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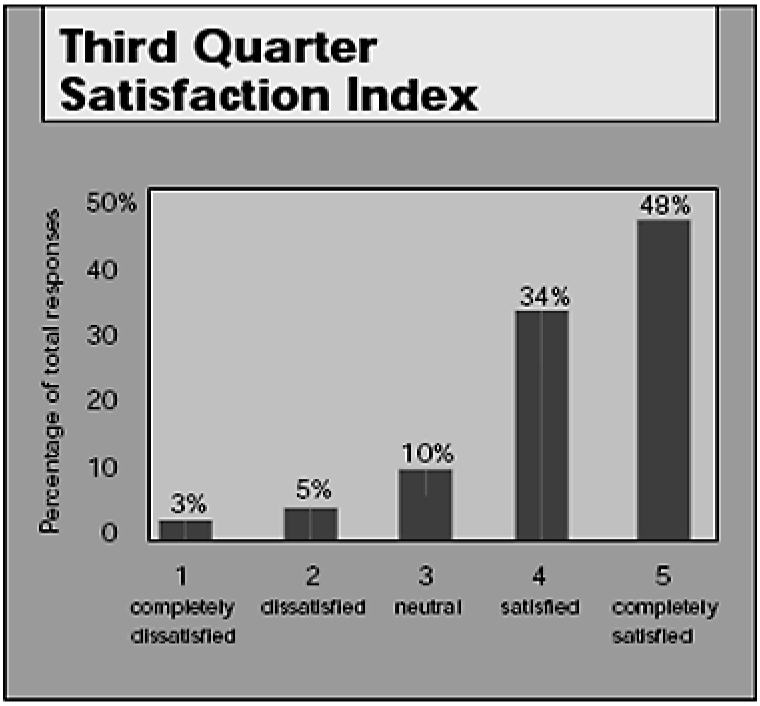
Why Satisfied Customers Defect

by *Thomas O. Jones* and *W. Earl Sasser, Jr.*

The gulf between satisfied customers and completely satisfied customers can swallow a business.

The scene is familiar: the monthly management meeting attended by a company's senior officers and the general managers of its operating divisions. The company's eight divisions operate in diverse markets, including light manufacturing, wholesale distribution, and consumer services. All are feeling pressure from strong competitors, and the corporation has created a customer-satisfaction survey as one method of measuring the impact of its quality-improvement process.

After dispensing with several items on the agenda, the group turns to the third-quarter customer-satisfaction indices, and a transparency is placed on the overhead projector. (See the graph "Third Quarter Satisfaction Index.") The CEO proudly points out that 82% of the customers surveyed responded with an overall satisfaction rating of either 4 (satisfied) or 5 (completely satisfied). Everyone in the meeting agrees that the company must be doing pretty well because only 18% of its customers were less than satisfied.



There are three divisions with average ratings of 4.5 or higher. There is general consensus that they have reached the point of diminishing returns and that further investing to increase customer satisfaction will not make good financial sense.

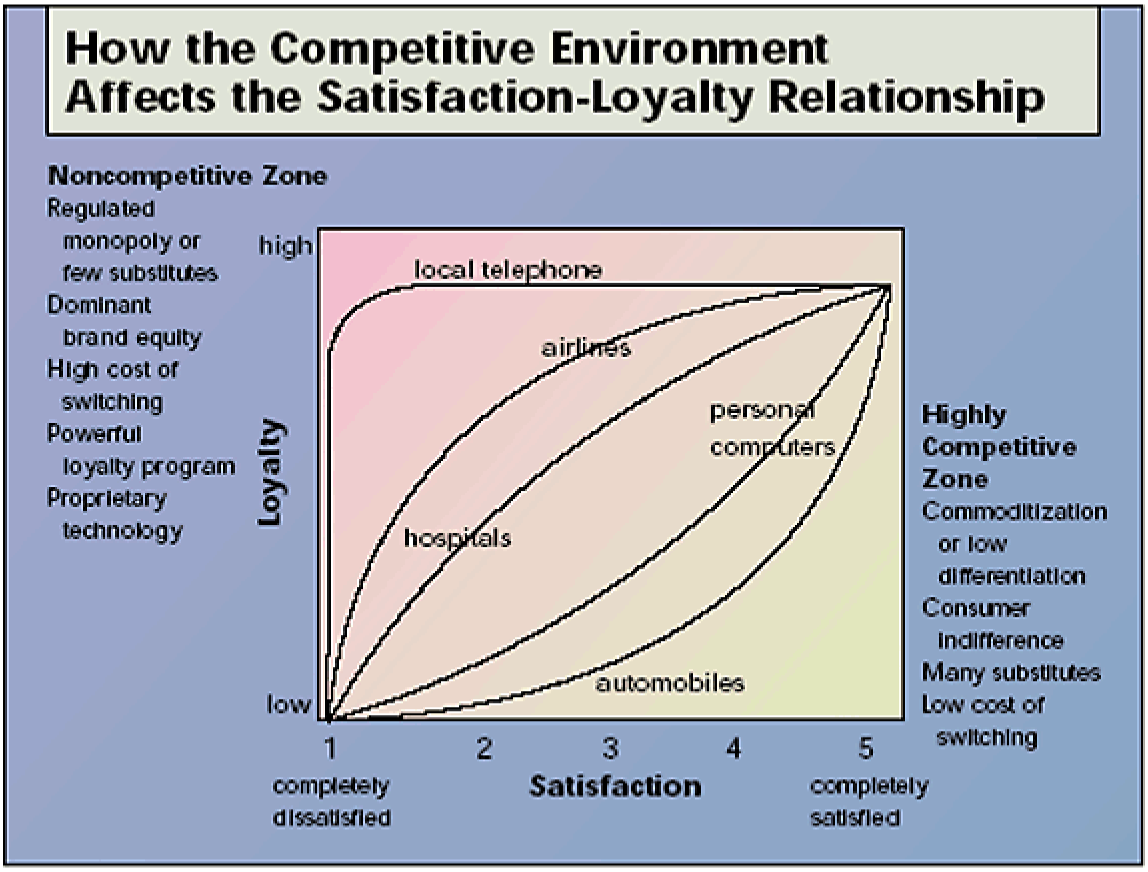
The group next examines the results of the division with the lowest average rating, a 2.7. This business unit manufactures bulk lubricants and sells to companies that repackage the product for sale to the retail channel. It is a highly competitive, commodity-type business and operates with very tight margins. The group concludes that the lubricant division's market is difficult and that its price-sensitive customers will never be satisfied. Moreover, the division's rating is equal to or above those of most competitors. There is a general consensus that its customers are a lost cause and that it does not pay to make additional investments to try to satisfy them.

