



RESOURCES

www.ShawResources.com

---

## Are Your "Satisfied" Customers Leaving You for Higher Value Elsewhere?

By

James Shaw

Copyright © 2002 Shaw Resources, all rights reserved

Did you know that, in some industries, "recruiting" new customers costs average 700% more than retaining current ones? Did you know that a happy customer will tell 2 - 3 friends about a positive experience - but an unhappy customer who has deserted your company will tell 10 - 13? So, do you measure your customers' loyalty - or just their satisfaction?

*Satisfaction* is an inherently unstable and temporary mental state brought about at the moment of having a need met.<sup>1</sup> But just because a customer is satisfied with your product or service, doesn't mean that they will come back to you. Ask yourself, "Does the value my customers receive keep them coming back and referring others to us? How do I know my customers will return?"

### *The Problem with Satisfaction Surveys*

A deceptive, but easy to use, tool that is imperfect for measuring the value an organization delivers to its customers. They are based on our questions and measurement scales, not the customer's.

Satisfaction Surveys are grossly imperfect as a tool for predicting whether customers will purchase more products and services. Instead of being obsessed with delivering higher value to their customers, management becomes obsessed with achieving high scores. These scores ignore critical distinctions among customer segments. Unlike customer needs and the market itself, the questions are unchanging. Typical satisfaction survey measurement scales are *not* done from the customer's

point of view - they measure management's point of view of what the customer wants.

For example, UPS was under the mistaken impression that their customers wanted their packages earlier in the day, and they worked hard to implement things that sped up delivery: the drivers' seats were rounded at the corners, drivers had maps of the buildings to get the package to the right place earlier, and so forth.

Then, one year, UPS management changed firms for their satisfaction survey to a firm that employed a loyalty type survey. They discovered that customers gave UPS no credit, no increase in satisfaction, if the package got there earlier than a specific hour, 10 a.m. What's more, their customers reported that what they really wanted was for the driver to spend a little time and not just get through the front door and throw the package at the receptionist, but to actually answer questions about shipping and such. As a result, UPS invested \$5-6M in additional trucks and drivers and the following year, their revenues increased by more than \$25 million.

### *Measuring Customer Loyalty*

Companies serious about measuring the value they deliver to customers do not rely *solely* on satisfaction surveys. In order to measure your customers' loyalty, observe their behaviors.<sup>2</sup> Find out about their actual repurchases: recency, frequency, amount, retention, & longevity. A classic example of this is the mileage programs for airlines.

**Track referrals:** who referred you? Are new customers being referred rather than resulting from a random yellow pages search? This doesn't mean that you stop advertising in the yellow pages, it's just that you want to drive up the number of referred customers you are getting.

**Solicit third party endorsements and testimonials** from repeat customers. People respond more readily to "word of mouth advertising," so use them in your newsletters, brochures, web site and other "spreading of the word."

**Measure your key customer interactions**, at points that I call "moments of truth." These interactions are measured at the time of completion of the service and involve dialoging with the customer through complaints, online surveys, customer service follow up calls, or just asking how they felt about the service they received. It is these "moments of truth" that give you the biggest opportunity to forge a relationship with your customer and ensure that they will come back and refer others to you.

For example, the other day I was at a local coffee shop, and the owner asked me, "How was everything?" And I replied, "The service is great, the food is great, but that music in the overhead is horrible." The owner kind of laughed, he was completely blown away, so then I went on, "I really don't come here much because the music is terrible, and, in addition, it's loud. Maybe you could provide a quiet section."

He countered that surveys show 75% of customers liked to have music, and I said, "Well, that means that 25% don't." and I pointed to a speaker that he could easily turn off and it would pretty well solve this problem. He agreed and did it right then.

When you have contact with a customer, ask them about their intentions to repurchase and track their responses.

- ❑ Based on your experience with us, do you expect to repurchase from us?
- ❑ When?

This information can feed your customer relations pipeline by giving you the opportunity to touch base with them again around the time they said they would be looking to repurchase.

