



# The Relationship Between Customer Satisfaction and Loyalty

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## Should Organisation Stop Trying to Delight their Customers?

To assess if organisations should stop delighting its customers, there are multiple factors that need to be considered such as what sector the organisation is in, what is the delight program strategy, how will satisfaction be measured and linked to future growth and finally what is the impact to the organisation if customer satisfaction isn't a priority.

For organisations that are not in a highly competitive sector and hold a monopoly in the market such as banks and superannuation providers, they could get by without putting too much effort in delighting its customers, rather these organisations should focus on ease of service. Ease of service has been argued as a driver of customer satisfaction by both Dixon et al (2010:118) and Seiber et al (2020:57).

Marketing executives also need to consider their strategy around the type of delight program that they are planning to roll out to their customers. Rust and Oliver (2000) modelled out 3 types of delights (assimilated delight, reenacted delight and transitory delight) into a model that was developed to assess if delighting a customer pays off. The model concludes that a delight program can pay off if customer satisfaction is the main driver of purchase and re-consumption behavior. Organisations need to consider if future profits outweigh the cost of running the delight program, and or if they can capitalize on the raised expectations for its existing and competitors' customers.

Organisations should also put in some thought in how they are measuring customer satisfaction and the returns of the delight program. As noted in a research conducted by Reichheld (2003:49), customer satisfaction scores have weak connections to customer purchase behavior. Reichheld, interviewed marketing managers at the Big Three car manufacturers, and one of the marketing executives interviewed was trying to understand why they are not seeing returns on investments spent on increasing customer satisfaction even though customer satisfaction scores has improved. Reichheld argues that there is 1 survey question that organisations should be using to measure growth, and this is asking the customer how likely they are to recommend the organisation to their peers. Intention to recommend can be seen as indicator of loyalty and future growth cannot be achieved without customer loyalty. Organisations can use scores from the customer's intention to recommend to calculate their net promoter score and group their customers into 3 separate segments – Promoters, Passives & Detractors (Reichheld 2003:51). With these groups, managers can identify drivers of their promoters and use those learnings to grow their promoter pool.

Finally, managers need to consider the impact of not delighting their customers. Both Rust and Oliver (2000) and Reichheld (2003:52) highlight the dangers of detractors. A customer is more likely to share a bad experience with their peers, rather than of a good experience. Consideration needs be made around the cost of attracting new customers using a temporary delight program, against the cost of potentially losing these new acquired customers and existing customers once the delight program expires.

To conclude, there is merit in keeping customer satisfaction a priority, but this depends on the nature of the business. For business' that are considered an instrumental service, they should be focusing more on the ease of service rather than keeping the customers highly satisfied using short term delight tactics. on the flip side for business' where there is high competition, it is valuable to keep customer satisfaction a high priority, however there needs to be some thought into the strategy on how they are planning to keep customers satisfied and engaged and how they are measuring customer satisfaction. It is advisable to use the customer effort scores alongside the intention to recommend scores to drive business decision making.

## Relationship between Customer Satisfaction & Intention to Recommend – Survey Responses Analysis

From the survey responses that was collected, the customer satisfaction scores have been broken down into 3 groups for the analysis that was done, these groups are:

- High Satisfaction – Scored between 8-10
- Medium Satisfaction – Scored between 5-7
- Low Satisfaction – Scored between 0-4

Looking at the survey responses, it is clear that the bank is doing well in keeping the customers highly satisfied, with 66% of the respondents giving the bank a score of more than 8. A mere 9% of the respondents scored the bank a score of 4 or less. The overall average score that the bank received is 7.54 (Table 1, Graph 1)

One would assume that with these high satisfaction scores, the bank would receive similar scores with the intention to recommend scores. However, this is not the case, as the intention to recommend scores paint a totally different picture. The intention to recommend scores were broken down in to 3 group as per the Net Promoter Score (NPS) classification to calculate the bank's overall NPS score, and these groups are:

- Promoters – Scored between 9-10
- Passives – Scored between 7-8
- Detractors – Scored between 0-6

NPS scores can help the bank identify its high risk customers of switching banks and also help the bank predict future growth. A high score would translate that the bank's customers are highly engaged and loyal to bank and would then speak highly of the bank to their peers.

The bank scored a low NPS score of only 2.6%, and the group that the most respondents fall into is the passives group with 40% (Table 2, Graph 2). So it is clear that even though the bank's customers are highly satisfied with their services, they are not satisfied enough to recommend the bank to their peers.

