



STRATEGIES FOR GROWTHSM

"CONSULTANTS TO THE SERVICES INDUSTRY"

The Path to Customer Satisfaction and Loyalty Improvement:

*Following a Process from Strategic Planning
Through Measurement and Implementation*

- A Special Management Summary -

Compliments of:

Strategies For GrowthSM

Westtown, Pennsylvania USA

© 2000 ***Strategies For GrowthSM***

Introduction

Many businesses rely on their ability to keep customers satisfied and wanting to come back for more. This is true in all industries, but especially in the customer service and support-oriented segments where the most successful organizations are those that are able to generate high levels of repeat business from their existing base of customers.

Learning where the business is, and is *not*, meeting customers' expectations through a targeted customer satisfaction measurement program can be extremely helpful in developing specific tactical actions for improving customer service performance. These improvements can then lead to increased business development opportunities for the organization as well as provide valuable input directly into an *actionable* strategic marketing plan.

Applications of Customer Satisfaction Research

There are many reasons for why conducting a program to assess customer needs, requirements, perceptions and satisfaction would be beneficial. These may include:

- To establish a *benchmark* against which future shifts and changes in your organization's service performance can be measured and evaluated;
- To generate data that can be used as input into a strategic, marketing, quality or re-engineering planning process;
- To measure the impact of specific events such as advertising or promotional campaigns, new product/service introductions, company/product name changes, price changes, etc.;
- To evaluate and compare the performance of individual product/service lines, geographic regions, business divisions or salespersons;
- To serve as the basis for a sales incentive or employee compensation program;
- To provide the required information for ISO 9000, the Malcolm Baldrige Award or an individual State's annual quality award; and
- To provide management with the necessary information and tools to make decisions that will improve the organization's ability to translate high levels of customer satisfaction into long term customer loyalty.

Checklist for Customer Satisfaction Program Design

The checklist for developing an appropriate customer satisfaction program design essentially focuses on the answers to questions in twelve (12) key areas as listed below:

- **Business Objectives**, such as "*Why is the research being conducted?*" and "*How is it going to be used?*";
- **Information Objectives**, such as "*What information do we need to meet our business objectives?*" and "*How can we most effectively obtain it?*";
- **Organizational Structure**, such as "*What areas do we want to measure?*" and "*Which areas require separate analysis?*";
- **Customers and Customer Groups**, such as "*Which customers should be surveyed?*" and "*Who within each customer organization represents our most appropriate contact?*";

- **Competitive Environment**, such as "Who are our direct and indirect competitors?" and "Who should we benchmark against?";
- **Operational Information**, such as "How do we obtain current lists of customers?" and "How can they best be reached?";
- **Statistical Requirements**, such as "What is an acceptable margin of error?" and "How can the data most effectively be reported?";
- **Previously Conducted Research**, such as "What have we learned from our past studies?" and "How can we integrate what we've learned into the new process?";
- **Internal Measures**, such as "What mechanisms currently exist to track performance?" and "What standards for performance are already in place?";
- **Quality Management**, such as "How will this effort support our overall quality initiatives?" and "How can the results best be communicated?";
- **Tracking and Monitoring**, such as "How should we track our customer satisfaction performance over time?" and "How frequently will we need to update our information base?"; and
- **Timing and Scheduling**, such as "When will the baseline results be required?" and "How quickly can customer lists be made available?".

The Process of Customer Satisfaction and Loyalty Research

The primary goal of conducting customer satisfaction and loyalty measurement research is to benefit from the use of focused, customized and personalized research tools that meet the organization's specific information needs and requirements in a comprehensive, concise, statistically valid, timely and *actionable* manner. The research should be:

- **Focused**, in terms of being defined, targeted and directed to the specific areas of study that will be most insightful, instructive and *actionable* to the organization;
- **Customized**, in terms of dealing specifically in the areas that are likely to have the greatest application to the organization's overall corporate mission and way of doing business; and
- **Personalized**, in terms of the ability to generate a strategic plan of action for the organization that each of its individual managers can easily relate to, accept, and incorporate into their own respective ways of doing business.

A basic understanding of both the practical and realistic applications of market research in general, and customer satisfaction and loyalty research, in particular, are generally required in order to ensure that an appropriate, and effective, research methodology is ultimately adopted. A thorough understanding of the processes themselves would be most helpful in ensuring that a sound, focused and targeted program is ultimately developed and implemented.

Why Is Customer Satisfaction and Loyalty Research So Important?

Perhaps the most obvious reason why customer satisfaction and loyalty research is so important in the overall process is that it provides the customers with a means to communicate directly to company management with respect to their individual needs and concerns and this, in turn, assures the organization that the quality standards it has established truly reflect the *voice of the customer* and not just the *company line*.

