CUSTOMER SATISFACTION STUDIES – A useful investment or a waste of money?

By Patrick E. Koller

Car manufacturers keep spending millions of Euros a year to measure the satisfaction of their customers with regard to a newly purchased car, the dealer they visited and their after-sales experience. But is it really satisfaction which leads to customer loyalty? In this article, we argue that there is no significant relationship between customer satisfaction scores and customers' loyalty. Furthermore we explain why knowing what drives the customers' choice is the most important factor for improving and strengthening the market position.

Current situation

Almost all car manufacturers perform brand-specific customer satisfaction surveys and participate in the so-called syndicate studies. The goal of the syndicate studies is to be able to compare the scores of all participating manufacturers and to find out where they stand on the ladder of the Customer Satisfaction Index (CSI) in the automotive world. This is of course triggered even further by the publication of independent syndicate studies, like JD-Power. Nobody wants to be among the worst performers and the winners actively use these results in their promotion activities. Lexus is a good example to mention here. Most of the time "in-house" studies are used to determine the percentage of the quality bonuses dealers can achieve; the higher the CSI score of a dealer, the more bonus he receives.

Stop satisfying customers, excite them

For companies, these surveys are expensive and for customers, many of them are complicated and too long. The key question is if the gained insights allow to increase customer loyalty and hence sales? With only a few rare exceptions, the answer is "no". How satisfied a customer was with the product he drove and the dealer he visited is certainly of importance, however there is no proven, significant relationship between CSI scores and loyalty/growth of the business.

This fact can be illustrated by the following example: a dealer improved his average CSI score from 6.5 to 7.5 (on a scale from 0 to 10). He obtained a significant amount of bonus payments for achieving this score. It definitely is something to be proud of; nonetheless the loyalty of his customers is most certainly not affected by this increase. Loyalty is a complex matter and there are many psychological factors. Most business people would agree that some important factors driving customer loyalty are the brand, the product and the shopping experience. A typical Harley-Davidson aficionado will most likely never consider buying another brand, irrespective of the CSI score. The same could in the past be observed for buyers of Land-Rover and Porsche, which were not brands achieving top scores regarding CSI either.

Hence satisfaction alone cannot be the right target when aiming at increasing customer loyalty. The factor that really matters is the customer experience achieved at the dealer or more specifically how "excited" customers are about the experience they have at their dealer. We observe that most companies overspend in building the brand and don't spend enough on providing an exciting, unique and differentiating brand experience. This resource allocation is rather surprising, considering that it is proven that customers who are excited about the experience they make tend to buy more expensive models, be more loyal to the brand and attract additional customers, by recommending the brand and their dealer to their friends.

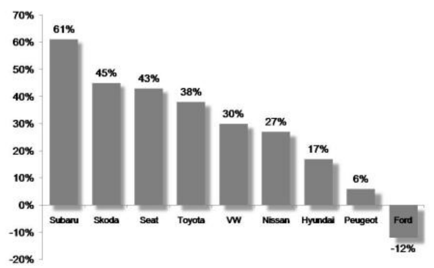
Excitement is the key word. An experience needs to be exciting to make it memorable and differentiating. But is "excitement" the same as customer satisfaction? Definitely not. The conclusion is that most of the significant sums spent on CSI studies and activities for improving the CSI scores do not necessarily lead to the two main targets of every company: Growing sales and market share as well as increasing profit.

There is a powerful alternative to CSI

The point is not that every company should immediately stop measuring CSI. It remains interesting to measure how well brands and dealers manage to satisfy customers' expectations. But my advice is to scale down the extent and complexity of this process. The record I have seen is a questionnaire containing more than 50 questions. The consequence is that many customers become irritated and won't take the time to answer them. Reduce the study to a handful of questions and build in a measurement of a dimension that is more closely linked to customer experience and excitement.

The customers' willingness to recommend the brand, the product and the dealer is such a dimension, as excited customers talk positively about their experience and recommend the brand/product/dealer actively to their family and friends. One such way to measure this excitement is the so called "*Net Promoter Score"* (NPS) as advocated by Fred Reichheld[i]. Figure 1 shows how the willingness to recommend can vary significantly between car brands.

