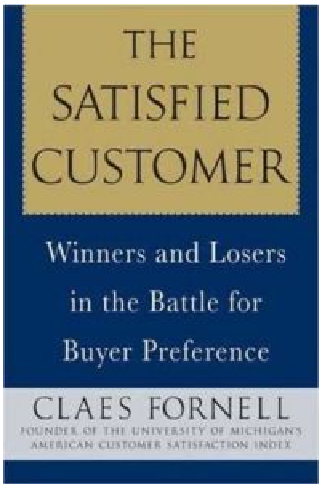

Book The Satisfied Customer

Winners and Losers in the Battle for Buyer Preference

Claes Fornell
Palgrave Macmillan, 2007

Recommendation

Experts see more than meets the eye when they evaluate customer satisfaction. Business professor Claes Fornell and his team at the National Quality Research Center at the University of Michigan developed the American Customer Satisfaction Index, a sophisticated customer-reaction monitoring system that produces indexes across multiple economic sectors, industries, companies and government agencies. In this book, Fornell discusses how his team quantifies the "unobservable" in customer service. His researchers measure things "we can't see" and then develop their findings into useful customer satisfaction information. Fornell theorizes about the utility of the "summation of ignorance" and discusses neuroscience, quantum mechanics and relativity theory, all with impressive erudition and insight, and all in the service of making sure that you know how crucial it is to keep your customers satisfied. *BooksInShort* recommends his thorough, thoughtful and accessible treatise.

Take-Aways

- Your profits depend on your customers' level of satisfaction.
- Today, the buyers of products and services call the shots, not the providers.
- As customers gain power, companies respond faster and better to their concerns.
- As a result, customer satisfaction improves.
- Many corporate leaders do not understand how much customer dissatisfaction can devastate their financial prospects.
- Few companies know how to measure or monitor customer satisfaction.
- Improving productivity and cutting costs actually can undermine customer satisfaction.
- Companies with satisfied customers almost always do well on Wall Street.
- Good customer relationships are extremely valuable corporate assets.
- The American Customer Satisfaction Index gauges Americans' opinions about specific companies, primary industries and government agencies.

Summary

Never Take Your Customers for Granted

In 1997, after only four years as a U.S. Major League Baseball team, the Florida Marlins won the World Series, officially making the Miami-based squad the nation's best baseball team. For such a young team, it was a remarkable accomplishment. Local baseball fans loved the Marlins. Sports writers agreed that fans were likely to turn out in large numbers in subsequent seasons to support the new champions. But almost immediately after the end of the '97 season, Marlins' owner Wayne Huizenga began trading off top stars to reduce the team's hefty $47 million annual payroll. In return, Huizenga got additional draft picks and some no-name, but promising, players. The sports media described Huizenga's frenzied moves to get rid of the Marlins' best players as a "fire sale." Undeterred, Huizenga continued quickly shedding high-priced baseball talent.

> "Satisfied customers are not only the most consequential economic asset, but they also are a proxy for the sum total of the value of all other company assets."

By the start of the 1998 season, Huizenga had cut his team's payroll to $15 million, a notable achievement. But as far as the local fans were concerned, Huizenga's selloff drove a stake into the heart of the team. The Marlins went from being World Series champions in 1997 to being the worst team in Major League Baseball in 1998. Winning 54 games and losing 108, the Marlins flat out stunk. Just as bad, attendance fell 27%. The attendance the following year was even worse, off a whopping 42% from 1997. Since then, the Marlins' attendance figures have been terrible. The team won the World Series again in 2003, but its ticket sales that year were 400,000 lower than during the dismal 1998 season following its first World Series win.

"The more powerful the buyers, the more damage they can inflict on sellers."

Huizenga employed a classic business tool to improve his profits – cutting expenses. But with fewer fans coming to the games, he also ruined revenues. Marlin fans would not have cared if Huizenga slashed office expenses or ordered his executives to travel by bus. But he cut costs in the one area that is absolutely vital to customers' satisfaction with a professional sports franchise: the players. Huizenga destroyed his customers' relationship with their team and, thus, lost their loyalty. Despite new ownership, the Marlins have yet to recover from this gross business error. Never mess with customer satisfaction. The future of your business depends on it.

