Customer Satisfaction Research – The Need For a New Way Forward

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Presented at the MRSA Conference in Sydney October 16, 2000

Numerous organisations around Australia in both the private and public sector currently conduct Customer Satisfaction or Customer Loyalty Research, and so it is no longer a new area of research.

Many organisations have conducted this type of research for a while, and while organisations feel they get some benefit from it, they keep hoping that there might be something better around the corner; something that will really change the way they are doing things and have a significant impact on customer retention.

Much of the blame for the lack of impact customer satisfaction research has had on the level of service provided by organisations falls on what the organisation actually does with the information. But is market research actually delivering the right answers? And not only the right answers, but are those answers in a form that is understood and able to be actioned by the organisation itself?

This paper aims to challenge some of the ways currently used to conduct Customer Satisfaction research and offers some potential solutions to those questions that often plague this area of research.

Specifically, this paper will cover the following areas:

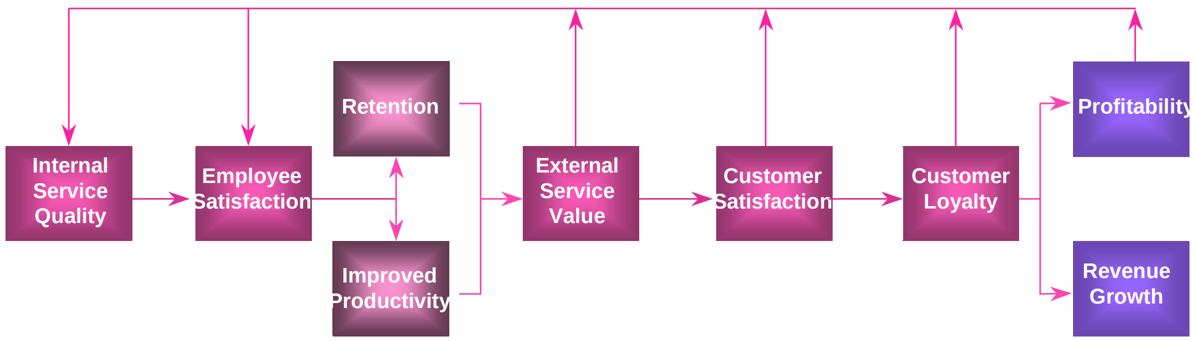
- An organisational context for Customer Satisfaction Research
- Why conventional measures of importance fail to provide the right answers
- What should we be measuring in terms of individual attributes?
- What should our ultimate goal be – customer satisfaction, customer loyalty or customer value?

An Organisational Context

The Service-Profit Chain (Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994) is one of the empirical texts that puts much of what we are trying to achieve through this type of research into context.

As a commercial organisation, we are trying to achieve increased profitability and revenue. In a government context, cost minimisation or value maximisation are similar aims.

The Service-Profit Chain



It has been proven that high levels of internal service quality (good service between departments and divisions) leads to higher levels of employee satisfaction. The happier employees are, the more likely they are to stay and the better their productivity. These two factors combine to provide better levels of service to customers, creating higher levels of satisfaction and higher levels of loyalty.

While some arguments exist as to the validity of the link between customer satisfaction and loyalty, the fundamental concept does apply to most organisations.

With the advent of relationship marketing, we have seen a plethora of so-called product and service enhancements which aim to tie us in to the organisation and create this sense of loyalty, but most leave us confused, stressed, manipulated and often annoyed (Fournier, Dobscha, Mick, 1998).

We get hounded every time we enter the bank to see if we are interested in a new home loan, we are overwhelmed by the number of variations of products on the supermarket shelves, we still haven't worked out what all the buttons in the car do and another frequent-buyer rewards program probably isn't going to get our attention.

Ironically, the very things organisations are trying to do to forge closer relationships are actually driving the customer away. Why? Perhaps we don't really know what creating a relationship really means. Perhaps we don't really have the answers to what creates customer loyalty in the first place.