Fig.1: Customers' recommendation willingness for selected car brands in Switzerland (measured using NPS)

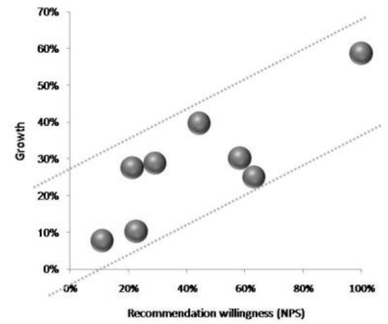


Source: WATC Consulting AG, January 2009

In many studies conducted by WATC Consulting AG in different industries, we found the same important relationship: C*ompanies with a higher NPS[i]-Score grow faster and achieve a higher customer loyalty.*

In fact, we found that NPS[i] is a very suitable metric, not only on a brand level, but also on a dealer level. Even within the same brand and in the same country dealers with a higher NPS[i]-Score grow faster and achieve a higher market share. Figure 2 is an example of a leading car manufacturer, showing that sales growth of its key dealers increases as the relative number of customers willing to recommend the car, the dealer and the brand rises.

Fig.2: Relationship between willingness to recommend and growth



Source: WATC Consulting AG, January 2009

But measuring is not enough

Measuring the NPS[i] is a good start. However it is just a score. It is much more important – of course – to know what activities lead to a higher propensity to recommend. In other words: What drives the customer? What makes him/her decide to buy the product? What influences his/her recommendation behaviour? At WATC we call these factors 'Customer Choice Drivers'. While there are several methods for investigating customers, our experience is that very sophisticated methods are required for understanding the real choice drivers. These methods go far beyond what car companies (and companies in most other industries) are used to survey. WATC has developed a tool-box of proprietary, unique and cost-effective methodologies (Customer Choice Analysis©), which have proven their value and significance in many previous projects – including the car industry.

My main message is that if you know what drives your customers' choices, you can very effectively improve your customers' propensity to recommend. This will lead to a faster growth, higher market shares and more profit.

> 'We will only have two sources of competitive advantage:
> The ability to learn more about our customers faster than the competition, and the ability to turn that learning into action faster than the competition.'
>
> *Jack Welch, former CEO of GE*

The quote by Jack Welch emphasises the importance of a better customer understanding. Merely relying on standard studies that everyone in the industry gets, will invariably be inadequate and insufficient, because they are not deep enough and will not allow differentiation from the competition. Tools like the Customer Choice Analysis© help you to understand what influences the choices of your customers and prospects. This allows you to be sure that you are *doing the right things,* instead of doing the things you have always been doing (and everybody else does) right.

Converting such unique insights into exciting, differentiating actions at a dealer level, will be the key to success and guarantee customer loyalty to a brand with a positive effect both for the manufacturer and the dealer network. In a project for a leading car manufacturer, Customers Choice Analysis© identified a number of customer experience elements that promised a dramatic increase in word-of-mouth. This increase came along with a potential of a 0.7 percentage points increase in market share, which meant a notably high number of additional car sales for each dealer.

Conclusions

The following table summarises the key messages of this article.

(1) Many CSI surveys are complicated for the customer and expensive for the manufacturer.
(2) There is no significant relationship between CSI scores and loyalty/growth of the business.
(3) There is, however, a very clear correlation between the willingness to recommend and loyalty/growth.
(4) It is recommendable to scale down the CSI surveys radically and to start measuring NPS[i].
(5) NPS[i] is just a metric. Spend a major portion of the saved budget on finding out what really drives your customers (Customer Choice Analysis©).
(6) This knowledge is the key driver for success in terms of growth and higher profit.
(7) Several projects for companies of different industries in which WATC has applied its proprietary and specifically developed methods for, have proven that the results lead to:
- more fact-based decisions,
- more effective marketing activities and hence reduced marketing spending,
- higher loyalty scores as well as
- faster growth, increased market share and more profit

If I raised your interest in the subject, please feel free to contact me.

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For more information please visit www.whataboutthecustomer.com

i Fred Reichheld, The Ultimate Question: Driving Good Profits and True Growth, Harvard Business Press, 2006