In addition, the research can provide information about the organization's perceived strengths and weaknesses in the marketplace with a high level of empirical certainty that can ultimately help it to allocate its resources more effectively to optimize customer satisfaction. Further, a commitment of resources to research also demonstrates to employees that management is serious about improving quality. This invariably leads to increased internal attention on customer satisfaction and loyalty as an important goal.

Finally, investing in a customer satisfaction and loyalty research program lets customers know that the organization is proactively concerned about satisfying their needs and expectations, and is genuinely committed to improving the delivery of its products, services and support.

What Elements Are Most Important in Supporting the Process?

We believe the only way to gain customer loyalty is through a *comprehensive* and *continuous* effort to satisfy customers' needs and expectations. Cursory or sporadic attempts to gain customer loyalty provide only limited value as customers can quickly recognize half-hearted attempts to meet their needs. In addition, even as improvement occurs, customer needs may continue to change, and/or new needs and expectations may begin to surface. Ultimately, customers may become even more demanding and, as a result, may actually expect more from their supplier.

There are no standardized techniques or *black boxes* that can serve to meet all of an organization's customer satisfaction and loyalty improvement objectives. Therefore, the recommended approach is generally one that is *customized* to meet the organization's specific needs. Each organization's customer base has its own set of distinct needs and expectations and, consequently, the approach to measuring, understanding, and reacting to these needs has to be distinct as well.

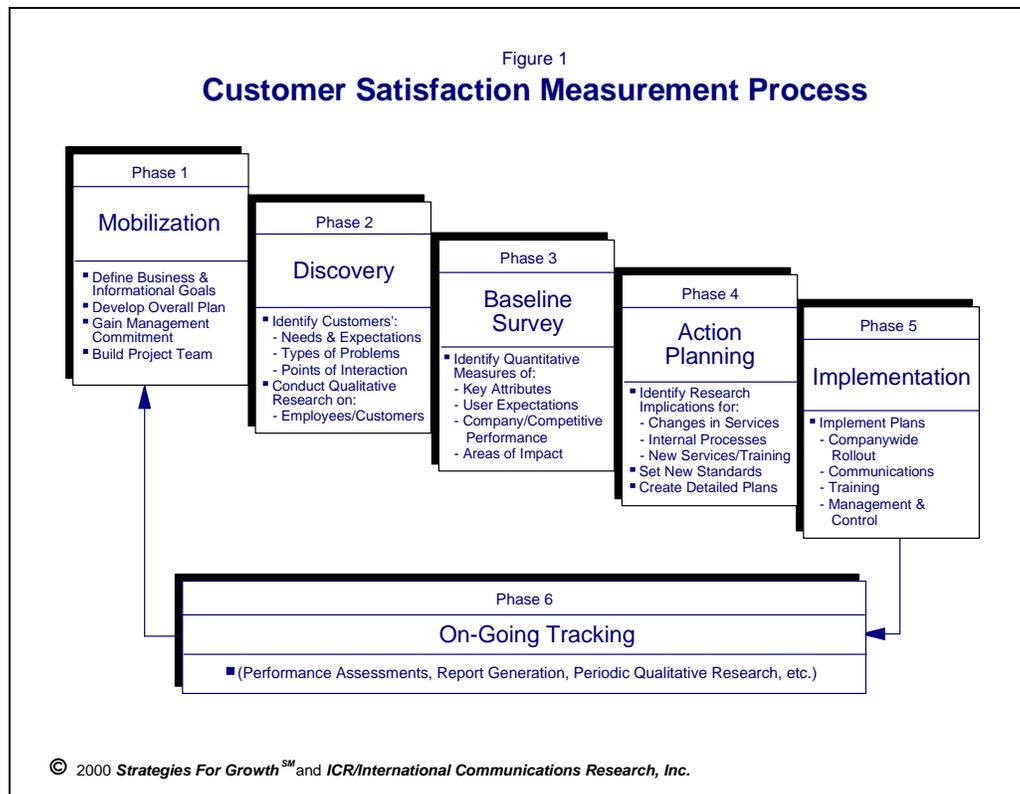
What Does/Should the Research Provide?

In building a customer satisfaction and loyalty improvement program, the research process allows management to *hear the voice of the customer* in terms of:

- Clarifying and defining specific customer needs and expectations,
- Identifying key drivers of satisfaction,
- Benchmarking performance against both customer needs and competitive performance,
- Determining organization strengths and weaknesses *vis a vis* the competition,
- Gaining additional insight into the sources of customer dissatisfaction and identifying specific areas requiring improvement,
- Providing the basis for a system that can inform management of problems or situations requiring immediate attention, and
- Identifying priorities and setting targets for quality improvement.

What Is the Customer Satisfaction/Loyalty Measurement Process?