In many organisations, there is literally a brick wall between management and front-line staff. Management has got so far away from the people on the front-line that they fail to understand what issues are really at the forefront of customers' minds and what barriers exist for front-line staff to do their job effectively.

Most people want to do a good job and keep their customers happy but they are hamstrung by the processes, the procedures, the management and the cost-cutting nature of today's organisations. People don't even feel confident that they will have a job next month or next year, and that lack of security is leading to many more de-motivated employees. And remember, we want motivated employees to provide good service.

Customer satisfaction surveys are really about providing a bridge of information between front-line employees (who usually know what is going on) and management (who often don't), to help guide the strategic planning of an organisation. How effective they are in achieving that goal depends on the information they get.

The three key objectives of Customer Satisfaction surveys are:

- What is important to customers (relative priorities by segment)?
- How well is the organisation performing (versus competitors, benchmark organisations or expectations)?
- What improvements are required to retain customers and add value for the customers?

In trying to achieve the first two objectives, market researchers can fail to provide the right answers or communicate these answers effectively. In trying to achieve the latter objective, we often fail in making the results actionable.

Measuring Importance

What should importance measures be telling you? They should answer three questions:

1. Relatively, how important is each issue?
2. What are the priorities?
3. How do we segment the market base to cater to different needs?

Basically, the ways we can measure importance can be categorised into two types: stated and derived measures.

Stated Measures of Importance	***Derived Measures of Importance***
• Likert scales	• Correlation analysis
• Semantic differential scales	• Factor and Regression analysis
• Weighting to 100 points	• Conjoint analysis/trade-off analysis
	• Structural equation modelling

Stated Measures of Importance
As a whole, stated measures of importance are more time consuming for the respondent, but do allow us to conduct needs-based segmentation analysis, rather than assume we can identify segments in the market through standard cross tabulations or demographic breakdowns. You also do not need to have large sample sizes, a limiting factor when using derived measures of importance.

Stated measures of importance also allow us to measure future needs. Rather than simply focussing on the service levels currently received, we can ask likelihood of usage of new services or products as well.

Stated measures of importance include:

- Likert scales where each point on the scale is defined. Depending on the scale used, this approach can provide an excellent methodology for measuring importance, although its ability to provide relativity is somewhat limited. The key, however, is to allow a top-heavy weighting on importance, otherwise every attribute is rated as important.

From experience, the best scale to use is:

1. Essential (or critical)
2. Very important
3. Important
4. Not very important
5. Not at all important

- Semantic differential scales: The key weakness with this type of scale is that every attribute is rated at the top end of the scale, providing no relativity between the issues measured. It also becomes difficult for the client/ researcher to decide which number(s) should be included in the measure of importance (should we just include 5 on a five-point scale or 4 and 5?).

- Constant sum approaches ask respondents to divide up 100 points across a number of attributes. This approach is very cumbersome and creates problems for many respondents who have difficulty with the complexity of the task. While it provides a relative measure of importance, it limits the number of items you can measure without completely overwhelming the respondent.

Derived Measures of Importance

In general, derived measures of importance require large sample sizes but reduce the burden on respondents in terms of the number of questions asked. Derived measures require you to analyse groups of respondents rather then individual respondents and determine what issues the group as a whole consider important. Most make the assumption that overall performance measures can be derived from performance on individual attributes.

This means, it does not take into consideration things like hygiene factors (attributes that you don't need to improve on, but if you get them wrong, you can really annoy customers). Also, trying to explain the statistics can be quite difficult no matter how experienced the researcher is. Some clients just cannot grasp the concepts used, and while the managers might understand, front-line and shop floor staff really struggle. And understanding is the first step to believing the results, which people must do before they act on them.

Derived importance measures include:

- Correlation analysis: The key problem with this approach is multi-collinearity, that is, these techniques assume that each attribute being measured is independent from each other. But something like friendly customer service staff is likely to be similar to helpful customer service staff – they are not independent attributes; similarly on-time delivery and stock availability.

