

The satisfaction payoff

You can make a profit and satisfy customers — if you know what they want

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How good should an airline meal be? If you're guided by customer satisfaction, the answer is "very." Airline customers often complain about food and criticize it in customer satisfaction questionnaires.

However, customers don't buy airline meals; they buy airline tickets. And tickets give them a bundle of service features, including check-in service, cabin service, food, in-flight movies, seating, and timely arrival. Some of these features influence a customer's choice of airline much more than others. If providing a better meal has little effect on whether a customer will purchase again from the airline, what is the return on investing in better food?

Many products and services look much like the airline ticket. They are bundles of features, some of which influence customers more than others. For example, a customer who chooses a supermarket will have varying experiences regarding product quality, choice, checkout speed, store appearance, and special offers. Customers choosing a TV cable package can expect a bouquet of different channels, each presenting a mix of individual programs. When selecting a theme park, customers will have varying experiences involving ticketing, rides, lines, dining, grounds, and entertainment. Credit card customers are presented with a bundle of

features such as credit limit requests, disputed charges, debt collection, and fraud controls.

The complexity of these bundled purchases usually gives managers an opportunity to save cost, if they can work out which features to cut back on without affecting customer behavior. But like a game of Jenga or pick-up sticks, taking out the wrong piece will bring down the whole structure.

The challenge, then, is to understand the subtleties of how customer satisfaction with each of the different features influences overall purchase behavior. Most customer satisfaction programs don't focus

on that. Instead, they build up and monitor an aggregate customer satisfaction index. Such indices are well-regarded when they go up, though even then they confirm only that a company is spending money effectively, not that it is doing so efficiently. But when the satisfaction indices go down, they offer few clues about what actions a company should take.

One obstacle to spotting the opportunities is a natural desire to simplify the problem. If, as a customer, you try to terminate your mobile phone service, your provider will typically ask why you are leaving. The company will code your response as one of 5-10

standard reasons, such as a better deal elsewhere, dissatisfaction with network performance, customer service problems, or a phone upgrade. It will then produce internal reports about why people are leaving, so that it can focus its satisfaction efforts.

But most customers don't have a single reason for leaving. The different possible sources of dissatisfaction are like the risk factors for heart disease. Over an entire population, you can talk meaningfully about the contribution that each factor makes statistically, but you can't pronounce on the single factor that was decisive for each individual.

If aggregate indices hide the effects we are looking for, and oversimplification distorts the picture, how can companies get a clear picture of what drives the satisfaction that matters, so they can redirect their investments to increase repurchase?

New Insights From Old Research

In some cases, companies may already be sitting on all the data they need. Returning to the case of our airline client, this company was looking to prioritize its spending across the different aspects of its service. The airline's traditional way of thinking was influenced by its organization, which was structured by function: The seating people understood priorities in seating, and the catering people understood priorities in food. Nobody could make objective trade-offs among these areas in order to decide how to prioritize spending.

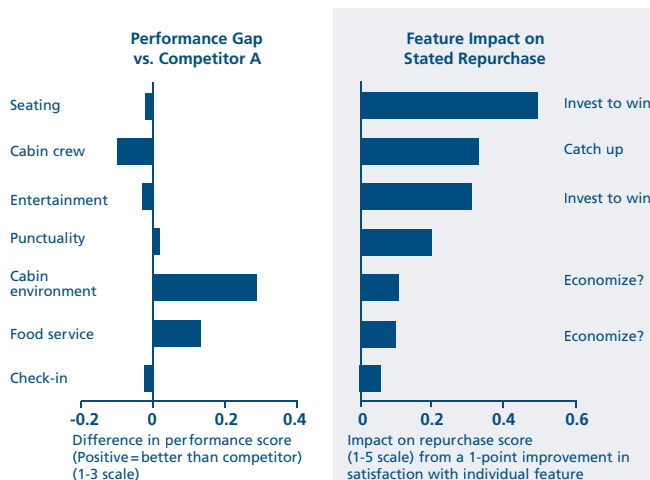
For several years, the airline had been monitoring customer satisfaction using a questionnaire that passengers completed during their flights. The airline had been learning from the questionnaire operationally, again by function. The seating people looked at satisfaction with seating, and so on.