Although every organization's customer satisfaction and loyalty improvement program is unique and distinctive, the recommended measurement process can be divided into six interactive phases (Figure 1):



Mobilization

Mobilization focuses on the definition and reconciliation of the organization's overall business and information goals for the purpose of developing an orchestrated plan for moving forward. It normally requires total management commitment in order to ensure that a full complement of resources, both human and dollars, will be available to effectively support the entire process. Many organizations build an internal project team represented by managers from sales, marketing, customer service, operations, administration and other key customer contact groups. These internal teams then interact on a regular basis to provide input and receive feedback throughout the duration of the process.

Discovery

Discovery represents the initial qualitative phase of the overall process. This is the phase where customers' needs and requirements, expectations and perceptions are first identified and reviewed. In addition, other key areas are addressed such as user purchase and behavior patterns; vendor selection and evaluation factors; current levels of satisfaction with the organization's performance; competitive performance ratings and perceptions; likelihood of, and reasons for, switching vendors; principal problem areas and recommended areas for improvement; willingness to recommend your organization to others; and other factors which may ultimately be used as indicators of customer satisfaction and loyalty.

Baseline Survey

The *baseline survey* is the first phase to utilize a quantitative approach to data collection and analysis. This includes the use of quantitative measures for identifying and assessing the importance of key attributes in determining levels of customer satisfaction (such as quality of service, reputation of organization, breadth of services provided, cost of service, et cetera). The baseline survey addresses both the organization's, and competitive, performance on each of the identified attributes, generally on a segment-by-segment basis. Expectations of specific levels of required performance are benchmarked, and the areas where the greatest impact of improved performance would then be identified, defined and prioritized.

Action Planning

The *action planning* based on the results of the customer satisfaction and loyalty measurement and analysis program also require a team effort in order to succeed. These teams should be selected from among the same customer contact groups identified earlier, all working under the management and control of the designated implementing department. Among the team's primary tasks will be to identify the specific research implications for the organization with respect to recommended changes, modifications, deletions or additions to the overall product/service portfolio; changes, consolidations or elimination of certain internal processes; development of new and/or improved products or services; and the updated levels of company documentation, training and instruction required. The ultimate task of the action planning team will be to set new or improved customer-driven standards for performance based on the input derived from the overall customer satisfaction process, and to use those standards to create a set of detailed plans for implementation.

Implementation

If all of the previous phases of the process have been successfully completed, the organization will now be ready for the *implementation* of the plan. This will typically involve a companywide (or organizationwide) rollout of the plan, complete with a comprehensive set of checks and balances and contingency plans along the way to ensure that no unforeseen obstacles will represent a major stumbling block for forward movement. Successful implementation will also require intensive corporate communications, coordinated management and personnel training and total management and control from the appropriately empowered implementation team.

On-Going Tracking

On-going tracking, monitoring and measurement is the only phase that has neither a start nor a finish. It is a constant and continuous effort dedicated to ensure that the total process is working. The major elements of this phase include the ongoing quantitative assessment of company performance and corresponding changes in customer satisfaction levels; the generation and use of easy-to-understand management reports; and the conducting of periodic qualitative research efforts to answer questions such as "*Are the key attributes originally measured still salient?*", "*Are there new or emerging attributes due to changes in the market, technology or competition?*" and many others.

A well-crafted and orchestrated tracking program will ensure that the customer satisfaction process will not end up being merely a "one-shot" exercise but, rather, that it will be an ongoing, and continuous provider of *actionable* data and information that can be used to improve service operations over the long term. Without this key ongoing phase, the entire process is likely to be limited to only a short term "fix."

How Do We Measure Customer Satisfaction and Loyalty?