- Factor and regression analysis (combination): Factor analysis prior to regression analysis reduces a significant proportion of the impact of multi-collinearity. However, there is an underlying assumption about which we must be careful. We use the regression coefficients as a measure of what drives customer satisfaction or loyalty. This assumes that if we improve performance on an attribute with a high regression coefficient, overall satisfaction will improve. This is not necessarily a valid assumption. There may be a high correlation between the attribute and overall customer satisfaction, but improving performance on that attribute may result in no further change in overall customer satisfaction, that is, it is already at its optimal performance level. Thus, the relationship between needs and overall satisfaction is not necessarily linear, an assumption critical to the use of regression analysis in the determination of importance.

* <u>Conjoint analysis</u> is a little different. It requires respondents to compare a package of goods and services and make a decision about which they like best. You either have to test lots and lots of packages or keep the processes being measured at a very simple level. And there is the issue of whether the respondents can even comprehend the sometimes minute detail between the two or more options being considered.

* <u>Structural Equation Modelling</u>: In an ideal world, this approach provides the researcher with a comprehensive method for understanding the interrelationships between the various issues being measured. But it is very difficult to understand and explain, and the sample sizes required are usually too prohibitive for the average research study.

<u>So What Works Best</u>

In a recent study in the financial services area, we used a combination of stated and derived measures, which worked particularly well. Respondents were asked how important each issue was on a Likert scale: Essential, Very Important, Important, Not Very Important, Not at all Important, and subsequently, factor and regression analysis was also conducted. In addition, a number of potential new services were measured in terms of likelihood of use.

Prior to the quantitative study, however, the usual qualitative focus groups were conducted. In this process, we asked respondents to define their requirements under three headings:

1. <u>Basic or Core needs</u>: These needs are fundamental to the organisation even being in business. Performance needs to be high in these areas, but often exceedingly good performance does not create any competitive advantage. Poor performance can, however, seriously damage any further opportunities with those customers. Sometimes, however, performing at the top end of the scale actually diminishes the overall satisfaction experienced by the customer, as a sense of distrust emerges, or a perception that performance cannot be maintained.

2. <u>Second Tier Needs</u>: These needs are of lesser importance to the core needs, but performance variation is more elastic. High performance tends to create high satisfaction (although often at a lower magnitude than core needs), low performance creates low satisfaction. In a factor and regression analysis, these needs <u>sometimes</u> emerge as more important than the core needs.

3. <u>Value-Added Needs/Opportunities</u>: These needs are things the company hasn't even done yet, but the customers perceive value in trying them. So often our customer satisfaction surveys are focussed so much on the past, that we forget about the future. Identifying these needs in the qualitative stage and measuring likelihood of usage in the quantitative stage adds a further dimension to the research otherwise not available.

In the quantitative stage, the two key outcomes were, firstly, we were able to plot Stated versus Derived Importance measures (difference from the mean score) on each of the factors (using an average importance score for each attribute within the factor to measure stated importance). This approach highlighted some interesting insights into the needs being measured:

* Some issues were more important implicitly (derived importance) indicating that people knew the issue did not affect the performance of the company, but gave them a sense of trust that would not otherwise be there; and

* Some issues were more important explicitly indicating that the need was perceived very much as a logical need – of course people want it, but either performance was very similar across all companies or it was so basic a need that all companies performed well on the issue, otherwise they would not be in business.

Secondly, we were then able to conduct a needs-based segmentation that allowed us to look not only at the current needs, but also future needs of various groups of respondents. This provided important insights as to whom these new services should be targeted.

Thus, there are benefits in looking at both stated and derived measures of importance, and doing one without the other, particularly without the added benefit of the insights qualitative research can provide, may actually be leading the client astray. Understanding the level of need (basic, second tier or value-added) and incorporating stated importance measures should be considered compulsory before attempting to analyse any of the derived measures of importance.