When analysing the relationship between the customer satisfaction scores and intention to recommend scores, only 30% of the respondents who fall in the high satisfaction group is also classified as a "promoter" who are the loyal customers of the bank (Table 3, Graph 3). There is also about 5% of respondents who gave the bank a high satisfaction score, but has fallen into the detractor group where they are at risk of switching banks and will not recommend the bank. So it is quite clear that a high satisfaction score does not mean that the customer will recommend the bank.

Even though there is a positive correlation relationship of 86% (Graph 4) between the 2 survey questions, it's quite evident that the customer satisfaction scores is not the best indicator of customer loyalty. To support this, we drilled down further to look at the relationship between

customer satisfaction and intention to recommend with the responses of the likelihood to change bank indicator. Only 88% (Table 5, Graph 5) of the respondents who fall into the high satisfaction group has indicated that they will stay with the bank, compared to 92% (Table 6, Graph 6) of respondents who are classified as promoters who responded that they will stay with the bank. Thus this proves that the intention to recommend is the better metric to use to predict future growth.

## **Next Step Recommendations**

Based on the analysis conducted, it appears that even though the customers are highly satisfied, they are not satisfied enough to recommend the bank – the bank needs to investigate further to understand why this is the case.

Given that the bank is considered an instrumental service and its client base will be using the bank as a service to get the job done, perhaps the bank should consider measuring the Customer Effort Scores (CES) alongside the Net Promoter Scores (NPS) instead of customer satisfaction as an indicator of customer loyalty. In an article by Matthew Dixon, Karen Freeman and Nicolas Toman titled 'Stop Trying to Delight Your Customers' (2010:116-122) they argue that in order to keep customers loyal, business' need to make it easy for the customers to use the service, and start using CES scores as an indicator of how well the business is performing in keeping the customers loyal.

I would recommend the bank to place emphasis on its frontline staff to respond to all enquiries in a manner that requires minimal follow up from the customer's end. If the bank is still measuring agent success by how long the calls are, they should stop using this metric as it forces the agent to wrap up the call quickly before resolving any further issues that could be linked to the initial issue. The bank should also investigate how effective its customer service channels are operating as perhaps the high satisfaction scores the bank has received, but low intention to recommend scores could be tied to the fact that its customers are needing to use more than 1 channel to use the service or resolve any issues Dixon et al (2010:118).

The bank should also review its customer experience journey and adopt the smooth journey model as outlined in Siebert et al (2020:45). The smooth journey model outlines that some support is required from the bank as part of the decision making process in the initial stage, and once the customer passes this stage, they are then included into "loyalty loop". The bank should focus on keeping the subsequent phases of the loyalty loop as a streamlined and easy journey for its customers. The bank should also consider triggering an adjacent loyalty loop against the existing loyalty loop or including a brief period of spiraling logic for its long term customers to further build its existing customers loyalty. To trigger an adjacent loyalty loop, the bank could offer special deals on significant dates such as the customer's birthday or anniversary banking with the bank. The bank could also consider offering short term rewards to its long term customers such as bonus credit card points for a month on every dollar spent (Siebert et al 2020:59).

Appendix

Table 1:

<u>Customer Satisfaction Break</u> <u>Down</u>	<u>Number of Respondents</u>	<u>%</u>
High S (8-10)	127	66%
Med S (5-7)	46	24%
Low S (0-4)	18	9%

Graph 1:

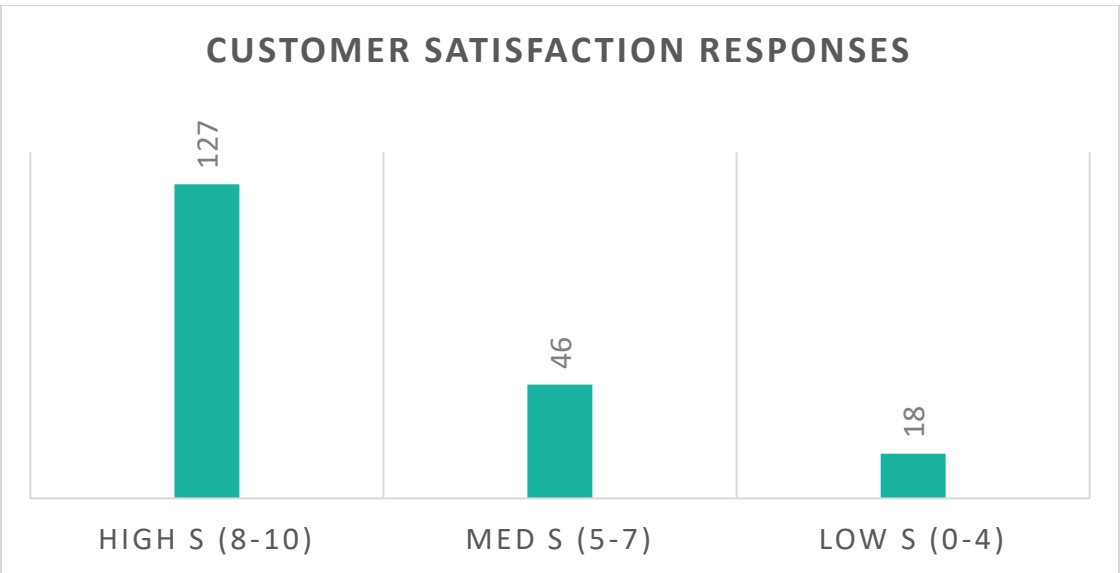


Table 2:

NPS Classification	Number of Respondents	%
Passives	76	40%
Promoters	60	31%
Detractors	55	29%

Graph 2:

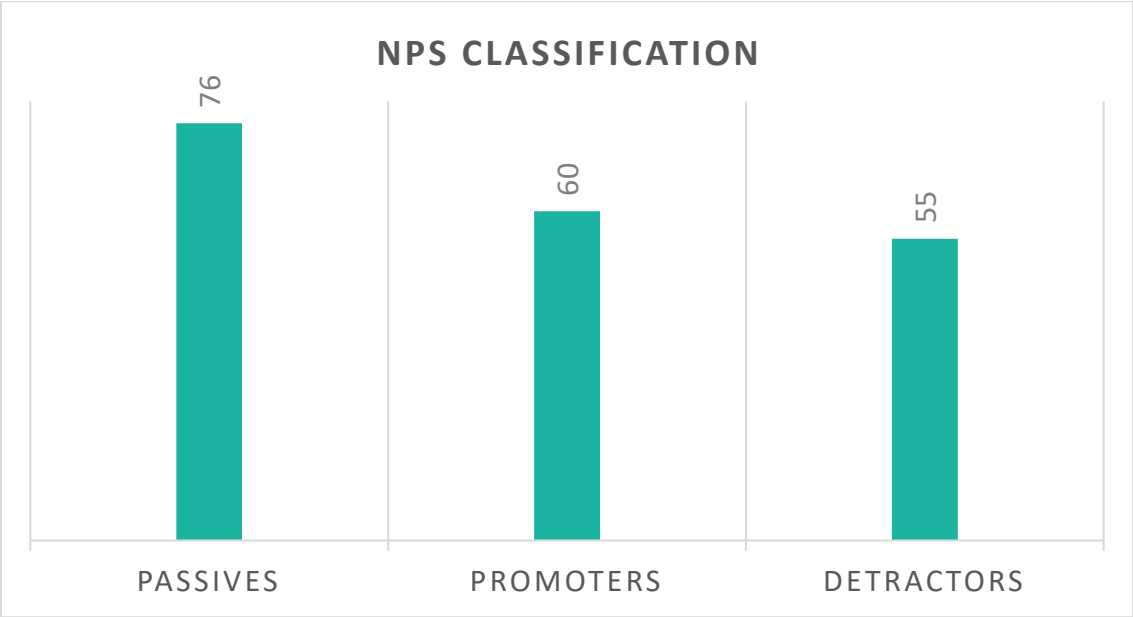
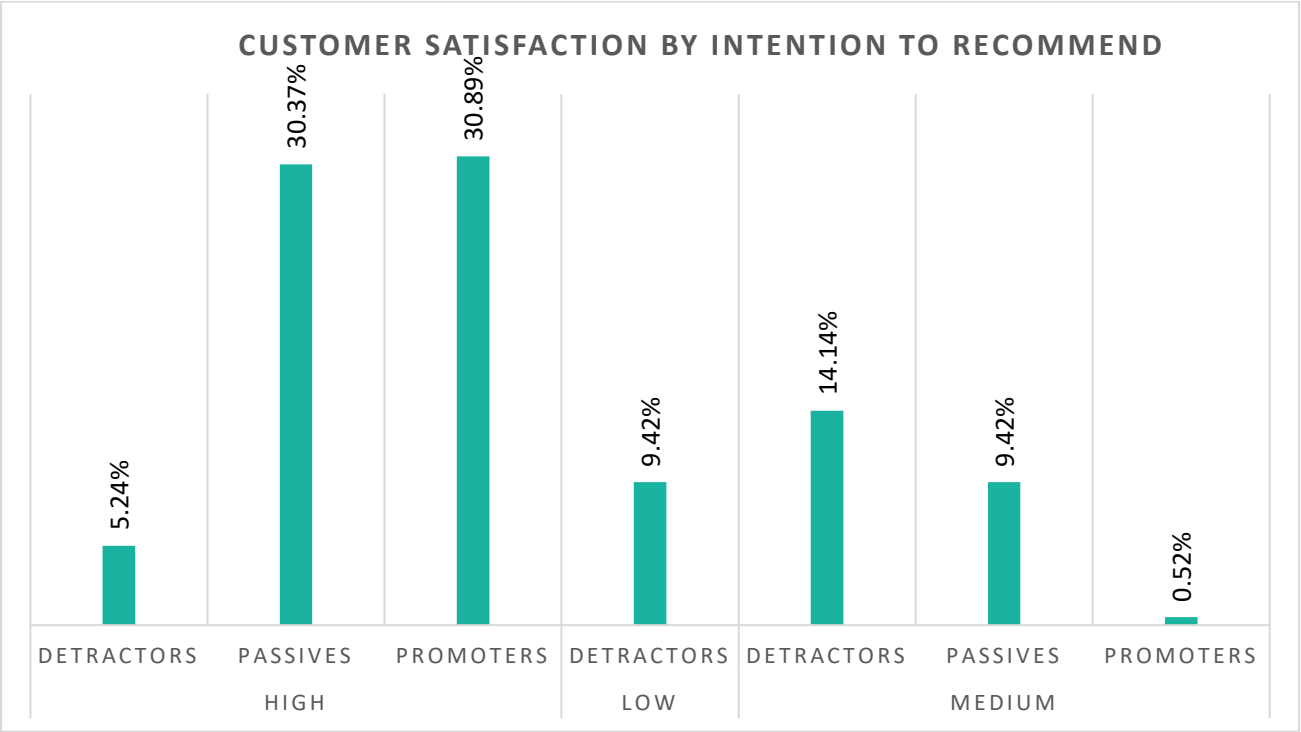