Finally, the discussion turns to four business units whose customers generally are neutral or pleased but certainly not delighted. Two divisions manufacture large industrial machinery. Two other divisions provide after-market service for the products of both the company and its competitors. Each division has an average rating between 3.5 and 4.5, meaning that, although the majority of their customers are not dissatisfied or neutral, a significant number are. “Our battle plan is to find out what’s making the least-satisfied customers mad and fix it!” the head of one industrial-machinery division says. The others nod in agreement.

Implicit in this discussion are a number of beliefs widely held by managers of the dozens of manufacturing and service companies we have studied. First, it is sufficient merely to satisfy a customer; as long as a customer responds with at least a satisfied rating (a 4), the company-customer relationship is strong. In other words, a level of satisfaction below complete or total satisfaction is acceptable. After all, this is the real world, where products and services are rarely perfect and people are hard to please. Second, the investment required to change customers from satisfied to completely satisfied will not provide an attractive financial return and therefore probably is not a wise use of resources. Indeed, there may even be instances—most notably, when competing in a cutthroat commodity market—where it doesn’t pay to try to satisfy any customers. Finally, each division with a relatively high average rating (3.5 to 4.5) should focus on the customers in its lowest-satisfaction categories (1 to 2). Striving to understand the causes of their dissatisfaction and concentrating efforts on addressing them is the best use of resources.

The extensive research that we conducted on the relationship between customer satisfaction and customer loyalty, however, shows that these assumptions are deeply flawed. They either ignore or do not accord enough importance to the following aspects of the relationship:

• *Except in a few rare instances, complete customer satisfaction is the key to securing customer loyalty and generating superior long-term financial performance.* Most managers realize that the more competitive the market, the more important the level of customer satisfaction. What most do not realize, however, is just how important the level of customer satisfaction is in markets where competition is intense, such as hard and soft durables, business equipment, financial services, and retailing. In markets like these, there is a tremendous difference between the loyalty of merely satisfied and completely satisfied customers. (See the graph “How the Competitive Environment Affects the Satisfaction-Loyalty Relationship.”) As the steep curve for the automobile industry shows, completely satisfied customers are—to a surprising degree—much more loyal than satisfied customers. To put it another way, any drop from total satisfaction results in a major drop in loyalty. The same applies to commodity businesses with thin profit margins; the potential returns on initiatives to increase satisfaction in such businesses can be as high as the return on initiatives in more profitable businesses. In fact, attempts to create complete customer satisfaction in commodity industries will often raise the product or service out of the commodity category. In most instances, totally satisfying the members of the targeted customer group should be a top priority.



