

Customer satisfaction research is a waste of time



ASSESSING PERFORMANCE // IMPROVING QUALITY // CREATING CONFIDENCE

From the desk of Dr Ian Brooks

Don't waste your time and money doing customer satisfaction research. It won't tell you anything worthwhile and it's not likely to change the way your business operates.

Besides, there is a better way.

Companies typically spend large amounts of money and time every year or two years constructing complex surveys involving countless questions. But are they effective?

Customers today are so overwhelmed with requests to complete customer satisfaction surveys that they either don't respond, or they give very little thought to what they put down. Even if customers do respond, the company gets so overwhelmed with information that they don't know what to do with the results.

Frederick Reichheld, one of America's leading experts on customer loyalty, recently wrote in the Harvard Business Review that: "Most customer satisfaction surveys aren't very useful. They tend to be long and complicated, yielding low response rates and ambiguous implications that are difficult for operating managers to act on."¹

I think he's right. Besides, customer satisfaction isn't something that should be thought about only once a year. It is something that everyone in the organisation needs to keep top of mind every day. Staying in touch with customers needs to become a way of life.

The main problem, though, is that customer satisfaction research won't tell you what you need to know. The objective in business is to make a profit, and the best way to do that is to have profitable customers who stay with you for a long time. Think about it. If you made money on every transaction you had with every one of your customers, and if they loved you so much they wanted to come back again and again and again, wouldn't you have the kind of business you've always dreamed of having? Wouldn't you have a very saleable asset?

The trouble is, satisfied customers aren't loyal customers! Research shows that, depending upon the study, up to 86% of customers who switched their business to another supplier were satisfied at the time they defected. Satisfying customers is simply not enough to retain them. So what's the point of spending a lot of money to find out that your customers are satisfied?

To make matters worse, when companies look at the overall results of their surveys, they tend to over-estimate the upside and under-estimate the downside. A CEO once proudly told me that their customer satisfaction research revealed that 80% of their customers were satisfied. What he didn't grasp was that 20% were dissatisfied. In other words, 20 customers in every 100 believe his company is pretty useless. If each one tells nine of their colleagues what they think of his company, then for every 100 customers the company serves, 180 people will hear a bad story. That doesn't sound like a good way to build a brand! Of course, far more customers were satisfied than dissatisfied but how many people do satisfied customers tell about the experience they had?

The problem is further compounded by the way we analyse the data from our customer surveys. Most customer satisfaction surveys give customers an issue, such as on-time delivery, and ask them to indicate whether they were very dissatisfied, dissatisfied, satisfied or very satisfied with the company's performance. The results are then analysed by adding together then number of customers who chose very dissatisfied and dissatisfied, and then comparing that number to the number who chose satisfied or very satisfied. But there is a difference between customers who are very satisfied and those who are satisfied. Moreover, there is no difference between customers who are satisfied and those who are dissatisfied. Many years ago, Xerox did a study that showed that very satisfied customers were six times more likely to purchase again than customers who were simply satisfied. Thus, those analysing customer satisfaction surveys should combine all customers who chose very dissatisfied, dissatisfied and satisfied and compare them with those who chose very satisfied. If they did, they would find that their results dropped from 80% to only 12%!

But of course you have to keep in touch with your customers. Otherwise, you won't know how well you are doing in the eyes of the only people who matter. So if you don't do customer satisfaction surveys, what will you do?

¹"The One Number You Need to Grow," by Frederick Reichheld, Harvard Business Review, December, 2003, pages 47 – 54. 1 2

Customer satisfaction research is a waste of time (*continued*)

Reichheld has the answer: "If growth is what you're after, ... you simply need to know what your friends tell their customers about you." Specifically, Reichheld says you should ask your customers this one question: "What is the likelihood you would refer our company to a colleague or friend?" Then ask them to score their answer out of 10, where 0 = not likely; 10 = very likely and 5 = neutral. People who score your company six or less are considered to be detractors, and those who score it nine and ten are promoters.

Reichheld's approach is to calculate the percentage of detractors and then the percentage of net promoters by subtracting the percentage of detractors from the percentage of promoters. Reichheld's research suggests that companies with the highest net promoter scores have the best growth. After studying more than 400 companies in 28 industries, based on 130,000 customers surveyed over two years, Reichheld found the median net promoter score was just 16%. Rapidly growing 3 companies such as eBay and Amazon had net promoter scores of 75% to 80%. In New Zealand we have seen net promoter scores range from -32% to +56%.

The key advantages of Reichheld's approach are:

- You are measuring customer retention.
- You get an indication of your growth potential.
- It requires little from the customer.
- It can be done daily, weekly or monthly.
- The results are available in real time and easy to interpret.

There is no need to waste your time or money on doing complex customer satisfaction research. Just because you've surveyed your customers the same way for the past 20 years doesn't mean you need to do it that way next year. A new approach will save you money and produce more meaningful information. And that's got to be good for your business.



For more information about another approach to customer satisfaction surveys, contact the Telarc Customer Service Centre on 0800 004 004 or email: admin@telarc.co.nz