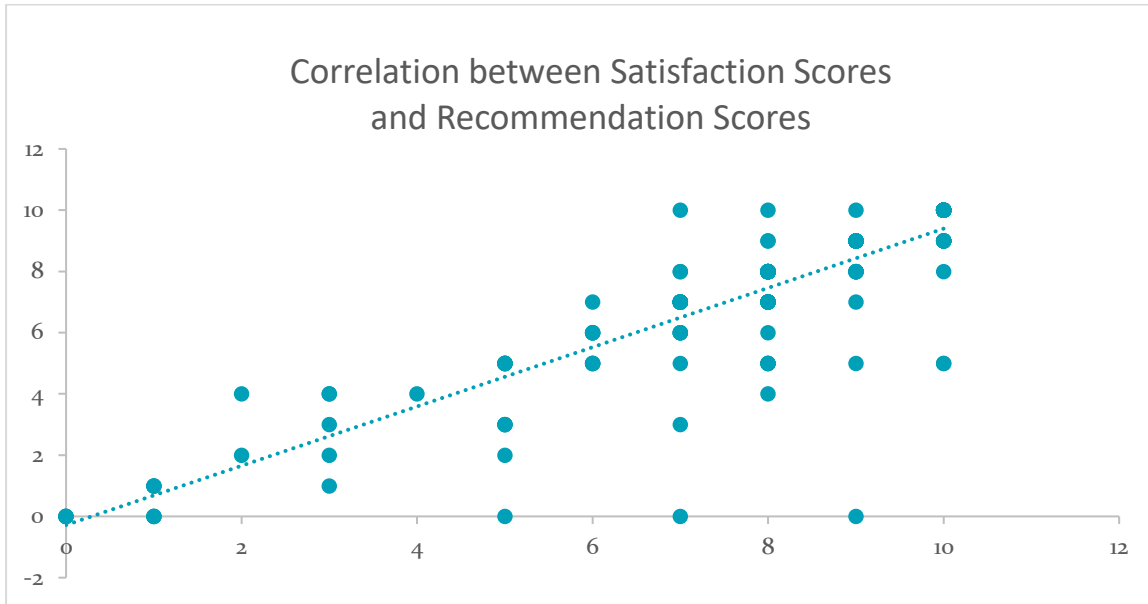
Table 3:

Relationship between Satisfaction Scores & Intention to Recommend by Overall Responses				
Customer Satisfaction Break Down		Promoters	Passives	Detractors
Low S (0-4)	18	0%	0%	9%
Med S (5-7)	46	0.52%	9.42%	14.14%
High S (8-10)	127	30.89%	30.37%	5.24%

Graph 3:



**Graph 4:**



**Table 5:**

Customer Satisfaction by Bank Change Responses			
Customer Satisfaction Break Down		Change Bank	Stay With Bank
High S (8-10)	127	12%	88%
Med S (5-7)	46	46%	54%
Low S (0-4)	18	13%	2%

**Graph 5:**

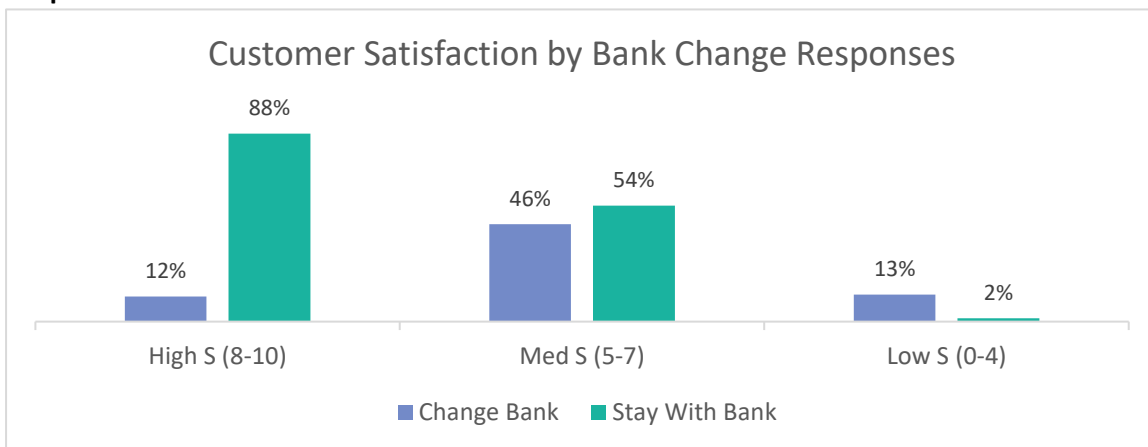
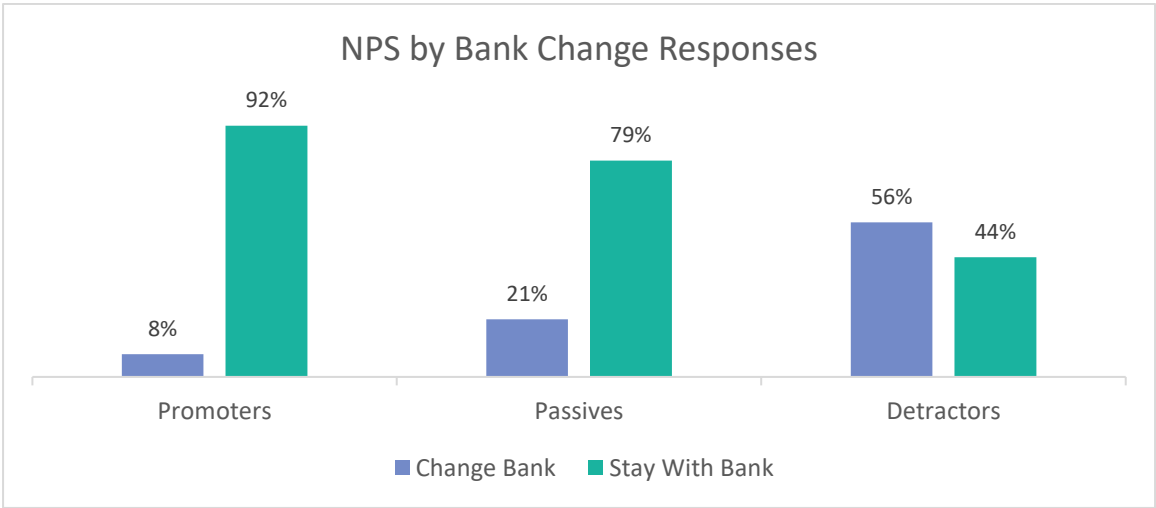


Table 6:

NPS by Bank Change Responses			
NPS Breakdown		Change Bank	Stay With Bank
Promoters	60	8%	92%
Passives	76	21%	79%
Detractors	55	56%	44%

Graph 6:



## References

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- 4) Rust, RT & Oliver, RL 2000, 'Should We Delight the Customer?', *Journal of the Academy of Marketing Science*, 28 (1), pp. 86-94.
- 5) Siebert, A, Gopaldas, A, Lindridge, A & Simoes, C 2020, 'Customer Experience Journeys: Loyalty Loops Versus Involvement Spirals', *Journal of Marketing*, 84 (4), pp. 45-66