- *Even in markets with relatively little competition, providing customers with outstanding value may be the only reliable way to achieve sustained customer satisfaction and loyalty*. There are two types of loyalty: true long-term loyalty and what we call false loyalty. A variety of factors can generate false loyalty or make customers seem deeply loyal when they are not. They include: government regulations that limit competition; high switching costs such as the cost of changing hospitals in the middle of treatment; proprietary technology that limits alternatives; and strong loyalty-promotion programs such as frequent-flier plans. But we made a startling discovery about customers in such markets. Whenever these customers have choices and feel free to make a choice, they act like customers in markets with intense competition: They will only remain rock-solid loyal if they are completely satisfied. That is why seemingly loyal customers defect when they exhaust their frequent-flier miles, when they complete a course of treatment at a hospital, when a regulated market is deregulated, and when alternative technologies are offered. In such markets, it is the companies, rather than their customers, who ultimately have no choice. They must strive to provide their prized customers—those they can serve most profitably—with outstanding value. The message is clear: It is absolutely critical for a company to excel in both defining its target customers and delivering a product or service that completely meets their needs.

- *Very poor service or products are not the only cause—and may not even be the main cause—of high dissatisfaction. Often the company has attracted the wrong customers or has an inadequate process for turning around the right customers when they have a bad experience.* Customers typically fall into one of two categories: the right customers, or target group, whom the company should be able to serve well and profitably, and the wrong customers, whose needs it cannot profitably serve. Having the wrong customers is the result of a flawed process for attracting or obtaining customers. The company that retains difficult-to-serve, chronically unhappy customers is making an expensive long-term mistake. Such customers will continually utilize a disproportionate amount of the company's resources, will hurt the morale of frontline employees, and will disparage the company to other potential customers. Managers should actively discourage such people or organizations from remaining customers and should do their best not to attract others like them. On the other hand, managers of companies that are generally delivering high-quality services or products obviously want to keep their targeted customers and should strive to make amends when, inevitably, something goes wrong. Marked unhappiness among targeted customers often means a problem was not resolved to their satisfaction.

- *Different satisfaction levels reflect different issues and, therefore, require different actions.* The levels of satisfaction among targeted customers are a good indicator of the level of quality of the products or services that they are receiving. But the way to raise the level of customer satisfaction from neutral to satisfied or from satisfied to completely satisfied is not just a matter of doing a better job of delivering the same value or experience that the company is currently delivering. There are four elements that affect customer satisfaction: the basic elements of the product or service that customers expect all competitors to deliver; basic support services such as customer assistance or order tracking that make the product or service incrementally more effective and easier to use; a recovery process for counteracting bad experiences; and extraordinary services that so excel in meeting customers' personal preferences, in appealing to their values, or in solving their particular problems that they make the product or service seem customized. As we will discuss later, the satisfaction or dissatisfaction level of the majority of a company's customers helps determine which of these elements the company should focus on delivering.

• *Even though the results of customer-satisfaction surveys are an important indicator of the health of the business, relying solely on them can be fatal.* Customer-satisfaction surveys can generate valuable information that enables a company to compare the performance of one business unit or several business units in different time periods and locations. They can provide leading indicators of market shifts and can provide a clear sense of the product or service attributes that individual customers most desire. However, customer-satisfaction surveys cannot supply the breadth and depth of information about customers needed to guide the company's strategy and product-innovation process. Satisfaction surveys alone will not enable a company to fend off new competitors or to keep products and services attuned to customers' changing needs. For this reason, companies must also utilize a variety of other methods to listen to existing, potential, and former customers. (See the insert "How to Listen to Customers.")

How to Listen to Customers (Located at the end of this article)

The Satisfaction-Loyalty Link

Executives at Xerox Corporation, which had conducted in-depth satisfaction studies of its office-products customers, played a major role in helping us define our research project. Xerox's intense interest in measuring customer satisfaction sprang from a set of beliefs that we share. High-quality products and associated services designed to meet customer needs will create high levels of customer satisfaction. This high level of satisfaction will lead to greatly increased customer loyalty. And increased customer loyalty is the single most important driver of long-term financial performance. Separate research has validated these beliefs. (See "Zero Defections: Quality Comes to Services," by Frederick F. Reichheld and W. Earl Sasser, Jr., HBR September-October 1990.)

Although these assumptions might seem relatively simple, one discovery by Xerox shattered conventional wisdom: Its totally satisfied customers were six times more likely to repurchase Xerox products over the next 18 months than its satisfied customers. The implications were profound: Merely satisfying customers who have the freedom to make choices is not enough to keep them loyal. The only truly loyal customers are totally satisfied customers.

The Research.

Xerox's discovery intrigued us. Was this relationship between satisfaction and loyalty unique to Xerox? To investigate, we scrutinized more than 30 individual companies and analyzed data from five markets with different competitive environments and different types of customer relationships. The five markets were automobiles, personal computers purchased by businesses, hospitals, airlines, and local telephone services. To measure customer loyalty, we decided to rely mostly on customers' stated intent to repurchase products or services. (See the insert "Measures of Loyalty.") We selected the five markets for particular reasons.

