

Don't Measure Customer Satisfaction

*Customer perceived value is a better alternative
to traditional customer satisfaction measurements*

by

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MOST COMPANIES HAVE been measuring customer satisfaction for a long time, sometimes even 10 or 20 years. The evaluative criteria for the major quality awards and certificates require companies to gain customer feedback, usually through a customer satisfaction measurement program. Customer satisfaction measurement is even taken for granted by research departments in large companies; these departments just see it as a recurring responsibility.

And yet, few managers—especially strategy level executives who must make important decisions about customers, products and delivery systems—find much practical use for customer satisfaction measurements. They seemed like a good idea 10 or 20 years ago when the idea was relatively new, but most managers now consciously ignore them.¹

A client of mine, who is a senior marketing executive of a major computer services company, recently told me, "Customer satisfaction seems to describe how our customers felt about the last time they bought from us. What I need to understand is what will make them buy the next time. I just don't

see much correlation between our customer satisfaction scores and our ability to defend and grow our business."

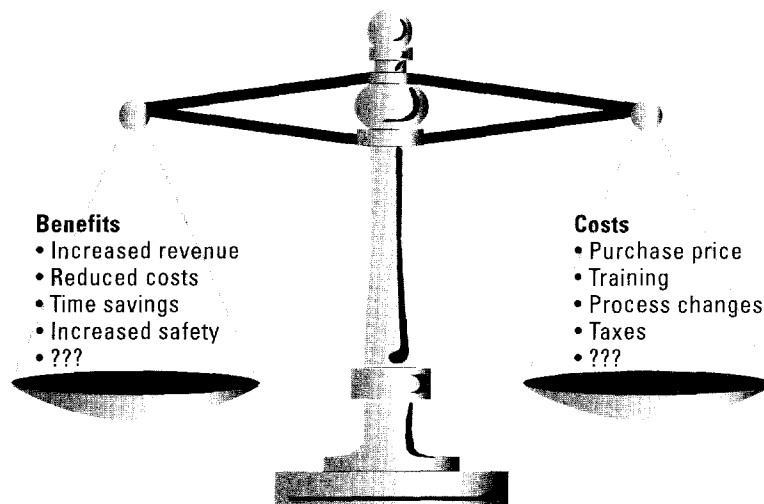
When decision makers don't find value in a performance measurement, you need to look closely at that measure and evaluate its usefulness. In the case of customer satisfaction measurements, the time to do that is now. There are good and bad aspects of customer satisfaction measurements, but there is also a better alternative: customer perceived value (CPV).

Customer satisfaction

A distinction needs to be drawn between the general goal of making customers feel positive about a particular offering and the specific way in which we attempt to measure that feeling. The term "customer satisfaction" has come to represent a method of measurement with distinctive characteristics (see Table 1, p. 64).

As their name implies, customer satisfaction measurements reflect data collected from customers. Potential customers are never included because they wouldn't be able to relate to the questions asked. For example, someone who has never stayed at a Hilton hotel could not answer the ques-

FIGURE 1 Attributes of Customer Perceived Value



tion, "How satisfied were you with the last Hilton hotel you stayed in?"

Customer satisfaction questions usually focus on a past experience, because that's the orientation of customer satisfaction. A customer can only describe how satisfied he or she is with a prior experience.

The customer satisfaction attributes measured are product or service features. All good salespeople know the difference between features and benefits. Features describe what sellers are offering, and benefits are what customers are buying. For example, a hardware store offers drill bits with sharp edges and durable materials—those are the features. However, the consumer is actually buying the ability to easily cut a round hole with his or her power drill—that is the benefit. Customer satisfaction measurements typically ask about features, because those are what the seller can most easily manipulate to attempt to increase satisfaction.

The reference point is customer expectations. This is perhaps the most defining characteristic of customer satisfaction measurement. If a survey respondent said, "Compared to what?" when asked how satisfied he or she is, the researcher would answer, "Compared to what you expected." Since customer satisfaction questions are about a specific past prod-

uct or service experience, the only reference point available is the customer's own expectations.

