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Six Compelling Payback Reasons for Tracking Customer Satisfaction

Jan Carlson, president

Abstract: Customer focused strategies, including routine measurement of their perceptions toward service performance, impact customer retention and acquisition, employee morale and productivity, financial performance, market share and, if successful, can create a sustainable competitive advantage. These strategies are based on the following premise; the best way to provide quality service is to use direct customer input to discover customer expectations and how to exceed those expectations; a customer whose expectations have been exceeded will walk away from the experience with a positive image of the company and will tell others about it; the type of quality service achieved through this philosophy is the difference between profitable and unprofitable companies; and, there is nothing more expensive than a dissatisfied customer who switches to the competitor.

POLARIS MARKETING RESEARCH, INC.
1455 LINCOLN PARKWAY, SUITE 320 ATLANTA, GEORGIA 30346
404.816.0353 www.polarismr.com

Contact: Polaris Marketing Research, Inc., 1455 Lincoln Parkway, Suite 320, Atlanta, GA 30346
404-816-0353, email: research@polarismr.com, web site: www.polarismr.com

Six Compelling Payback Reasons for Tracking Customer Satisfaction

> *"Quality is our best assurance of customer allegiance, our strongest defense against competition, and the only path to sustained growth and earnings."*

John F. Welch Jr., Former CEO & Chairman, General Electric Company

Today's tough global economy has made competition so intense that most products and services quickly become commodities and differentiation is extremely difficult to establish and maintain. The most successful corporations have extended their vision of quality beyond that related to their core products or service offerings to fully include the nature of their relationship with their customers. Focusing on the customer as a core strategy and mindset has become the most successful way for achieving a sustainable competitive advantage.

Reason #1: Customer Focus: The Best Companies Have It

Customer focus pays in both tangible and intangible ways. It impacts:

- ✓ customer retention and acquisition,
- ✓ employee morale and productivity, and
- ✓ financial performance.

Most importantly, customer focus is an ongoing process that creates sustainable competitive advantage.

What do we mean by customer focus? A definition begins with the proposition, offered by Theodore Levitt in his book "The Marketing Imagination," that:

"The purpose of a business is to create and keep a customer."

Customer retention is absolutely paramount to the success of any business. Customer focus is a strategy or philosophy that addresses this fundamental purpose. An excellent definition, provided by The Forum Corporation of Boston, is:

"*Customer focus is the arrangement of an organization and its people that leads to predictably positive experiences for its customers."*

Customer loyalty can only be derived from exceeding customers' expectations each time they interact with your company. In this context, Jan Carlzon, former chairman of Scandinavian Air Systems (SAS), refers to these interactions as "moments of truth."

> *"At any given time, your customers are interacting with your organization. It could be over the phone, a sales call, even your literature. It could be somebody calling in and talking to your receptionist or switchboard operator. Every one of those interactions is a moment of truth. And the moment of truth has the inherent capacity to create a positive or negative image of your company."*

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What creates positive images? People develop positive images when their perceptions of the quality of the "moment of truth" meet or exceed their expectations of what should happen. The degree to which there is a positive gap between their perception and expectations is what drives customer satisfaction and ultimately loyalty. When performance perceptions are equal to expectations, a customer is merely satisfied. That is, the company has met just their minimal expectations. That customer is still very likely to switch to competitors based on price, product quality or higher expectations of service quality. Just satisfying a customer's minimum expectations leaves a company competitively vulnerable because even a satisfied customer remains complacent only if he/she does not perceive greater value elsewhere.

Exceeding customers' expectations enables a company to build a competitive advantage by developing customer loyalty that takes shape in the form of repeat business and positive word-of-mouth. Price-cutting strategies can be quickly neutralized by competitors and usually lead to the same market share with lower profits. Quality improvements, however, are far more difficult for the competition to imitate readily. The only way to achieve a long-term sustainable competitive edge is through excellent service quality.