Measures of Loyalty (Located at the end of this article)

• *Automobiles.* We chose automobiles to test whether Xerox's discovery—that its completely satisfied customers were significantly more likely to repurchase its products than its simply satisfied customers—was a fluke or the norm in highly competitive markets. By highly competitive markets we mean those in which there are many alternative products or services offered, the cost of switching is low, or the product is not important to the buyer (that is, where a valid substitute is no purchase at all). Our data on the buyers of 32 automobile models were provided by Robert Lunn of J.D. Power and Associates, the market-research company based in Agoura Hills, California. J.D. Power surveyed these individuals one year after they had purchased their vehicles. The 32 nameplates included both foreign and domestic models with high, medium, and low prices.

• *Personal Computers for Businesses.* We studied this industry to explore the satisfaction-loyalty relationship in a market where the user is not the actual purchaser. Although the personal-computer market is highly competitive, considerable barriers prevent individual business users from switching to another manufacturer's personal computer: for example, centralized purchasing and corporate standards. On the other hand, central purchasing departments do periodically reconsider their suppliers. And in the last ten years, corporate purchasing departments have placed a greater focus on pleasing their customers: the actual users of the equipment they buy. To test how satisfaction affected the loyalty of the end users, we analyzed data from J.D. Power's 1994 survey of more than 2,000 business users of personal computers.

• *Hospitals.* We chose the hospital market because of two interesting characteristics: Although it is shifting from a market dominated by semi-monopolies to one characterized by intense competition, there still remain significant barriers that impede end users (patients) from switching. Several factors affect the choice of a particular hospital. The patient's physician, health maintenance organization, or insurer often determines where he or she goes for treatment; after beginning treatment in a hospital, a patient tends to complete treatment there; and finally, in many parts of the country, there is only one hospital within a convenient distance. Nonetheless, there are moments when the barriers drop and patients can and do switch. To test how these kinds of barriers affect the satisfaction-loyalty relationship, we relied on data taken from 10,000 surveys of patients treated at nearly 82 hospitals in a range of locations in the United States. David Furse, president of NCG Research—a company based in Nashville, Tennessee, that measures service quality and customer satisfaction in the health care industry—provided us with the data.

• *Airlines.* This market interested us because it is one in which the varying level of competition on routes and strong loyalty-promotion programs affect purchasing decisions. Since airlines are relatively efficient in responding to competitors' price changes, most people flying on a particular route heavily base their purchasing decisions on two other factors: time of departure and frequent-flier programs. Although some routes are highly competitive, the fact of the matter is that people who have to go to a certain place at a certain time often have few if any alternatives: The route is a virtual monopoly. To explore the impact of all these factors on the satisfaction-loyalty relationship, we analyzed data from a survey that J.D. Power conducted in the first quarter of 1994. The survey questioned approximately 20,000 passengers who used the eight largest domestic airlines and flew on 72 routes.

• *Local Telephone Services.* We analyzed data provided by a Bell operating company to explore the nature of the relationship in actual or virtual monopolies, in which satisfaction seems to have little impact on loyalty. More specifically, we wanted to understand better how the satisfaction-loyalty relationship might change if the competitive environment suddenly changed—a critical issue for monopolies facing deregulation, global competition, and technological change. By actual or virtual monopolies, we mean companies that operate in markets where, thanks to government regulations, proprietary technology, or very strong brand equity, there is little or no competition. Others in this category include: electrical utilities; cable television providers; transportation utilities with special rights of way; companies with brand identities that are so strong that the customers perceive there to be no other choice; and companies in competitive industries where the barriers that prevent customers from switching to another supplier are high (a restaurant at the top of a ski lift, for example).

The Indications.

Of the five markets, local telephone service, with nearly complete control over customers, was the only one for which the relationship between satisfaction and loyalty turned out exactly as one would expect. Customers remained loyal no matter how dissatisfied they were. But our study of other actual or virtual monopolies did yield one vitally important discovery: When the source of a monopoly's hold on customers suddenly disappears—whether the cause is deregulation, the emergence of an alternative technology, or the arrival of new competitors—the curve can snap into the shape of a highly competitive market in an astonishingly short period of time.

According to conventional wisdom, the link between satisfaction and loyalty in markets where customers have choices is a simple, linear relationship: As satisfaction goes up, so does loyalty. But we discovered that the relationship was neither linear nor simple. To a much greater extent than most managers think, completely satisfied customers are more loyal than merely satisfied customers.

In markets where competition is intense, we found a tremendous difference between the loyalty of satisfied and completely satisfied customers. In the automobile industry, even a slight drop from complete satisfaction created an enormous drop in loyalty. This dramatic phenomenon is not limited to markets for manufactured products: It also occurs in services. In his study of the loyalty of retail-banking depositors, John Larson, a vice president of Opinion Research Corporation in Princeton, New Jersey, found that completely satisfied customers were nearly 42% more likely to be loyal than merely satisfied customers.

How about the curves for hospitals, airlines, and personal computers sold to businesses—industries whose holds on customers fall somewhere between automobiles and local telephone services? They also held surprises. We discovered that customer satisfaction in those industries, too, can affect customer loyalty much more than managers generally assume. Equally if not more important, we discovered that at certain times or under certain circumstances, satisfaction has a much bigger impact on loyalty. In these cases, the curve can snap into the shape of a curve of a more competitive—even a highly competitive—market.

