisfaction by concentrating on employees - threatening them with job termination or attempting to "reward" them with bonuses - have resulted in deteriorating customer satisfaction as Exhibit 2 shows.

6. Lack of understanding of how customer satisfaction results in purchase/repeat purchase. Customer satisfaction may be a necessary condition of loyalty, but not a sufficient condition. This means that, while dissatisfied customers are unlikely to buy from us, we cannot assume that satisfied customers will automatically buy from us. This is because there may be another product or service on the market that is of higher value: i.e., it is equally satisfactory but is less expensive. Between two equally satisfactory products, a customer will choose a product that has a higher value.

So, do customer satisfaction measures matter? In my view, not really, the way they are generally collected and interpreted now. Can they be made to matter? Absolutely, but it takes time, commitment and willingness to get past vague and insensitive measures like the customer satisfaction index. Any customer satisfaction measurement, to be useful, must indicate changes in processes currently in place.

Anything else is just cosmetics.

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* Source: University of Michigan Business School Customer Satisfaction Study (Cited by V. Kumar. Customer Loyalty Research, 2002)