The secret all the best companies have learned is to make total customer focus their primary objective and subscribe to an evolving concept known as "relative perceived quality" (RPQ). In short, RPQ is the market's perceptions of the overall quality of a company's products and services relative to its competitors' products and services. Customer satisfaction cannot be simply viewed in absolute terms since customers' expectations, and therefore their perceptions of a company's performance in meeting those expectations, are constantly being influenced and changed by marketplace and competitive activity. Therefore, exceeding customer expectations predictably is particularly challenging.

Adding to this challenge, customer focus is not simply a program that once initiated becomes self-sustaining. Rather, it is a "many hands" process that touches virtually every aspect of the organization. It requires the involvement and alignment of the entire organization -- both its people and systems -- to serve customers better than the competition. It involves product quality, service quality, product development, technology utilization, cost containment and marketing.

Management often would like to know the specific payoff or return they can expect when spending significant resources on service quality improvements. It improves customer retention and eases customer acquisition, enhances a company's reputation and image, increases employee morale and productivity, fosters the generation of innovative ideas, and improves financial performance. In manufacturing, there is often direct correlation between the purchase of equipment and productivity or quality resulting in a direct reduction in costs. In service industries, the impact on the bottom line is seldom as direct. The model below (Chart 1, next page) shows the relationship between a service quality improvement event and the bottom line. Occasionally this relationship is direct, but more often it is linked by customer satisfaction and one or more other variables.

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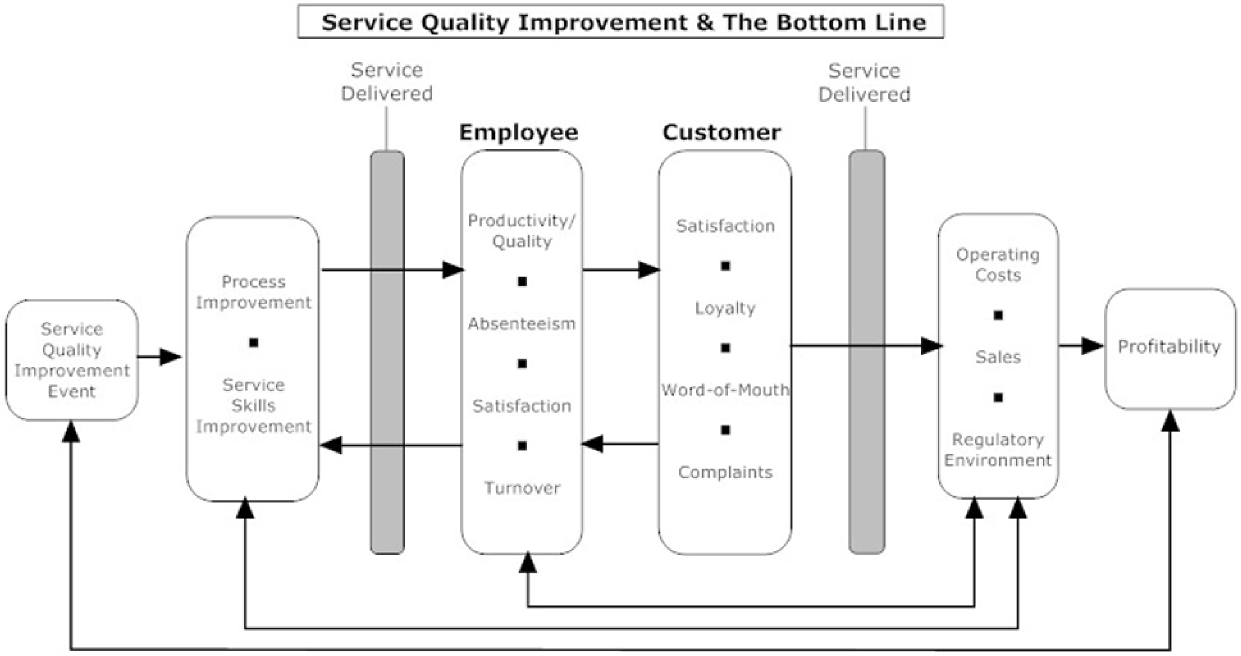