Of the three midrange markets, the steepest drop in the loyalty of end users relative to satisfaction was in the business-PC market. Why should manufacturers of personal computers care? Why should manufacturers care? Because, when the time comes for IT or purchasing departments to replace the current generation of PCs, end-user satisfaction may suddenly have a big impact on customer loyalty. The curve snaps.

The next steepest drop in loyalty occurred in the hospital market—and it promises to become steeper as competition in the industry intensifies. Nonetheless, most hospitals are still operating as if they had little effective competition.

They continue to place little emphasis on patient satisfaction. One can speculate about the reasons. Perhaps their managers think that the centralization of purchasing power makes health maintenance organizations and insurers, rather than individuals, the ones to please. Perhaps they think this centralization will only raise the barriers that block dissatisfied patients from switching. If so, they may be in for a shock. After all, many HMOs and insurers provide their subscribers with a menu of hospitals from which to choose. Moreover, individuals often can switch health plans if they don't like the hospitals on the menu—a fact not lost on HMOs. Although a patient may not be free to change hospitals at any time, there will be a time when the patient or HMO or insurer can. The curve snaps.

In mixed markets such as airlines, achieving a high level of customer satisfaction matters for several reasons. Although a combination of limited choice and artificial restraints such as frequent-flier programs often cause even completely dissatisfied airline customers to remain fairly loyal, the relationship between satisfaction and loyalty does resemble a competitive market on routes where several carriers offer flights at around the same time. This fact means that complete customer satisfaction is very important on both competitive routes and monopoly routes. Why is it important on monopoly routes? Because, as several larger airlines have learned, customers who have suffered years of mediocre or poor service on such routes can still take their revenge. When traveling on other routes where there is competition, they can choose another airline. And if a new, lower-priced competitor suddenly challenges the monopoly, even a frequent-flier program will not be enough to retain them.

Take heed. Although customers sometimes defect en masse, their departure may also occur in harder-to-spot dribs and drabs or spurts. Patients typically defect only after completing a course of treatment. An advertising agency client may defect only when it is time to undertake a new marketing campaign. A major corporate customer may defect from a bank only when an account executive with whom the customer had a personal relationship leaves. In these cases, the business is suddenly operating in a more competitive environment. The curve snaps. It is a time of maximum vulnerability for the company. And if it takes a while to lose such customers, it takes just as long to recapture them once they have moved to another supplier.

What is the overarching lesson? Customers are reasonable, but they want to be completely satisfied; if they are not and have a choice, they can be lured away easily. (See the table "They Suffered the Consequences.") In today's turbulent world, measuring customers' outward loyalty does not suffice. Nor does knowing whether the satisfaction-loyalty relationship a company enjoys with the majority of its customers is the norm for its market. It is essential to understand what portion of customers' seeming loyalty is true loyalty based on a company's delivery of superior value and what part is artificial. Measuring customer satisfaction is one of the safest ways to obtain this information. If there is a solid likelihood that the level of competition in a market is going to increase, it is obviously better to seek to increase customer satisfaction before the curve snaps than after. The safest approach is to seek total customer satisfaction.

They Suffered the Consequences

Industries or Companies That Experienced a Rapid Change in Customer Loyalty	Reason for Shift in Customer Loyalty
Telecommunications, airlines, electrical power, savings and loan associations	Deregulation
Xerox, Roche (Valium)	Loss of patent protection
Electronics, U.S. auto industry	Entrance of new competitors
American Express, IBM	Reduction in brand dominance
IBM, Digital Equipment Corporation	Advent of new technologies

Consequently, most managers should be concerned rather than heartened if the majority of their customers fall into the satisfied category. Those customers have reasons for not being completely satisfied. Some element (or elements) of their experience with the company was not acceptable, and that shortfall in performance is sufficient for them to consider alternatives. Some might ask, Then why did these customers say they were satisfied in the first place? The answer is: Regardless of how they feel, customers of companies with reasonably good product or service quality tend to find it difficult to respond negatively to customer-satisfaction surveys. As a result, their satisfaction responses typically fall in the upper end of the scale—a 4 or 5 on a scale of 1 to 5. Rather than thinking of customers as loyal or disloyal, managers would be better off treating them as three separate groups. (See the table “Interpreting Levels of Satisfaction.”)

Interpreting Levels of Satisfaction

Response	Description	Loyalty
5	completely satisfied	very loyal
3-4	satisfied	easily switched to a competitor
1-2	dissatisfied	very disloyal

Like the managers of the company described at the beginning of this article, most managers probably would be happy to learn that 82% of their customers fell into category 4 or 5. The more appropriate reaction would be, “We have a problem. Only 48% of our customers are completely satisfied, and 52% are up for grabs.”