Each of these characteristics of customer satisfaction measurements contributes to what these metrics are good at, which is determining the customer's reactions to a specific event or past experience. Understanding those reactions helps managers better perceive product performance and service delivery issues as their customers saw them. That's a valuable starting place for understanding how customers think, but it's not nearly enough.

Satisfaction does not equal loyalty

The American Customer Satisfaction Index (ACSI) is an ongoing survey conducted by the National Quality Research Center at the University of Michigan (in conjunction with ASQ and the CFI Group, an Ann Arbor, MI, consultancy). The group conducts about 50,000 telephone interviews annually to identify consumers' satisfaction with the products and services of 175 companies and five government agencies. The automobile manufacturing industry is featured prominently in the survey.

The Cadillac Motor Car Division of General Motors always receives high ACSI ratings from its customers. It won first place in the industry twice in

the last five years and has never been rated lower than third place. In the most recent results, Cadillac ranked second in customer satisfaction. But it's unfortunate these satisfaction ratings have not translated into customer loyalty. Cadillac's market share has eroded during the last five years, from 2.1% in 1995 to 1.7% in 1999, a 15% decline. Apparently, Cadillac customers are very satisfied with their most recent purchase, but they don't let that satisfaction influence their next car purchase.

This is just one example of the ways customer satisfaction scores fail. Most businesspeople, including the executive at the computer services company mentioned earlier, find customer satisfaction scores to be of little value in understanding customer loyalty. And, although numerous attempts have been made, academicians and consultants have failed to prove there's any correlation between the two.

Some experts will object to that last statement, and many of them have declared just the opposite. A careful review of the literature reveals two common flaws in their logic. First, some people ignore the data and simply assert what feels intuitively comfortable. ("It certainly seems right that satisfied customers would be more likely to repurchase.") Second, some lose control of their definition of "customer satisfaction" when they say it correlates with loyalty. The metrics to which they are referring don't have the characteristics described on pp. 62 and 63, so they should be recognized as something different from customer satisfaction measurements. In fact, customer satisfaction does not correlate with customer loyalty.²

Customer loyalty

What is customer loyalty? That term has many definitions, ranging from volume purchase rewards programs to emotional bonds between customer and supplier. Some say customer loyalty is the same as customer retention when measured from the seller's point of view. Scholars debate whether customer loyalty is an attitude or a behavior. We believe, however,

there's a simple definition: "Customer loyalty is the absence of a better alternative."

Customers make a choice each time they purchase. That choice might be between a previous satisfying purchase and the hassle of shopping for alternatives. If the customer chooses to repurchase the familiar product without comparison shopping, the choice can easily be misunderstood as blind loyalty, but that would be a dangerously myopic conclusion. In fact, the customer made a choice between alternatives.

Prospective customers compare the pros and cons of each alternative and purchase the alternative most favorable for them. This decision making process might be formal (as in a large corporation's defined procurement program) or informal (as in most consumer purchases). The process of establishing and judging the criteria may be extremely subjective, and it may be inaccurate, because it all takes place in the mind of the customer. Nevertheless, there is a choice process for each purchase, and its final result determines customer loyalty.

Customer perceived value

What can be measured are the criteria and preliminary evaluations that will be used in the next purchase decision. This is where CPV, a powerful predictor of customer loyalty, comes in. CPV is defined as "the prospective customer's evaluation of all the benefits and all the costs of an offering as compared to that customer's perceived alternatives."³ Figure 1 (p. 63) depicts CPV as a balance scale used by prospective customers.

CPV measurement differs from customer satisfaction in each of the characteristics described earlier, as shown in the right column in Table 1. The sample includes both customers and prospective customers. Asking only current customers about products and services produces an inherently biased sample because those are the people already known to be favorably inclined. Asking about values and needs instead of product features and service experiences allows the researcher to include the rest of the target market in the sample.

The questions posed to prospective buyers about CPV may include, "What benefits are important to you?" and "How well do you believe each vendor will deliver those benefits to you?" In other words, inquiries are made about current perceptions of future value to be delivered. Since these questions relate to impending purchase decisions, they are usually more helpful than the retrospective viewpoints gathered in customer satisfaction research.