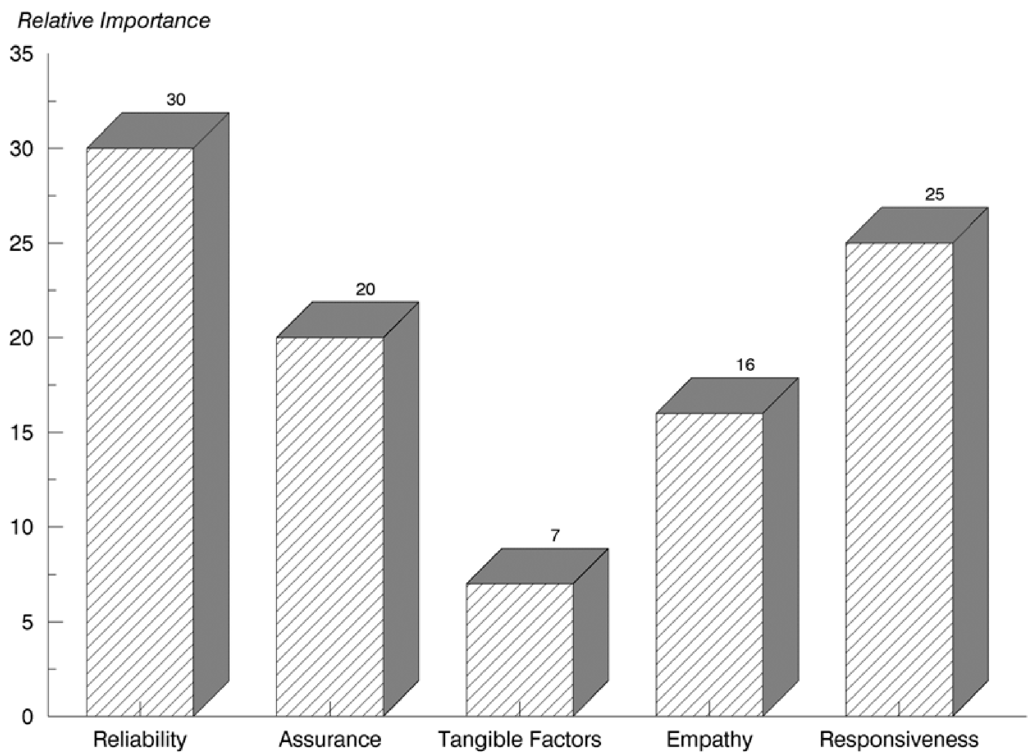
Companies that are well recognized for quality service have many customer focused systems and policies in common, most importantly including:

- Specific training on customer skills and customer focus modules as part of their sales training for all their sales reps or account execs.
- Compensation based on quality output and proven customer satisfaction.
- Field personnel and customer service reps are empowered with the authority to make on-the-spot decisions, at the moment of customer contact, to do what it takes to resolve problems and satisfy the customer.
- Their incoming customer service 800# line is highly publicized to make it very easy for customers to find them regarding their needs and problems.
- No organizational barriers that get in the way of quality service.
- An excellent understanding of their customers' expectations of them based on direct customer input rather than management's opinions.

These companies also recognize that the "softer" aspects of service are equally or more important in retaining customers than the "harder" aspects (e.g., average down time). "Soft" service attributes are those that relate to the personal elements of customer interaction. A study conducted by the Marketing Sciences Institute, Cambridge, Mass., identified five non-price service dimensions that have the greatest impact on perceptions of overall quality (see Chart 2, next page).