Using Customer-Satisfaction Information

Customer-satisfaction information can be a critical barometer of how well a company is serving its customers. This information also can show a company what it needs to do to increase its customer satisfaction level by level until the majority of its customers are totally satisfied. The key is understanding what customers are saying when they provide various responses.

The first step is to make the measurement of customer satisfaction and loyalty a priority and to ensure that the process is unbiased, consistent, broadly applied, and able to capture and store information on individual customers. The process should be unbiased because typically there are forces within the company that will attempt to distort it for their own purposes. It should be consistent so that period-to-period changes have meaning. It should be broadly applied so that products, locations, and business units can be compared in order to help managers decide how to use the company’s limited resources most effectively. Last but not least, the measurement process should capture information on individual customers so that the company can tailor its satisfaction-improvement programs to its individual customers’ situations.

The second step is to create a curve by plotting individual customer responses. In addition to assessing how satisfied or dissatisfied customers are, managers should compare their company’s curve with those shown in the industries we surveyed and consider the factors that shaped their own company’s curve. Is the company retaining its customers through false-loyalty mechanisms, or is their loyalty the result of the value that the company provides through its product or services?

The third step is to determine the most appropriate strategies for raising customer satisfaction. (See the table “How to Decide What Actions to Take.”)

How to Decide What Actions to Take

	Bulk of Responses	Strategic Response
Stage 1	2-3 (dissatisfied)	Deliver the basic product or service elements as expected of anyone in the industry
Stage 2	3-4 (neutral)	Provide an appropriate range of supporting services Develop proactive service recovery to make amends when something goes wrong
Stage 3	4-5 (satisfied)	Understand and achieve results in customers' terms

A dissatisfied customer is probably having problems with the core value of the company's product or service—the basic elements that customers expect everyone in the industry to be able to provide. Although it may seem obvious that the basic product desired by customers often shifts as competitors improve, new competitors arrive, and new technologies redefine the game, it is even more obvious from business history that keeping up with such shifts is one of management's most difficult challenges. The match between the basic product or service and the customers it is designed to serve must be reviewed continually to ensure that there is still a good fit.

A neutral customer is probably happy with the basic product or service but would like to be offered a consistent set of support services. And to ensure that neutral and satisfied customers do not slip back into the realm of the dissatisfied if bad luck happens to strike, companies also need highly responsive recovery processes. Well-designed support services—and they almost always are *services*—make the basic product or service easier to use or more effective. And recovery processes help the customer get back on track if problems occur.

The vast majority of companies that excel in satisfying customers rank the ability to react when something goes wrong as one of the most important factors in satisfying customers. That ability greatly influences whether customers heap scorn or praise on the company when talking to others. (See the insert "Apostles and Terrorists: A Company's Best Friends and Worst Enemies.") Strong recovery processes are especially vital in industries such as airlines, automobiles, production equipment, and mail-order retailing—businesses in which the product or service is complex or some delivery and servicing processes lie outside the company's control.

Apostles and Terrorists (Located at the end of this article)

A completely satisfied customer typically believes that the company excels in understanding and addressing his or her personal preferences, values, needs, or problems. To figure out how to satisfy customers in this fashion, a company has to excel at listening to customers and interpreting what they are saying.[1]

Consider the experience of having a car repaired. A customer's basic goal is to have it fixed properly. To obtain a relatively neutral customer, a dealership or service station must repair the customer's vehicle competently. In the last decade, a large number of dealerships have expanded their services to include overnight and express drop-off, loaner vehicles, and free washing and waxing. Some also have instituted the practice of checking back with customers within 24 hours to make sure the problem was properly fixed, and a handful of really great dealerships check again after two weeks. If there is still a problem, fixing it becomes the top priority. These value-added support and recovery services are crucial for moving customers from neutral to satisfied. In recent years, dealerships that sell Japanese cars—most notably, Lexus dealerships—have reexamined the car-servicing experience from the customer's perspective. They found that what most customers want is to have their car repaired with minimum inconvenience and that *their* definition of the car-servicing experience includes taking the car to the dealership, arranging for transportation while it is in the shop, and picking it up once it is fixed. These dealers *completely satisfy* customers by picking up their cars at their homes or offices, leaving loaner vehicles, competently repairing, cleaning, and waxing the cars, returning them later in the day, picking up the loaners—and, of course, checking later to make sure that the cars were properly repaired.

An independent multiplex movie theater that we came across in the Southwest last year is another example of a business that excels in figuring out what its customers really want and giving it to them. Its managers discovered that customers' actual movie-going experience started about two blocks from the theater, where the typical customer, especially one who is running a bit late, enters the traffic approaching the parking lot and starts to become anxious about parking and purchasing a ticket. To address such concerns, the theater's managers placed attendants two blocks from the theater to sell tickets and help people enter the parking lot. The managers discovered that customers also resented having to leave the viewing area and then stand in line in the lobby to buy food. In response, the theater began to serve food throughout the facility; it even served seated customers until the main features began. Finally, the managers learned that customers detested dirty bathrooms. In response, the theater began cleaning its bathrooms four times an hour. The end result: a large number of highly satisfied, highly loyal customers.