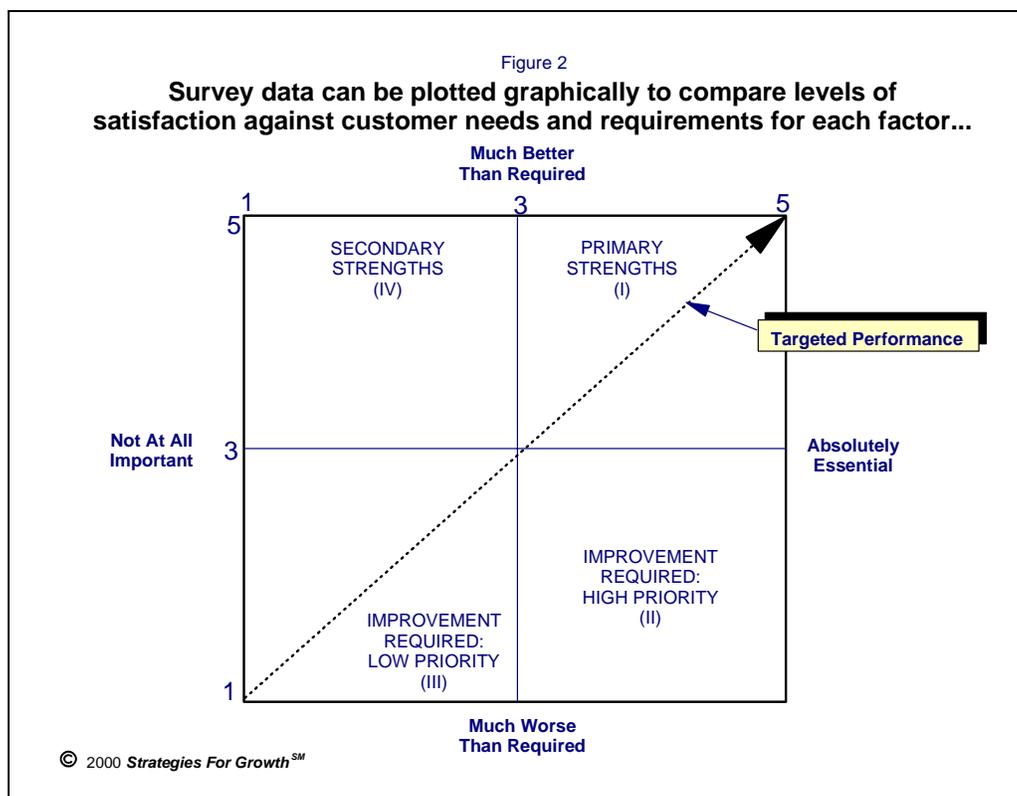
Ultimately, one of the major objectives of any customer satisfaction and loyalty improvement program is to measure customer satisfaction. In order to accomplish this, the choice of scales to be used in the measurement is critical. Although the specific scales selected must be based on an organization's individual needs and preferences, there are certain criteria that should be used in making this decision. The selected scales should allow for:

- The ability to discriminate between and among different levels of satisfaction;
- The use of an easy-to-understand, interpret and answer survey questionnaire, from the customer's perspective;
- Ease of administration, management and control;
- The generation of statistically valid and meaningful data results; and
- The flexibility to allow for room at the high end to reflect potential improvement in the future.

Obviously, there is no perfect scale that is best suited for all situations. However, recent experimental data comparing a variety of scales suggests that asking customers to evaluate performance relative to their requirements (e.g., *Exceeds, Meets, Nearly Meets, Misses Requirements*) yields a scale that performs well on these criteria in comparison to other scales which assess performance on scales with satisfaction-related anchors (e.g., *Very Dissatisfied to Very Satisfied*), performance-related anchors (e.g., *Excellent to Poor*), or no anchors (e.g., a 1 to 10 scale).

Figure 2 illustrates and compares a five-point satisfaction-based scale with a five-point requirements-based scale. Our experience suggests that distributions of responses using performance scales are similar to those using satisfaction scales. Therefore, we recommend the use of a five-point requirements scale.

Under certain circumstances, customer satisfaction and dissatisfaction may not translate directly into future purchases (e.g., equally or even more attractive competitive offerings; greatly reduced competitor prices; lack of alternatives; switching barriers). Therefore, we often recommend that loyalty be assessed because it relates more directly to purchase behavior. Loyalty measures have a behavioral component as well as an attitudinal component and indicate a customer's level of commitment to a particular company or brand.



In customer satisfaction research, loyalty is often measured by asking customers whether they are likely to repurchase and whether they are likely to recommend a company to someone making a purchase decision. We generally recommend that customer loyalty should be measured in different ways depending on the industry.

For example, a trucking company's customers may be asked whether or not they get multiple bids for a particular job. Fast-food customers may be asked, assuming that all of the fast food restaurants were conveniently located, how many times they would eat at a particular restaurant in a stated time period. A customer of a regulated utility might be asked whether it would continue to do business with the utility, if it had other options. An MIS director might be asked if he or she would choose another services vendor if there were no costs associated with switching.

How Do We Know What Is Important to Customers?

There is no single best way to assess the relative importance of specific aspects of performance (i.e., attributes). The choice of a method ultimately depends on the particular needs of the organization. The following alternative approaches are the most common methodologies used to measure the relative importance of attributes. These approaches include:

Rating Scales

The traditional method of assessing importance involves asking respondents to rate the importance of attributes on a five-, seven- or 10-point scale. Typically, the highest point on the scale is labeled "Very Important" and the lowest point on the scale is labeled "Not at All Important". When respondents are asked to rate how important a series of attributes is, they typically rate all attributes as *important*. This type of information is not very useful since there tends to be very little differentiation among attributes. For this reason, we

rarely recommend using this type of rating scale.

If, for some reason, this type of scale is the client's preference, we suggest using a scale with *verbal* anchors that are more rigorous. For example, the top importance rating might be worded, *Critically Affects My Ability to Do Business* instead of *Very Important*.