What Should We be Measuring

Researchers understand the need to measure attributes customers consider important, rather than issues that management perceive are important – this is a fundamental statement of Customer Satisfaction research. The question is how wide-ranging should those attributes be and how should we define good performance?

Many clients want to focus on the transactional issues of service quality believing that these are fundamental to the satisfaction of customers. But many of these needs are what we would consider second-tier needs rather than core needs, and rarely extend into value-added needs.

We miss some very important aspects if we limit ourselves to transactional issues only. What about quality? What about price? What about corporate image?

Many researchers might be thinking to themselves, where does corporate image come into the equation? The answer lies in the concept of Corporate Equity, that is, brand equity but for a company rather than an individual brand.

In Brand Equity studies, we measure brand loyalty, brand awareness, perceived quality, brand associations, etc. With the exception of the latter issue, are these not the same things that we measure in customer satisfaction?

In some recent studies on Customer Satisfaction Research (Boulding, Kalra & Staelin, 1999 and Bloemer & de Ruyter, 1999), they confirmed some interesting insights into how people actually responded to the questions they were asked:

- As customers become more experienced with the company, the most recent experience has less impact on their rating of the service received, that is, the more experienced they are with the company, the less likely they are to change their opinion from one recent experience, and

- High equity firms have more customers with positive beliefs.

Hence, it is important that we understand and measure the attitudes of the individual customer to the company as a whole, that is, corporate equity, before we start to measure specific service attributes.

Issues of trust, commitment, stability and consistency of service particularly have actually been shown to have far more impact on repeat purchase than most of the issues measured in transactional satisfaction surveys. This finding is related specifically to companies offering products and services with a least some involvement from their customers (Garbarino & Johnson, 1999). Low involvement customers are often more focussed on their satisfaction with the last service encounter in terms of future purchase intentions.

In another study (Rust, Inman, Jia & Zahorik, 1999), the research found that

"Worse than expected quality hurts more than better than expected quality helps"

The finding highlights another aspect of how we actually report and act upon the results achieved. If worse than expected quality hurts more than better than expected quality helps, we must aim for two things:

- To eliminate bad experiences
- To provide more consistent quality

In other words, it is not sufficient for a company to try to increase its overall quality, it must try to reduce the risk of performance not meeting expectations. But does that mean that companies should not strive for excellence?

With customers who have little experience with the organisation, the ability to exceed expectations will create very positive outcomes in terms of loyalty, so long as they can be maintained consistently over time. So while occasional excellence will have little impact on long-term customers, sustained excellence will have significant impact on short-term customers in a relatively short time, and on long-term customers over the longer term.

As researchers, we must focus on poor performance areas as our first priority, rather than trying to improve our measures of excellence (very good is probably good enough). There should, however, be no room for mediocre performance – average, good, satisfied. Performance needs to be better than good to create positive change in customers' decision to stay.

There is an exception to this finding. When dealing with core needs, it is often better to be on a par with competitors – that is, meet expectations – than to exceed expectations. When looking at overall satisfaction scores of those people rating an organisation above expectations, we often noted a decline in overall satisfaction levels from those who considered the performance met expectations.

To summarise, in terms of individual performance measures, the inclusion of corporate image within a customer satisfaction survey, particularly issues of trust, commitment and consistency should be considered. Secondly, consistency of performance may actually be more important than excellent performance. Very good performance should be sufficient, although sometimes just meeting expectations might be enough.

What Should Our Ultimate Goal Be?

Overall Customer Satisfaction is still the predominant measure used in surveys of this nature, although it is often accompanied by some measure of Customer Loyalty.

The Customer Satisfaction paradigm usually states that meeting expectations leads to satisfaction, exceeding expectations leads to high satisfaction and not reaching expectations needs to dissatisfaction (Oliver, 1996).

Yet expectations might encompass a range of performance standards, for example: forecasted performance (what the customer expects will happen), deserved performance (just rewards for customer input), equitable performance (performance consistent with a perceived set of costs), minimum tolerable performance (what performance must be) and ideal performance (the optimal performance) (Buttle, 1995).