The three-phase approach to increasing customer satisfaction has important implications. First, different actions are required to raise the satisfaction of customers of a family of products or services whose level of satisfaction differs. Second, it is absolutely critical to accomplish the three stages in order. It is possible to make a quantum leap—to move customers from neutral to completely satisfied, for instance—by completely redesigning the product or service, by introducing new technology, or by reengineering the underlying delivery process. But we have found that not many companies succeed at that. Such leaps often fall short because the company overlooked the support services that had evolved informally over the years and did not redesign them, too.

In the final analysis, the company that will survive and flourish over the long term is the one that continually works to understand the relationship between satisfaction and loyalty for each of its customers, for each of its business units, and for each of the industries in which it competes. Horst Schulze, president and COO of the Ritz-Carlton Hotel Company, the 1992 winner of the Malcolm Baldrige National Quality Award, put it the best. "Unless you have 100% customer satisfaction—and I don't mean that they are just satisfied, I mean that they are excited about what you are doing—you have to improve," he said. "And if you have 100% customer satisfaction, you have to make sure that you listen just in case they change...so you can change with them."

1. Not all customers are saying the same thing. Opinion Research Corporation's John Larson has performed several studies comparing the satisfaction drivers for customers at different levels of satisfaction. In a study for a large information-services company, he found that dissatisfied customers were interested in core product attributes such as accuracy of data. Neutral customers were interested in account management issues such as the account manager's ability to relay account status quickly and accurately. And satisfied customers were interested in the degree to which the company's services supported the customer's strategic business objectives.

How to Listen to Customers

At the heart of any successful strategy to manage satisfaction is the ability to listen to the customer. There are five major categories of approaches that companies can use to listen to their customers. Most highly successful companies employ several, if not all. Many average or poor performers either use very few or, if they use many, do a poor job of incorporating the results into their strategies. The five categories are:

Customer-Satisfaction Indices. Surveying customers about their level of satisfaction and plotting the results can help managers understand just how satisfied or dissatisfied customers are with both their dealings with the company in general and with various elements of the company's product or service in particular. The fact that such indices are quantitative makes them a useful tool for comparing results from different time periods, locations, and business units.

Feedback. Customers' comments, complaints, and questions fall into this category. A company cannot implement a recovery strategy—a plan for making amends when something has gone wrong—if it does not know who has had a problem. Therefore, it is important to review the company's approach to soliciting feedback—especially complaints—on product and service quality.

Market Research. Although companies traditionally invest significantly in this area, they often overlook two critical listening points. Customers should be interviewed both at the time of arrival (when they become customers) and at the time of departure (when they defect) about the reasons for their behavior. New customers should not only be asked, "How did you hear about us?" but also, "What major experiences influenced your decision to try our product or service?" The answers to the first question will provide data about the effectiveness of the company's awareness advertising, and the answers to the second will supply information about specific factors that actually sparked the decision to try the product or service. It also is absolutely critical to understand why a customer defected. Gleaning that information requires a high degree of sensitivity and skill because most customers will blame the price or some other relatively basic product attribute in order to avoid discussing the real issue. Carefully questioning departing customers is important for two reasons: to isolate those attributes of the company's product or service that are causing customers to leave and to make a last-ditch attempt to keep the customer. One company we studied found that it recaptured a full 35% of its defectors just by contacting them and listening to them earnestly.

Frontline Personnel. Employees who have direct contact with the customer provide a superb means of listening. To take full advantage of frontline employees' interactions with customers, however, a company must train them to listen effectively and to make the first attempts at amends when customers have bad experiences. They also must have processes in place to capture the information and pass it along to the rest of the company. Many companies that excel in satisfying customers have institutionalized one other practice: All employees—not just those with frontline jobs—spend a significant amount of time interacting in depth with customers.

Strategic Activities. Some companies go to extremes to involve the customer in every level of their business. MTV, the cable music channel geared to 18-to 24-year-olds, insists that most of its employees must belong to the demographic target group. Southwest Airlines actually invites frequent fliers to its first round of group interviews with prospective flight attendants and considers these customers' opinions in decisions to invite certain candidates back for individual interviews. Intuit, the financial-software company, regularly brings in customers to participate in product-development sessions.

Measures of Loyalty

Broadly speaking, customer loyalty is the feeling of attachment to or affection for a company's people, products, or services. These feelings manifest themselves in many forms of customer behavior. The ultimate measure of loyalty, of course, is share of purchases in the category. In the automobile business, it is share of garage. In the clothing industry, it is share of closet. And in the restaurant business, as Taco Bell president and CEO John Martin says, it is "share of stomach."