Buyers Are in Charge Today

In business, customer satisfaction is everything. To get ahead, you must constantly strive to boost the happiness of the people who pay for your products and services. How you act and what you do, or don't do, really matter. The buyer is in charge now, thanks to globalization and increased purchasing options, including the Web. *The Economist* recently described today's consumers as, "all-seeing [and] all-knowing." They, not manufacturers or suppliers, call the shots, so you must please them. You cannot maintain profitability if customers are dissatisfied with your company or its offerings. Displeased customers will shop somewhere else and, if they are angry enough, they also will use "consumer-generated media," such as Internet chat rooms, blogs and online bulletin boards, to speak ill of your company. Few businesses can withstand such an onslaught.

"The most important driver for customer satisfaction has to do with 'fit.' The better the fit between buyers and sellers, the better the outcome."

Many corporate leaders seriously underestimate the impact disgruntled customers can have on the bottom line. Companies should find ways to measure customer satisfaction accurately, but, unfortunately, many do not or cannot. Indeed, when it comes to gauging customer opinions, a large number of companies seem to operate in the Stone Age. Their measurements are arbitrary, even random. Of course, customer satisfaction is not easy to assess. It is not something you can observe, like counting the number of people in a room. Indeed, many companies are almost completely lost when it comes to measuring customer reactions. Some don't even know who their customers are, although such ignorance is dangerous. You cannot maintain a business if you can't accurately measure how your customers feel. You need to know whether they are satisfied and, if they are not, you need to turn things around quickly.

"Too many companies have too primitive systems for customer satisfaction measurement."

Measuring customer satisfaction means using the right focus to avoid gathering insignificant "noise" instead of meaningful data. Hone in on customers' expectations about your product or service. Do your offerings measure up to their standards of quality and value? Ask customers to rate your goods against an "ideal version." Learn what they think of the total experience of dealing with your firm. Think about the information you get in the context of your business. Format the data in understandable figures.

"Bad measurement leads to bad information."

To be useful, customer satisfaction reports must be accurate and relevant. They should lead to action. As you review customer feedback, do not bury any negative findings. Always "maximize customer complaints." This may sound counterintuitive, but it is not. Uncovering as many complaints as possible is an advantage. Once you know of problems, you can fix them. The real danger resides in the complaints you never hear, the hidden problems that can kill your business.

The Old Panaceas of Productivity and Cost Control

Many firms focus too much on productivity and cost cutting, and they let quality suffer. But when quality falls off, so does customer satisfaction. Strive for a good balance between being productive and keeping customers happy. Many companies worry too much about staying ahead of the competition. Instead, constantly keep your customers directly in your sights. Focus on them to the exclusion of all else. Get inside their brains and hearts. Keeping them happy is the way to get ahead. If you have robust customer relationships, your balance sheets will be strong.

"Today's customers exchange information about their purchase and consumption experiences at a breathtaking pace."

Many observers think that the United States is the world leader in productivity, but actually Europe is far more productive. Since 1950, productivity growth in Europe has averaged 3.3%, compared to 2% for the U.S. No matter where you run a business, however, increasing productivity is not always the benefit it may seem to be. Emphasizing it to the exclusion of other vital factors can be a huge mistake. If you have to cut back on quality or customer service to make your firm more productive, customer satisfaction will suffer.

"In today's information age, failing to address a customer's complaint can have large repercussions."

Slashing costs is another area where you can inadvertently undermine customer satisfaction. In 2003, Circuit City, a chain of big-box electronic stores, cut nearly 10% of its workforce as a cost-savings measure. Alas, it targeted the highest-paid sales clerks, who, of course, were the most experienced and who had the most knowledge to share with consumers. Circuit City saved approximately $130 million with this radical downsizing, but it suffered a serious drop in customer satisfaction, which directly tracked parallel heavy losses in revenues. Since then, it has closed many of its stores.

"Maximize customer complaints, not customer satisfaction."

Failing to nurture customer relationships is like attacking your company's reason for being, its life force. In 2000, Robert Nardelli, a Jack Welch-type executive from

General Electric, took over as Home Depot's CEO. Nardelli quickly instituted a top-down, hierarchal management structure. He ran the company like a general runs an army. Old-time employees started calling it "Home Despot." Nardelli hired as many military veterans as possible (17,000 on staff by 2005). One problem: Home Depot is a service business, but, as some analysts observed, "the military is trained to kill people, not to provide great service."

> "The customer with a complaint that we never hear may well be our biggest problem."