In addition, some studies have postulated that satisfaction can take many forms: contentment (acceptance or tolerance), pleasure (positive reinforcement), relief (when an experience rises above previous bad experiences), novelty (creating interest or excitement) and surprise (delight or outrage when a service performs outside of expectations). (Oliver, 1989)

So, when we consider a measure of satisfaction, what is it exactly that we are measuring, and what exactly does it mean when a customer says he or she is satisfied?

Is satisfaction enough? Again, much of the research suggests that many satisfied customers will, in fact, defect.

Thus, loyalty measures were introduced alongside customer satisfaction measures. But loyalty measures are similarly confusing. Are we measuring intention to repurchase, exclusive brand-sets, increased purchase volumes or non-switching behaviour?

One interesting view of loyalty as a continuum emerged in a study by Oliver in 1999. Here, loyalty was defined as four distinct phases:

- Cognitive loyalty: a preference for one brand/supplier over others based on information such as price, features, service, etc

- Affective loyalty: the development of a liking or attitude of the brand/supplier satisfying usage situations

- Conative loyalty: an intention or commitment to repurchase the brand/supplier

- Action loyalty: not only an intention to repurchase, but this state is accompanied by a desire to overcome obstacles that may make repurchase difficult.

But how likely is it that a company will have even one customer who is prepared to go to such lengths to buy a product or service from one company, when there are others that could fulfil the same need (Action Loyalty)? Should we even expect customers to buy only from one company and not try out a competitor to reassure themselves they are getting a fair deal?

Perhaps a company's ultimate goal should be to have their customers' trust: *"I trust you to do the right thing by me".*

Trust is a concept that is universal to all cultures. It is a key concept within the area of relationship marketing, but applies equally to low involvement industries such as electricity supply. People understand the concept of trust and everything that trust incorporates. A concept such as customer value is far less understandable and can mean many things to many different people.

Trust incorporates the issue of consistency – a key component of performance measurement as discussed earlier. It assumes bad experiences will not occur. It conveys that something extraordinary (positive) is not out of the question. It implies a strength of relationship, and yet it does not assume that a customer will exclusively use that organisation forever and ever – an anachronistic concept in these times of radical change.

While more research is needed into the concept of trust within the environment of what a customer satisfaction survey is trying to achieve, this concept provides an opportunity to incorporate a more holistic, but less complicated, customer behaviour to supersede both customer satisfaction and customer loyalty.

Summary

During the course of this discussion paper, we have identified a number of critical issues for consideration in the conduct of customer satisfaction research studies:

1. Use a combination of stated and derived measures of importance. Exclusive use of derived measures may create misleading results.

2. Classify needs prior to the quantitative stage into core needs, second-tier needs and value-added opportunities to assist in the interpretation of the results.

3. Include corporate image statements in a customer satisfaction study to understand the impact of prior held beliefs about the organisation on the perception of service.

4. Consistency of performance may actually be more important than the level of service itself. Hence, it is important for companies to focus on reducing poor performance perceptions first prior to creating excellent performance or performance that exceeds expectations.

5. With customers who have little experience with the organisation, the ability to exceed expectations will create very positive outcomes in terms of loyalty, so long as they can be maintained consistently over time. So while occasional excellence will have little impact on long-term customers, sustained excellence will have significant impact on short-term customers in a relatively short time, and on long-term customers over the longer term.

6. Customer satisfaction and customer loyalty may not be the ideal measures of overall performance. Consideration of a concept such as trust may in fact provide far greater insight into the creation of high-performing companies.

There is more that can be done to improve Customer Satisfaction research in the areas of measuring importance and performance at both an individual attribute and overall level. We must continue to incorporate new ways of thinking into our studies in this area to assist our clients in improving their ability to implement meaningful change. Maybe then we will start to see significant improvements in the way companies service their customers and start to actually enjoy the experience of purchasing both products and services.

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