Reliability was defined as the ability to provide what was promised, dependably and accurately. *Assurance* referred to the knowledge and courtesy of employees and their ability to convey trust and confidence. *Tangibles* referred to the physical facilities and equipment and the appearance of personnel. *Empathy* was the degree of caring and individual attention to provide prompt service. These service dimensions reflect for the most part the "softer" side of service. Although it is frequently difficult to measure the exact impact of these dimensions for a particular company, their importance is more than intuitive.

Chart 2
Influence of Service Dimensions on
Customers' Overall Ratings of Service Quality



Customer-focused companies have all learned the importance of meeting, if not exceeding, their customers' expectations. Their quality programs are not viewed as the expense of doing business or as burdens they must bear to remain competitive. Rather, in addition to being a strategic marketing "differentiator" or weapon, quality has proven to be both cost-effective and profitable. In the final analysis there is nothing more expensive than a dissatisfied customer who switches to a competitor.

Reason #2: Customer Retention and Acquisition

A study conducted by the Forum Corporation revealed that five times as many customers would switch suppliers due to poor service quality than for either price or dissatisfaction with product quality. Technical Assistance Research Programs Inc. (TARP) in Washington D.C. has found that 69 percent of customers said they quit doing business with companies they had dealt with in the past because they had perceived an attitude of indifference at the "moment of truth," the critical point in their dealings with the company.

Regarding customer retention, several studies indicated that keeping customers can be very tough to do. TARP reports that at any one time, approximately 25 percent of customers are dissatisfied enough to switch, but only 4 percent will complain. That study found that "For every one complaint received at company headquarters the average business has another 26 customers with problems, at least six of which are serious ones ... The odds are that between 65 percent and 90 percent of your non-complainers will not buy from you again and you will never know why." A study by the Sandy Corporation's revealed that 37 to 45 percent of all service customers are dissatisfied but don't complain, and 28 to 30 percent of those dissatisfied customers don't complain but switch.

Companies with poor customer service lose potential customers as well. Another TARP study revealed that a dissatisfied customer impacts customer acquisition by telling an average of 18 people about a negative experience (compared to 3 people told about a positive experience). Coca-Cola Corp. revealed from a study they conducted that a satisfied customer told four to five others about his or her experience, a dissatisfied customer told nine to ten others, and a particularly ticked-off customer told as many as 20 others. And a study conducted by General Electric showed that the impact of word-of-mouth communications on customer buying behavior is twice as strong as the impact of corporate advertising. These findings suggest two things: service quality plays an extremely important part in the customer's overall experience with a supplier, and a company must do everything it can to get its customers to voice problems and complaints in order to increase its opportunity to convert a dissatisfied customer into a loyal one.

Reason #3: Financial Performance and Bottom-line Benefits

The financial impact of poor customer service is hard to measure, but all indications are that it can be great. Robert L. Desatnick, author of Managing to Keep the Customers, said, "By far the largest costs that outstanding service saves are those of replacing or preventing lost customers. A common rule of thumb is that the marketing costs of landing a new customer run three to five times the marketing costs of retaining an old one." Dr. Jagdish Sheth, Charles H. Kellstadt Professor of Marketing at Emory University’s Goizueta Business School, reports that one dissatisfied customer costs a company the profit from five satisfied customers. Keeping customers is cost effective: a TARP study indicated that it costs four or five times more to attract a new customer than to retain an existing one.

Most corporations that have put in place zero-defect policies have found that reductions in returned products, complaint call handling, repairs, repeat customer site visits and repair parts inventory more than justifies investment both in capital and in trained, qualified personnel. In general, service quality and satisfied customers actually result in lower costs. Analyses of the Strategic Planning Institute's 25-year PIMS (Profit Impact of Market Strategy) study of over 2,500 business units have shown that achieving high customer-perceived quality does not result in higher direct costs, and that changes in product and service quality have a far greater impact on market share than do changes in price. A recent article in the Harvard Business Review reported that in one service business, a two percent increase in repeat business was found to have the same impact on margin as a 10 percent cost reduction.