The attributes measured are customer perceived benefits and costs. Product and service features (as

TABLE 1 Customer Satisfaction Vs. Customer Perceived Value

Customer satisfaction	Customer perceived value
Limited to customers	Includes entire target market
Retrospective	Prospective
Features oriented	Benefits oriented
Relative to expectations	Relative to alternatives
Useful for improving processes	Useful for predicting customer behavior

used in customer satisfaction measurement) are easier for sellers to relate to underlying manufacturing and service delivery processes. That direct connection remains an advantage of customer satisfaction measurement. But product and service benefits and costs (as used in CPV measurement) are easier for buyers to evaluate meaningfully.

Most consumers don't know or care if a drill bit made of tungsten is better for them than one made of steel. But they might be able to tell us they are willing to pay a dollar more for a drill bit that lasts three years than for one that lasts a few months. The information obtained from customers is much more meaningful and helpful in developing strategic hypotheses, if it is obtained on the customers' terms, using their perspective. Connecting that information with internal processes and action plans is the seller's responsibility.

The reference point is the customer's alternatives. This is where the connection between CPV and customer loyalty becomes clear. If a survey respondent said, "Compared to what?" when asked how he or she perceives value, the researcher would answer, "Compared to your purchasing alternatives." This is key because it refers to the actual purchasing choice the prospective buyer faces. The seller that provides the greatest CPV at the time of the purchasing decision always wins the sale.

Airline example

Commercial airlines have become famous for their routinely poor customer service, reflected in their low ACSI ratings and Congress' threats to intervene with legislation mandating minimum service levels. The tragic events of Sept. 11 added additional reasons for travelers to shun the airlines, but after a modest reduction in travel in the following weeks, the traveling public keeps filling seats. Why do so many people fly when they are so dissatisfied with the airlines?

Flying is still a better value than the alternatives—few people have the time to drive from New York to Los Angeles. It is difficult to find a traveler who is satisfied with airline performance, but when it comes time to plan a long trip, that lack of satisfaction with a previous experience pales when compared to the relative value of current alternatives.

Although CPV is just beginning to overtake customer satisfaction as a more useful measure of customer perceptions, it has already been established as a more credible indicator of customer behavior. Bradley

Gale, a pioneer in the use of the profit impact of market strategy database, demonstrated the strong correlation among market perceived quality, higher profits, lower costs, establishment of premium prices, cash flow, firm market value and market share.⁴

Though we have seen this evidence erroneously used to suggest a correlation between customer satisfaction and customer loyalty, we believe it is legitimate to equate Gale's market perceived quality with what we have defined here as CPV. Gale's research provides the empirical evidence necessary to support what is intuitively obvious: CPV measures the factors on which prospective customers base future purchase decisions.

The CPV construct

There are three components of measuring CPV: attributes, relative importance and relative performance. CPV attributes are whatever factors prospective customers use to compare one offering against another. Some attributes, including product and service quality issues, probably sound familiar to those who have measured customer satisfaction. Others, such as comfort with the brand image, accessibility of the sales representative and ease of

doing business, are even more customer oriented.

Benefits are one type of CPV attribute. They represent what the customer is seeking when making a purchasing choice—for example, the ability to make round holes with a drill bit. Researchers can make the mistake of going too far up the conceptual hierarchy of customer requirements by trying to measure basic needs, such as making money, saving time and reducing risk. Those are important concepts but are too nonspecific.

The other type of CPV attribute is costs, which include not only the purchase price but many other things. There is no need to exclude purchase price from the list of attributes, setting it apart from the definition of "value." Sometimes the purchase price is important to the prospective customer; sometimes it is not. CPV costs beyond price include the costs of training required to use a new product, the difference in maintenance costs among product alternatives, shopping costs and the discomfort associated with telling an existing vendor you have selected a new one.