With Nardelli's changes, customer satisfaction at Home Depot fell by an alarming 11%. At the same time (not coincidentally) Lowes, a prime competitor, saw a 4% increase in its customer satisfaction. Previously, the two firms had nearly equal ratings with the American Customer Satisfaction Index (ACSI). However, within four years, Lowes' ACSI rating grew much better than Home Depot's. Lowes' stock value went up 130% during that period, just as Home Depot suffered negative stock returns. The moral: Don't trifle with customer satisfaction. This rule does not apply to every company. Comcast, the cable TV firm, is at the bottom of the ACSI list almost every year, but it is such a major player and monopolizes so many markets that it stays highly profitable. Customers cannot "punish" it by going elsewhere. It is often the only game in town.

> "Surprisingly few companies keep track of customers lost, gained and retained."

Many companies don't understand their customers and regard acquiring them as a cost. Instead, consider the resources you allocate to customer acquisition as an investment. One day, you may want to capitalize your firm's investment in customer service.

The American Customer Satisfaction Index

The ACSI, which measures customer contentment and trends, is an offshoot of an earlier customer approval measure – the Swedish Customer Satisfaction Barometer. Decades before that tool came along, businesses measured customers' reactions with the Consumer Sentiment Index, developed by Hungarian economist George Katona, the father of "economic psychology."

> "Companies that fail their customers lose them."

Firms with strong ACSI ratings have better stock market results than firms with low ratings. This makes sense. As Paul McCracken, chairman of President Richard Nixon's Council of Economic Advisers, put it, "If that wasn't so, we'd have to go back to the drawing board about how the economy works." Research indicates that, on average, just a "1% improvement in customer satisfaction relates to a 4.6% increase in market value." In a six-year test period, a hypothetical portfolio of companies with high ACSI ratings clobbered other well-known stock indexes. The ACSI portfolio beat the Dow Jones Industrials by 93%. It hammered the S&P 500 by 201%. And it blew NASDAQ stocks off the board by 335%. In a real-life situation – one with actual money on the line for three years – an ACSI portfolio seriously outperformed Wall Street. Clearly, happy customers are economic assets with "high returns and low risks."

"Customer Asset Management"

Your customers and your relationships with them are valuable assets. You can protect them with Customer Asset Management (CAM), which is designed to lower risk and increase cash flow. You can use CAM to focus on customers and to target three individual groups – the buyers that you can in all likelihood retain, those you may not keep and the ones you will almost surely lose. Apply CAM methods to determine how much customers are worth, where you can gain new ones and which ones are too costly to retain. CAM lets you view your customers as a valuable "portfolio," and then develop and implement your strategy accordingly.

> "The purpose of business is to create a satisfied customer." [– Peter Drucker]

Focus on "measuring, developing and nurturing customer relationships." Track new customers carefully against the customers you lose. Pay close attention to how factors such as price and product customization affect the experiences that customers recount. Pay attention to buyers' feedback about how your company performs. More than any other factor, you can judge your firm's value on the basis of your customer relationships. If they are strong, profits and shareholder value will take care of themselves. Maintain a solid customer base by delivering excellent customer service. Develop "switching barriers," processes and logistics that make it difficult for customers to switch from your product or service to a competitor's. For example, the cost and effort of moving from a PC computer to a Mac is a switching barrier.

Don't Always Listen to Your Customers

If you have a CAM orientation, customer relationships are king. However, this does not necessarily mean that your customers are infallible deities. Treating them as all-knowing and all-seeing can be dangerous, as American Airlines learned the hard way. The company's research indicated that business travelers, their most active customers, wanted more legroom in the coach section of the plane. American ripped out all the seats on their planes, removed a handful of rows and reinstalled the seats to give passengers a few extra inches of precious legroom compared to industry averages. American announced this new "added value" feature with an advertising campaign, but the new seating plan did nothing for the company's sales. Within a few years, the airline abandoned the program and reverted back to its old seating arrangements. What happened? To its dismay, American learned that while extended legroom is an attractive feature for air travelers, it adds little to their overall customer satisfaction. Instead, passengers were concerned about more crucial factors, such as pricing and scheduling. Learn from American's example: Find out what truly matters to your customers and plan accordingly. Then you and your customers can both be satisfied.

About the Author

Claes Fornell, a professor of business at the Stephen M. Ross School of Business, University of Michigan, is an expert on measuring and managing customer satisfaction.