Hidden within these questionnaire answers were valuable insights about the drivers of overall satisfaction and of the customers' intent to repurchase. Factor analysis of the raw data from 1,500 questionnaires allowed us to quantify statistically how important the customers' stated satisfaction with each product and service feature (such as seating, cabin crew, or entertainment) is in influencing their overall intent to repurchase from the airline. Combining this analysis with the airline's relative performance in each feature, from an industry questionnaire conducted across different airlines, we could for the first time identify in which areas

incremental investment would have the biggest business impact. (See Exhibit 1.)

Of course, focusing on customers' stated intent to repurchase is not enough. What matters is what customers will actually do, not what they say they will do, and so it's important to quantify the link back to real revenue. For our airline, this link was difficult to measure directly because we were focusing on passengers in the economy cabin, where repurchase cycles are long. But by analyzing different routes and periods of time, we did quantify a correlation between changes in the stated intent-to-repurchase score and changes in the airline's market share (relative to its share of capacity on the route). This analysis both validated the measures we were using and allowed us to estimate what the revenue impact would be of lifting satisfaction in each of the different product features.

Exhibit 1
Airline customer satisfaction survey



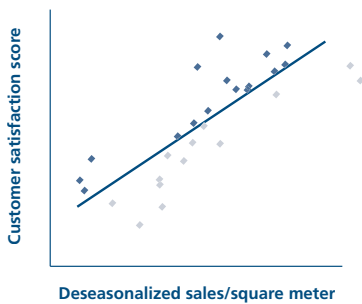
Note: Sequence of service features has been changed to protect client confidentiality

In industries with a shorter repurchase interval it becomes possible to quantify the revenue impact more directly. Customers visiting the supermarket illustrated in Exhibit 2 returned once a week on average, and we were able to establish that the customer satisfaction score correlated well with the sales level. Like the airline, this supermarket also had detailed historic operational surveys of customer satisfaction that we could re-analyze. With the data, we could quantify the increase in like-for-like sales that would result from measurable improvements in customer satisfaction with each aspect of the overall shopping experience.

As a result, investment can be shifted toward activities that have a major impact on customer behavior, but which are often under-funded because it's difficult to justify a business case by traditional means. For example, traditional approaches often focus on levers that are easy to measure, such as price and product choice.

Exhibit 2
Supermarket satisfaction survey

Quantified relationship between overall satisfaction score and revenue



Understanding the drivers of customer satisfaction allows businesses to trade off investment in these levers against investment in less tangible customer perceptions, such as product quality and customer service. Our analysis in several projects across different industries have justified big increases in customer service training.

Tailoring for Different Groups

The analysis described here generates simple, high-level results directly from detailed data at the level of individual customers, without intermediate steps of aggregation or averaging. This transparency allows managers to cut the analysis in different ways to look at sub-categories of customers (e.g., those flying on certain routes, or on night flights, or flying for business rather than leisure).

In the retail world, these analysis show that the importance of each aspect of the customer offer is different in different stores, driven by the segments of customers who live locally and by the mindset in

which the customers shop in the store. Stores can be correspondingly grouped into different retailing formats. (See Exhibit 3.)

Stores with format A serve relatively quality-sensitive customers. For them, return on investment will be maximized through high levels of satisfaction, particularly for aspects such as product presentation and store appearance.

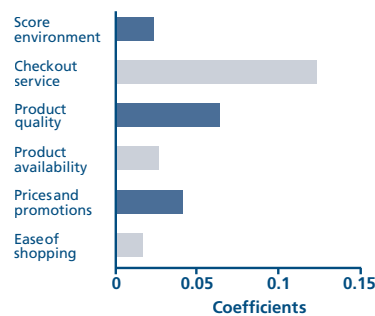
Stores with format B serve more price-sensitive customers. Here, returns are maximized through lower levels of satisfaction in the quality side of the offer, and more money is invested in improving the customers' price perception through pricing, promotions, and communications.