Most important to using CPV successfully is the ability to identify whatever it is the prospective customer chooses to use as a CPV attribute. You need to use significant exploratory research techniques such

Sometimes early research work produces more questions than answers, as the customer perceived attributes and their relative importance begin to emerge.

as in-depth interviews, focus groups and contextual inquiry to make sure the most appropriate attributes are used in any subsequent research effort. Managers are often surprised by the attributes that surface when customers are allowed to fully explain how they make choices between alternative offerings.

Relative importance

Besides knowing what the attributes are, you need to understand their relative importance. It is impossible for any company to be all things to all people, and it is impossible to effectively manage all the CPV attributes some prospective customers use to make purchasing decisions. Some experts in consumer behavior, for example, have suggested it is not uncommon for a purchaser to consider 60 or 70 different factors in choosing between products.⁵ That is simply too many for the supplier to contemplate, so you need to have a method of prioritizing the most important factors.

Research technicians like to debate how data about the relative importance of CPV attributes should be collected. Basically, the choice is between derived importance and stated importance.

Derived importance is the result of performing statistical analysis to uncover the apparent importance of various attributes based on some dependent variable, such as overall perceived value. This approach cuts through the problem of inaccurate research responses resulting from the inability or unwillingness of respondents to talk about relative attribute importance in a precise way. However, it is also subject to all the fallacies of bad statistical analysis, such as inadequate sample sizes, poorly defined data points and misunderstandings about collinearity.

Stated importance refers to asking the customer to identify the relative importance of the CPV attributes

in use. Research techniques exist to make this a perfectly acceptable alternative to derived importance. One of the most important techniques is to ask for ratings of attribute importance subject to a fixed sum. In other words, ask the customer to place a percentage value of importance on each attribute so the total equals 100%. This eliminates the problem of customers routinely giving high ratings to every factor.

The third element of a CPV construct is the customer's perception of the relative performance of alternative offerings. This is easy to ask the prospective customer about, because it refers to the conscious level of comparison involved in a purchasing choice.

You can use a scale of one to 10 to ask the prospect, "How do you rate the performance of this offering on CPV attribute number one?" It's critical to follow up that question with this one: "How do you rate the performance of this alternative offering on CPV attribute number one?" The difference between those ratings, then, becomes the CPV data item known as "relative performance."

This technique delivers greater insight to managers than the traditional customer satisfaction metric measuring perceived performance against expectations. Customers usually rate most offerings unreasonably high—it's not uncommon for companies to get all 9s and 10s on a scale of one to 10. The picture becomes more clear, however, when the second question is asked and the competition also gets all 9s and 10s. After all, the only thing that matters in a purchasing choice decision is which offering is perceived as delivering relatively greater value.

Useful management information

All together, these factors make up the CPV construct (see Table 2 for an example). This tool describes how customers and prospective customers perceive the value of a specific offering. It should be the basis of most strategy level decisions, such as those on market positioning, product development, market segmentation, pricing, channel management, marketing communications and operations management.

The CPV construct is always a work in progress. Few research efforts provide all the information needed to thoroughly understand how customers think. Sometimes early research work produces more questions than answers, as the customer perceived attributes and their relative importance begin to emerge. In addition, the underlying truth being sought from the research is continually changing as competitors improve their offerings, marketing communications programs take effect and customers change their minds. So it's important to view the CPV construct as a summary of a body of knowledge that will always

TABLE 2 Sample Customer Perceived Value (CPV) Construct

CPV attribute	Importance	Performance
Billing terms	5%	-3
Brand and image	5%	+4
Ease of doing business	10%	-2
Follow-up service	5%	+2
Price	20%	-4
Product aesthetics	5%	+1
Product availability	5%	-1
Product efficacy	25%	0
Sales representative	20%	-1

be incomplete but always improving.

The CPV construct is a summary of what is most important to top management. It's an indicator of what will make more customers buy more product at a profitable price. When management understands what CPV shows, it craves that information. Unlike customer satisfaction measurements, CPV measurements provide top management with information that improves its ability to make timely, effective decisions and reduces the uncertainty of business.

Now that customers have risen to take the power from suppliers in most marketplaces, CPV is the basis of competition. Every thoughtful executive will appreciate help in keeping track of it.

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