Total customer focus is essential to maximizing profits. Some of the intuitive benefits of service quality initiatives are directed at cutting costs, others at enhancing revenues. In addition to increased revenues and market share, specific financial benefits an organization might expect include increases in productivity as well as decreases in customer complaints, employee absenteeism and turnover, regulatory involvement and operating costs.

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Customer focus pays off in bottom-line performance as well. The Strategic Planning Institute's PIMS study revealed that companies with high perceived product and service quality had revenue grow at an average rate of 17 percent and yielded average pre-tax profits of 12 percent, while companies with low perceived product and service quality had revenue grow at eight percent and had profits of one percent. In addition, the PIMS data showed that companies that were superior in relative perceived quality (RPQ) earned a 25 percent greater return on investment than those with inferior quality. Ford recently rated the business performance of its 850 largest U.S. dealers against the satisfaction of customers during the customers' first year of ownership. Dealers who did the best job of satisfying customers had returns on investment nearly 30 percent higher than average.

The Harvard Business Review article "Zero Defections: Quality Comes to Services" (1990) reported that companies can boost profits by almost 100 percent by retaining just five percent more of their customers. Research conducted by MBNA found that by cutting its defection rate from 20 percent to 10 percent, the average life span of its relationship with a customer doubles from 5 years to ten and the value of that customer more than doubles.

Reason #4: Impact on Revenues and Market Share

Customer retention and loyalty leads to increased revenues and increased market share. The Strategic Planning Institute, in a study of 800 organizations, found that those companies that received the highest customer satisfaction ratings charged 10 percent more for their products and services. They also had market share growth of six percent versus a market share decrease of one percent for the low service providers. In a study by Sales and Marketing Executive Report, it was found that the "typical" company could have improved service levels by up to one third before the costs of better service would have overwhelmed the benefits of higher sales and profits. In other words, these companies could have boosted sales up to 33 percent just by improving service. In a study correlating service ratings with market penetration in the automobile business, dealers that excel at preparing new cars for delivery, cheerfully honoring warranties, and fixing things right the first time can expect roughly twice as much market share as dealers that flub those jobs.

TARP found that human interaction problems ("softer" side of service) can cause as much as four times the market damage as a product problem. (Market damage occurs for a company when customers are dissatisfied enough to not repurchase, to not recommend the company or to not purchase another product/service from the same company). Dr. Jag Sheth has stated that unless a company is willing to reorient its people and reorganize its operations to be customer driven, excellence in R&D, manufacturing, and marketing would be unable to stop a decline in market share, corporate growth and business profitability.

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Reason #5: Employee Benefits - Increased Morale and Productivity

Total customer focus also improves employee productivity which, in turn, improves a company's ability to exceed customers' expectations. These companies base compensation on quality output and proven customer satisfaction. They break down organizational barriers that get in the way of quality service, so they all have an excellent understanding of their customers' expectations of them based on direct customer input rather than management's opinions.

These companies all do four things well in terms of their employees:

1) Value their employees -- employees are a source of ideas for product and service enhancements.
2) Set customer focus standards -- transfer the standards of the organization to the individual who is creating the "moments of truth.
3) Select and develop -- look for people who focus on the customer and train them according to the organization's customer oriented culture.
4) Ask and listen -- employees want to have an impact, and they want to do a good job.