### *Lessons from Baldrige Winners*

This is shown clearly in the stock performance of companies that have won the Malcolm Baldrige National Quality Award - returning 2.7 times, or more, than the S&P 500 performance.<sup>3</sup>

Winners proactively solicit input from all customer-contact staff, or "listening posts," including:

- ❑ New customer perceptions (e.g., via interview)
- ❑ Observations of customer behavior & key events (leading indicators)
- ❑ Observations of customer behavior during product/service follow-ups
- ❑ Turnover (win/loss) of customers
- ❑ Market research findings
- ❑ Surveys that include customers of competitors (lagging indicators)
  - How do you get that information?
    - Big industries have surveyors - JD Powers for automotive - who collect, analyze and sell the information
    - Market research - mystery shoppers
- ❑ Complaints

This last point, of course, is where your company has one of the biggest opportunities to retain a customer. Six out of seven customers who should complain, do not complain. They silently take their business elsewhere and you may never know it. **The one in seven customers who do complain are saying, if only you could correct the situation, they would like to continue doing business with you.**

### *Possible Actions to take*

So, what do you do now? First, determine if you have fallen into the "satisfaction survey trap." If so, look at implementing other tools that measure loyalty, such as intent to repurchase, and "moments of truth" interviewing. Encourage and solicit feedback from all your customer-contact employees - they're on the front line and have the best opportunity to find out what your customers think of your service or product and the company itself.

Implement a way to track customer turnover and referrals. This could be as simple as follow-up calls to your customers to find out if they will purchase from you again in the future, or if they have gone over to another supplier. If they have defected, tactfully find out why, if possible. Find out who is referring you new customers - and thank them for their loyalty. A simple thank you note will do - and that may very well net you more referrals.

Next, look at your "complaint culture" - do your employees report complaints, understanding that this is a way to improve customer relations, or do they hide them, afraid of personal reprisals? When complaints are reported, are steps taken to rectify them in a timely manner, or do they just receive lip service? Remember, the customers who complain are really saying that they want to continue doing business with you if only you will fix this problem for them.

To retain these "nuggets of gold," encourage complaints and feedback, make it easy for customers and your own employees to report problems. Then put a system in place that will make certain the issues are resolved in a timely manner. If you implement a correction that prevents all future occurrences, you will also keep the six out of seven who would otherwise leave without a word - and that's a huge addition to the bottom line.

*James G. Shaw, M.B.A., is two-decade veteran of Silicon Valley's high technology industry. He is founder and President of Shaw Resources, Cupertino, CA, whose mission is to provide methodologies and associated tools that enable executives and key managers in all types of organizations to initiate and lead organizational performance improvement initiatives. Shaw Resources is the holder of the only U.S. patent ever granted for improving organizational quality.*

*Mr. Shaw is a six-year member of the Board of Examiners for the Malcolm Baldrige National Quality Award where he served as a senior examiner and as an alumni examiner. He also has been responsible for the judging process for California's Governor's Award.*

*Mr. Shaw may be contacted via telephone at 1-888-ShawRes (742-9737) or via email at [Jim@ShawResources.com](mailto:Jim@ShawResources.com) or via the web site <http://www.ShawResources.com>.*

<sup>1</sup> - Reference: Reichheld, Frederick F; *Learning from Customer Defections*, Harvard Business Review, March-April 1996,

Reprint #96210, 617-495-6849

<sup>2</sup> - Reference: Jones, T. & Sasser, E.; *Why Satisfied Customers Defect*, Harvard Business Review, Nov-Dec 1995,

Reprint #95606, 617-495-6849

<sup>3</sup> - Source: NIST Update, Dec 1 1997, FAX requests to 301-975-2767

Copyright © Shaw Resources, 2006, all rights reserved. (888-SHAWRES), email: [Info@ShawResources.com](mailto:Info@ShawResources.com); [www.ShawResources.com](http://www.ShawResources.com). You may reproduce this article provided: 1) each copy you generate is of the article in its entirety, without modification of any kind; 2) you receive no fee whatsoever; and 3) this copyright and permission notice, including the contact information, must be prominently displayed on each copy produced.