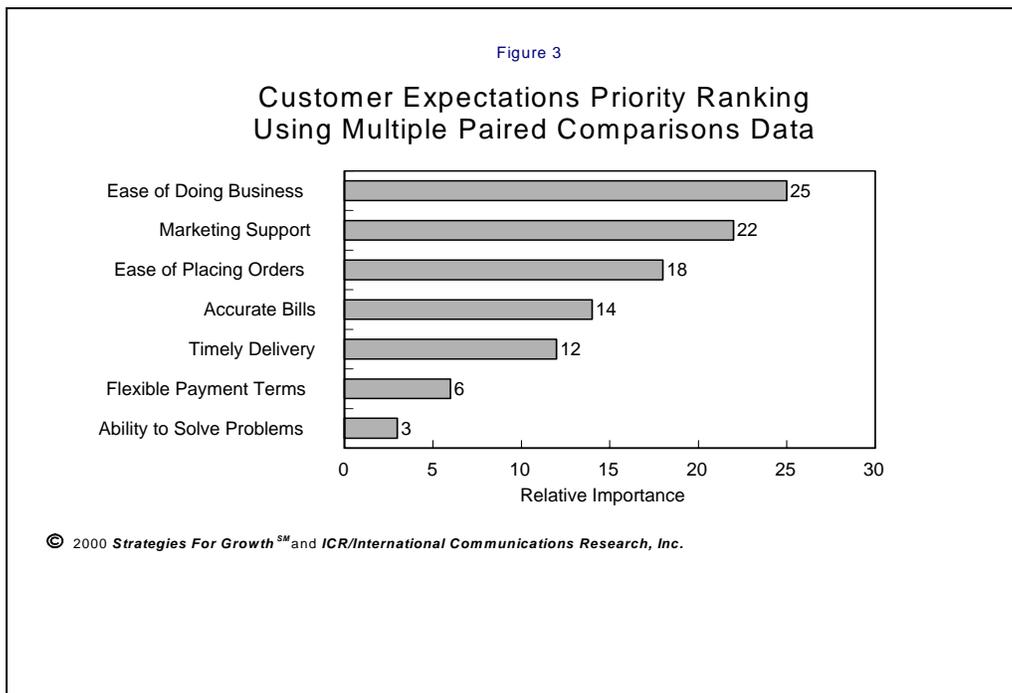
Multiple-Paired Comparisons

Multiple-paired comparisons is a technique that avoids the problem of little differentiation among attributes. This method allows customers to make trade-offs regarding the importance of specific attributes in the same way they would evaluate products or services in the real world. For example, a customer may be asked a series of questions such as:

"In considering your overall satisfaction with Service Organization X, which is more important to you?"

- *Ease of doing business or Accurate bills?*
- *Knowledgeable employees or Marketing support?*
- *Ease of Placing orders or Timely delivery?*
- *Flexible payment terms or Ease of doing business?*
- *Timely delivery or Flexible payment terms?*
- *Accurate bills or Timely delivery?"*

The choices that customers make in this task allow for the construction of a win-loss matrix that reveals how a given attribute performs against all others. Data from the win-loss matrix serve as input to an algorithm that produces an importance scale which describes the importance of each attribute relative to all the rest. This type of importance scale is represented graphically in Figure 3.



It is important to note that this analysis produces importance values that are proportional. That is, the value of 25 associated with "*Ease of Doing Business*" means that this attribute is four times as important as "*Flexible Payment Terms*" which has a scale value of six. Thus, a more explicit distinction is made between attributes that are critically important to customers as opposed to those of lesser importance.

Constant Sum

In this method, customers are asked to apportion some number of points, generally 10 to 100, among the attributes in a manner that reflects their relative importance in determining overall satisfaction. Implicitly, this method requires customers to make trade-offs between attributes since increasing the number of points they assign to one attribute reduces the remaining number of points available to assign to other attributes. Therefore, this technique typically produces greater differentiation among attributes, in addition to producing a ratio scale (i.e., values that are proportional) much like that produced by the multiple-paired comparison technique.

While this technique is useful for respondents who are comfortable dealing with apportioning numbers, some less analytical respondents may find the task somewhat confusing. Thus, its use should be considered with some caution in these special situations. Overall, this technique is best administered where respondents can actually view the list of attributes (i.e., via mail, in-person, etc.). For this reason, surveys conducted over the phone are generally not ideal for using this type of technique.

Regression Analysis

Regression is a useful method for assessing the relative importance of attributes when customers are unable or unwilling to directly state their relative importance. This is likely to occur when it is socially unacceptable to state that an attribute is important in determining your satisfaction (e.g., the influence of advertising on a purchasing decision). It may also occur when people are not fully aware of the variables that influence their satisfaction (e.g., the influence of brand name).

Regression determines the relative contribution of a group of attributes to overall satisfaction. This type of analysis examines the extent to which performance ratings that customers give the organization on each of the attributes are related to the customers' overall satisfaction. The higher the association between an attribute's performance scores and overall satisfaction ratings, the greater its impact or importance. In addition, this model indicates how much of the variation in overall satisfaction is explained by the attributes as a group.