Reason #6: Competitive Advantages

Dr. Sheth outlined six competitive advantages of customer satisfaction that contribute to a company's bottom line (see Chart 3, next page):

1) **Repeat Buying**: Productivity of marketing-related activities increases significantly with repeat buying by satisfied customers while costs of doing business with these customers go down exponentially.
2) **Higher Prices**: Unless there is a strong incentive, highly satisfied customers are unlikely to switch suppliers. Customer focused companies can charge 5 to 30 percent more.
3) **Loyalty During Crisis**: Loyal customers want the company to survive any crisis (product tampering, unfair competition or regulation, internal, uncontrollable breakdowns, industry restructuring, etc.) it experiences, and they try to assist to ensure its survival.
4) **Word of Mouth**: The best way to grow business profitably is to gain new customers without significant investment in product, marketing and sales resources.
5) **One-stop Shopping**: Customer satisfaction encourages purchasing of other products and services -- economies of scope -- enabling expansion of offerings and revenue growth with lower risk.
6) **Innovations**: Satisfied customers are more open to sharing their product use experience, allowing research and development efforts to interface with the customer as new technologies are developed.

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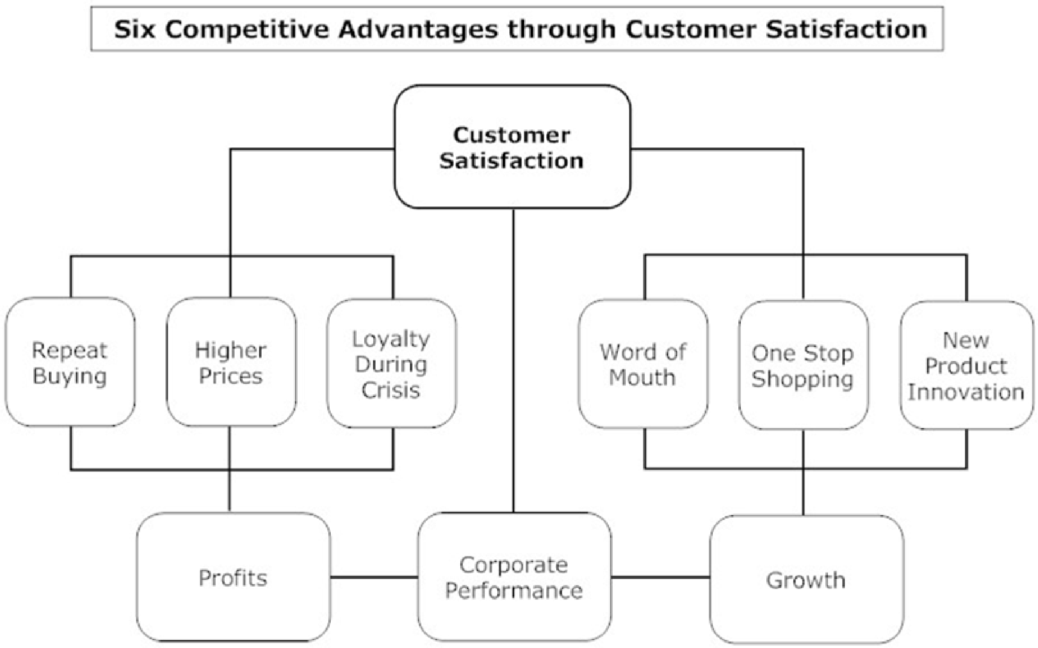
Chart 3



In the end, the ultimate goal for any business should be to retain "delighted" customers by exceeding their expectations. Customer focused companies have the inside track on how to accomplish this goal: excellent service quality. These companies understand that:

- the best way to provide quality service is to use direct customer input to discover customer expectations, and then to exceed those expectations,
- a customer whose expectations have been exceeded will walk away from the experience with a positive image of the company and will tell others about it,
- the type of quality service achieved through this philosophy is the difference between profitable and unprofitable companies,
- there is nothing more expensive than a dissatisfied customer who switches to the competitor.

For more information about customer satisfaction measurement and tracking programs, please contact us at http://www.polarismr.com/contact.html or call us at 678-323-3261.

Founded in 1989, Atlanta, Georgia based Polaris Marketing Research, Inc., is a full-service research company specializing in customer satisfaction and loyalty research, brand research, employee research, customer retention and win-back research and new product development.

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