Acting on the Insights

How should managers use these new insights into which aspects of customer satisfaction drive the customers' repurchase behavior? First, there are some straightforward quick wins. Once you know how good an airline meal should be, or for how long you should ask customers to wait in line for a supermarket checkout or a ride in a theme park, you can set resource levels accordingly, shifting spend from lower- to higher-impact activities. Where raw data for analysis exists, these quick wins can be achieved in just four to five weeks.

The quick wins can reduce costs by identifying the Jenga piece that you can pull out without damage; they can also save your business by preventing you from pulling out a piece that would collapse the tower.

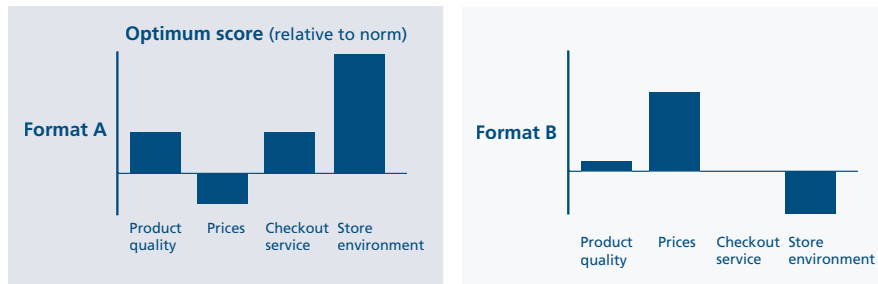
Sales increase per m² from a 1-point improvement in satisfaction with each feature



Note: Sequence of service features has been changed to protect client confidentiality.

Exhibit 3

Varying profiles for retail chain



Capitalizing fully on the findings over time requires generating a continuous flow of such insights, which means moving from analysis of past customer behavior to experimenting with, and predicting, future customer behavior. This requires institutionalizing a culture of continuously testing customer response and then using what you learn to take actions that optimize the economics of the business as a whole.

The difference between mining past behavior and testing future behavior is significant. Deliberately designing in-market experiments (e.g., increasing or lowering time spent in line, altering telephone operator “scripts,” and varying promotion conditions) allows you to attribute differences in response to complex combinations of stimuli. By creating a rapid cycle of in-market testing, where the results from one cycle of tests shape the next, you constantly adapt what gets tested and what gets learned. Your understanding of how to optimize your treatment of customers goes on growing.

Continuous learning in this way delivers two benefits. It provides

rapid feedback from the market, allowing you to detect the influence of shifting customer behaviors, attitudes, and the effect of competitors’ actions. While market research swiftly becomes dated, constantly testing in the market keeps you ahead of the game. It also reveals a stream of new ways to generate economic value through changing the customer experience, moving from quick hits to sustained value generation.

To realize this greater scale of value generation means institutionalizing the testing and decision making, based on the sort of holistic, economic optimization described here. That in turn requires a degree of operational coordination and cooperation among functions that doesn’t exist in most organizations. It depends on working approaches, tools, and skills that support the increased complexity of cross-business research, testing, and decision making based on economic value. It’s not a question of setting a target for each function and asking the functions to maximize their performance because that would not address the cross-functional trade-offs. Instead,

senior management must inform, guide, and fund each function to invest in strong performance only where the economic returns merit doing so.

Measuring the effectiveness of spend according to its impact on customer behavior is the starting point. Organizations must then use this information to trade off competing investments from the different functional areas that contribute to the customer experience to maximize the value from the customer overall.

It may be tempting to address this problem by creating a “customer-led” organization, shifting responsibilities away from classic functions to teams focused cross-functionally on particular customer groups. But simply re-orienting the organization can create as many problems as it solves, by fragmenting the responsibility for functional delivery and causing operational inefficiencies. This is a matrix problem, one of optimizing the application of different functions to different customer groups. And, although a highly matrixed organization may be unattractive as a solution, it’s still worth recognizing the problem as a matrix problem. The preferred solution will differ by company and situation, but will be more about developing new skills, capabilities, and processes than about any particular organization structure. If this degree of implementation complexity seems off-putting, then stick with the quick wins. And by then you will know, quantitatively, whether institutionalizing the approach is worth the effort.