While this model does not explicitly incorporate trade-offs, each attribute's association with overall satisfaction is assessed by controlling for the effects of the other attributes. Except when the individual attributes are very highly correlated with one another, this method provides a reasonably accurate measure of discrimination among attributes.

In addition to the general form of linear regression, Covariance Structure Models (LISREL) are extremely useful to explain the relationship among a set of observed variables in terms of a smaller number of unobserved variables. This type of analysis can be used to extract from an extensive set of attributes a number of latent factors that can predict overall customer satisfaction. The covariance structure model provides a set of structural equations and path diagrams that detail the various interrelationships among attributes, groups of attributes and customer satisfaction.

Hypothetical Choice Models

All of the methods discussed thus far deal with the relative importance of attributes in general. For example, if *Responsiveness to Inquiries* is shown to be a very important attribute, the above approaches would not, in and of themselves, specify the *levels* of this attribute that are important to a customer. In other words, is it important that a customer service representative know the answer right away, or that the customer representative knows where to get the information and get back to the customer within an hour or even a day?

To assess the relative importance of specified levels of attributes such as *Responsiveness to Inquiries*, hypothetical choice models can be used. There are a variety of ways to implement this type of approach. However, they all require having customers assess their relative preference or satisfaction with a set of different product/service profiles (i.e., alternatives). Each of these profiles are described in terms of specific levels of every attribute.

Analysis of the data quantifies the relationship between customers' overall preference (or likelihood of purchase) of a particular offering as described by the series of profiles and the specific product and service levels. By doing so, this type of analysis is able to reveal the relative importance of each level of an attribute in determining overall satisfaction (or the decision to purchase).

Scores that show the impact of an attribute on overall satisfaction (i.e., utility scores) are also produced by this type of analysis. A utility score is associated with each level of each attribute - in other words, the higher the utility score, the greater its value is in terms of its positive impact on customers' overall satisfaction with an organization's products and services. When utility scores are combined with respondents' perceptions of each product or service on each factor, it is possible to simulate customer behavior to determine the likely market share a product or service will achieve before committing large sums of money.

While this type of approach provides a level of detail that the other analyses do not, it has several drawbacks as well. First, because this approach involves levels of attributes, large designs are generally needed. Because the time required for individuals to complete this size design is prohibitive, designs typically are split and as a result, much larger samples are required. Also, this type of approach is often used in an in-person interview, substantially increasing research costs.

How Do We Use this Information to Improve Customer Satisfaction and Loyalty?

Case 1: Strategic Analysis - Maximizing Overall Satisfaction by Identifying Critical Areas for Improvement

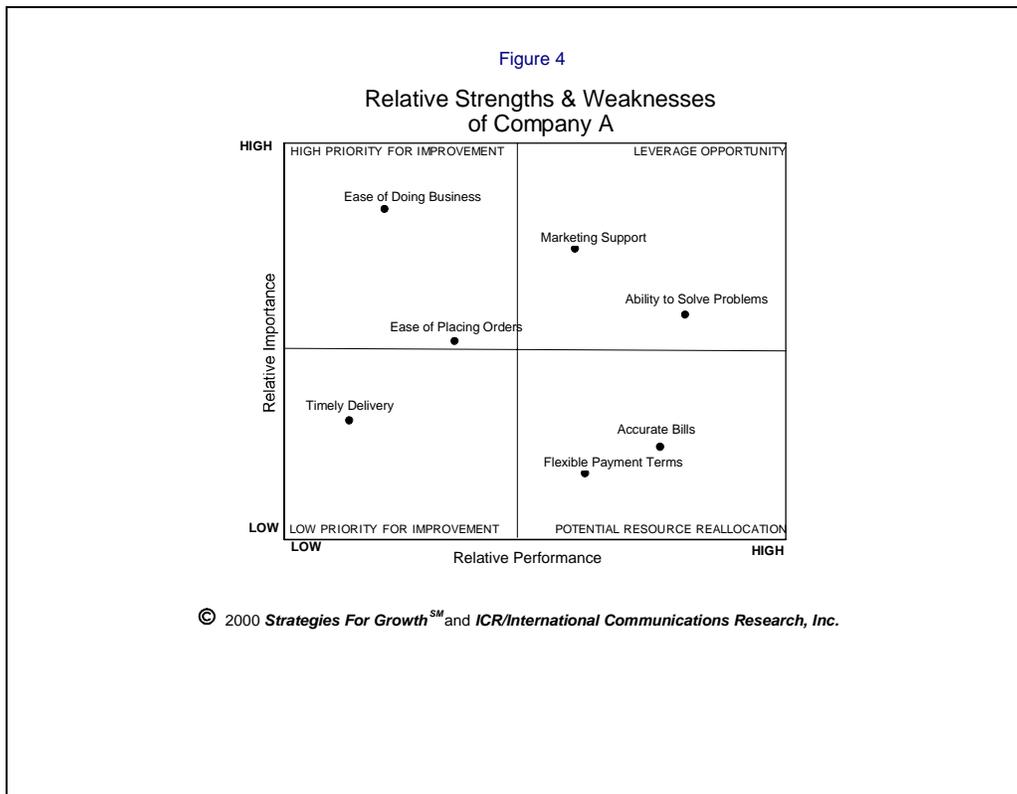
By clearly displaying the relative importance and performance of each attribute from the customers' point of view, a graphic analysis of this information can be used to pinpoint the specific attributes to focus on, in order to have the greatest impact on overall satisfaction (Figure 4). This type of graphic analysis is often referred to as a quadrant analysis because it divides the set of attributes into four categories or quadrants. Strategies are suggested for each attribute according to the quadrant to which it is assigned:

High Priority for Improvement: Attributes which are *extremely important* relative to other key drivers but score *lower* relative to other attributes in terms of customer satisfaction;

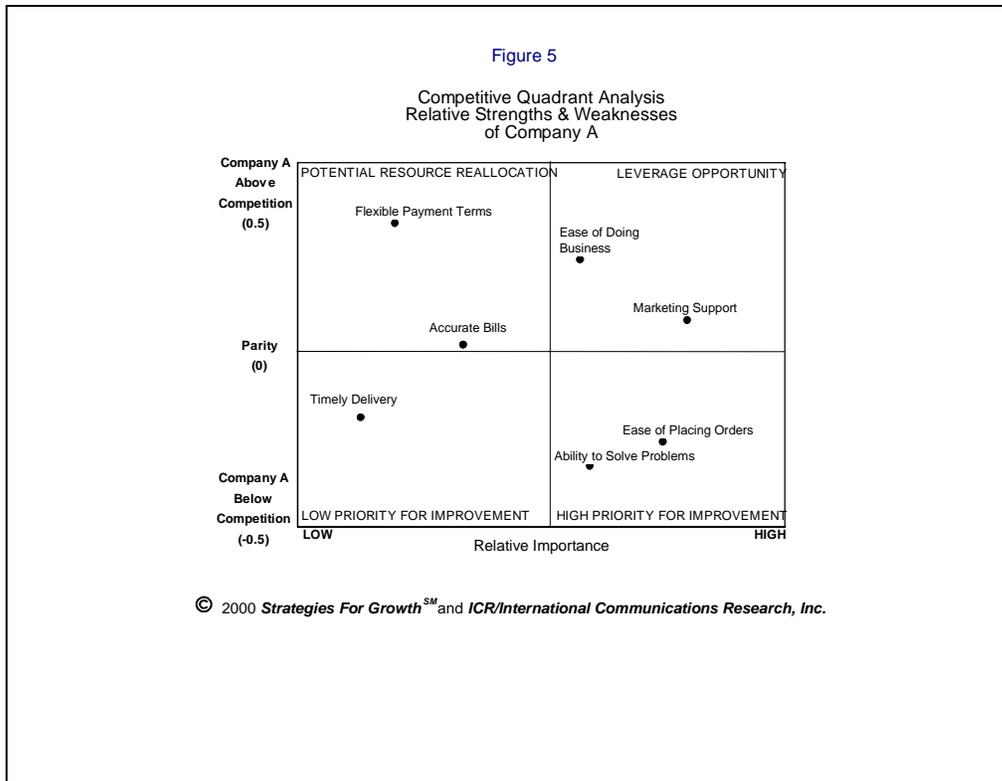
Potential Resource Reallocation: Attributes which are *less important* relative to other key drivers but score *higher* relative to other attributes in terms of customer satisfaction;

Leverage Opportunity: Attributes which are *extremely important* relative to other key drivers and score *higher* relative to other attributes in terms of customer satisfaction; or

Low Priority for Improvement: Attributes which are *less important* relative to other key drivers and score *lower* relative to other attributes in terms of customer satisfaction.



Another type of quadrant analysis, which we call a competitive quadrant analysis, allows a organization's performance to be evaluated in a competitive context (Figure 5). That is, relative performance in this analysis is based on the organization's performance relative to its major competitor, or an average of all competitors.

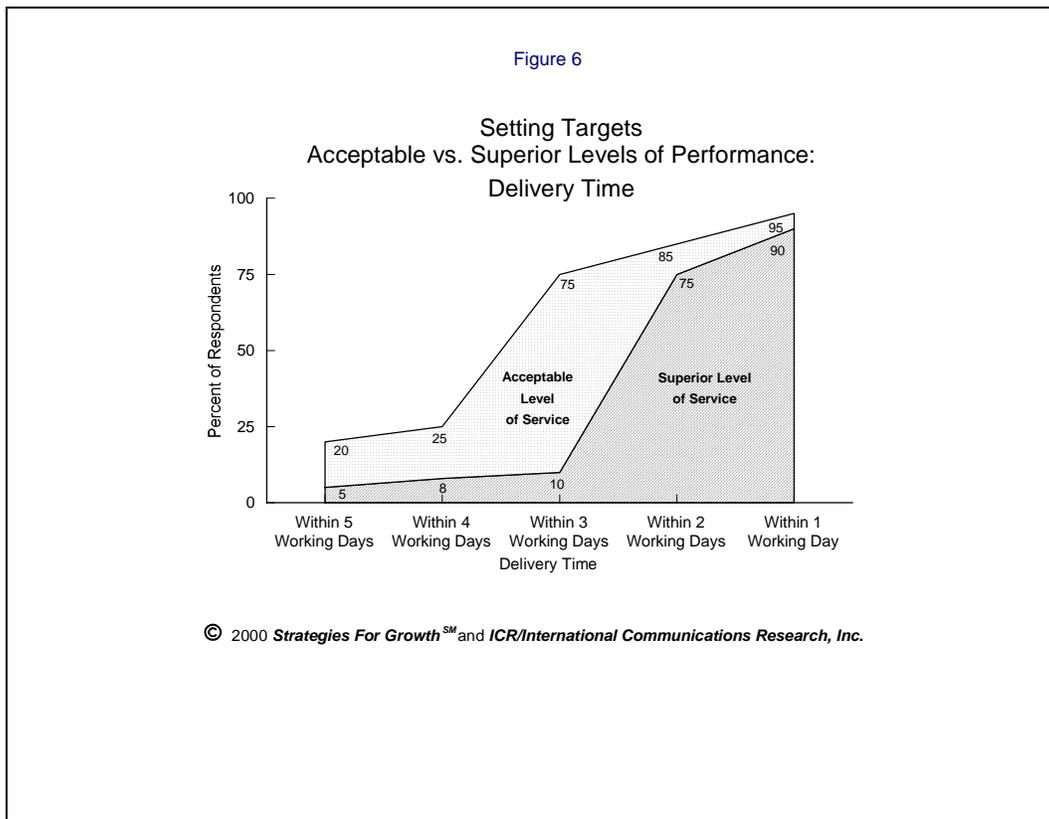


Obviously, there are many practical considerations that need to be taken into account when determining strategies for improving overall satisfaction. Besides relative importance and performance of attributes, one must also consider other issues such as the amount of resources required to have a positive impact on a given attribute. Also, the potential synergy among attributes may have an impact on strategy. For these reasons, the results of the quadrant analysis should not be considered a final prescription, but rather one of several inputs in determining strategies for maximizing overall satisfaction.

Case 2: Specific Levels of Performance - Setting Targets and Establishing Key Indicators

Often, it is not enough to know that a particular area or attribute needs improvement. More information about the specific level of performance is necessary. For example, if an organization finds that its customers are dissatisfied with delivery time, it has to determine more specific time objectives for employees involved in this process. In order to allocate resources effectively, it is necessary to understand the customers' perceptions regarding the specific levels of performance (in this case, delivery time) that represent current, acceptable, and superior levels of service. In this way, management can allocate its resources more efficiently by developing and focusing on objectives that are congruent with customers' expectations.

Figure 6 illustrates some representative data that could conceivably be collected on specific levels of performance for delivery time. As observed, this type of graph is very useful in determining the actual number of hours that define *acceptable* and *superior* levels of service in the eyes of customers. For example, only 25% of customers view "within 4 working days" as acceptable while 75% of customers think "within 3 working days" is acceptable. Therefore, in order to minimally satisfy three-quarters of the customers, a delivery time objective must be met. If, on the other hand, management hopes to provide what most customers think of as *superior* service, it must improve the level of service to "within 2 working days". Only then will the majority of customers (75%) view this level of service as *superior*.



How Do We Get the Overall Process Started?

Measuring customer satisfaction is a necessary process for all businesses, and particularly those that are highly customer-interactive, such as the services and support industry. However, simply because an organization's customers appear to be satisfied with its products and services today, does not ensure that they will remain satisfied forever. The easiest way to identify customer dissatisfaction is to count the number of customers that have switched to other vendors; but the most effective way to address dissatisfaction is to prevent it from happening in the first place.

Designing and implementing an effective customer satisfaction and loyalty improvement program can only be accomplished if the organization makes a total commitment to design, implement, track, monitor and manage its service delivery performance and corresponding levels of customer satisfaction through an orchestrated process, on an ongoing and focused basis. Through this total effort, the prospects for developing a stronger base of customer loyalty can be greatly enhanced; but the first steps must always start with commitment to, and the development of, the appropriate processes to get it all done.

*William K. Pollock is President of **Strategies For GrowthSM**, a Westtown, Pennsylvania USA-based consulting firm specializing in business planning, customer service and customer satisfaction research. He may be reached at 610-399-9717 or via e-mail at wkp@s4growth.com.*