Unfortunately, such information is rarely available at the individual customer level. But there are alternative measurements, which we have grouped into three major categories.

Intent to Repurchase. At any time in the customer relationship, it is possible to ask customers about their future intentions to repurchase a given product or service. Although their responses are simply indications of future behavior and are not assurances, they have very important benefits. First, companies can capture this information when they measure satisfaction, making it relatively easy to link intentions and satisfaction for analytical purposes. The fact that intent to repurchase can be measured at any time in the customer relationship makes it especially valuable in industries with a long repurchase cycle. Finally, intent to repurchase actually is a very strong indicator of future behavior. Although this measure will generally overstate the probability of repurchase, the degree of exaggeration usually is fairly consistent, meaning that the future results can be predicted fairly accurately. For example, an average of 60% to 80% of automobile customers queried 90 days after buying a car say they intend to repurchase the same brand, and 35% to 40% actually do so three to four years later.

Primary Behavior. Depending on the industry, companies often have access to information on various transactions at the customer level and can measure five categories that show actual repurchasing behavior: recency, frequency, amount, retention, and longevity. Although they are important measures of actual behavior, they only provide a glimpse of overall share and are most useful as an indication of changes over time. Moreover, sometimes they can send the wrong message. For example, the credit-card industry traditionally measured the willingness of the consumer to pay the annual fee as its prime measure of retention. During the late 1980s and early 1990s, those same companies saw that willingness rise while actual "share of wallet"—the degree to which customers used their particular card for making purchases when they had the option of using a credit card—decreased. The consumer was willing to pay the fee to have the credit card available but often did not use it. Therefore, recency, frequency, and amount of purchase were significantly better measures of loyalty.

Secondary Behavior. Customer referrals, endorsements, and spreading the word are extremely important forms of consumer behavior for a company. In most product and service categories, word of mouth is one of the most important factors in acquiring new customers. Frequently, it is easier for a customer to respond honestly to a question about whether he or she would recommend the product or service to others than to a question about whether he or she intended to repurchase the product or service. Such indications of loyalty, obtained through customer surveys, are frequently ignored because they are *soft* measures of behavior that are difficult to link to eventual purchasing behavior. However, since secondary behavior significantly leverages the positive experiences of a single customer, it is very important to understand what types of experiences create such behavior.

Apostles and Terrorists: A Company's Best

Friends and Worst Enemies

Although it is important and valuable to track and understand the satisfaction and loyalty of customers as a group, it is equally critical to understand the attitudes and behavior of individual customers. Depending on their unique behavioral attributes (prior individual biases), intensity of satisfaction or dissatisfaction (attitude), and ability to act on their satisfaction or dissatisfaction (competitive market dynamics), customers behave in one of four basic ways: as loyalists, as defectors, as mercenaries, or as hostages. Turning as many customers as possible into the most valuable type of loyalist, the apostle, and eliminating the most dangerous type of defector or hostage, the terrorist, should be every company's ultimate objective. (See the table "Individual Customer Satisfaction, Loyalty, and Behavior.")

Individual Customer Satisfaction, Loyalty, and Behavior

	Satisfaction	Loyalty	Behavior
Loyalist/Apostle	high	high	staying and supportive
Defector/Terrorist	low to medium	low to medium	leaving or having left and unhappy
Mercenary	high	low to medium	coming and going; low commitment
Hostage	low to medium	high	unable to switch; trapped

The Loyalist and the Apostle

In most cases, the loyalist is a customer who is completely satisfied and keeps returning to the company. The loyalist is a company's bedrock. This customer's needs and the company's product or service offerings fit exceptionally well, which, not surprisingly, is why loyalists often are the easiest customers to serve. Occasionally, the match is so good that even a 5 on a 1-to-5 satisfaction scale doesn't fully capture the strength of the relationship.

Within the loyalist camp are individuals who are so satisfied, whose experience so far exceeds their expectations, that they share their strong feelings with others. They are apostles.

One company that excels in creating apostles is Intuit, maker of Quicken, the phenomenally successful financial-management software. Although Intuit has fewer than ten sales employees, it has hundreds of thousands of salespeople: its highly satisfied customers, who found the company's product and its customer-service staff so responsive to their unique needs that they had to tell someone else. "When you treat a customer so well that he or she goes out and tells five friends how great it is to own your product—that's when you're doing it right," says Scott Cook, Intuit's cofounder and chairman of the board.

Treating customers exceptionally well does not mean merely treating them well when everything basically is going right. It also means treating them exceptionally well when something goes terribly wrong. Highly dissatisfied customers typically include people who were highly satisfied until they purchased a single shoddy product or suffered a service failure or a sequence of unrelated failures. If a company excels in making amends—that is, in recovering—when such failures occur, customers' faith in the company is not just restored, it is deepened; and they become apostles, spreading the good word about the company to potential customers.

Of course, a company can only turn such customers into apostles if they come forward. For this reason alone, it more than pays to provide customers with numerous opportunities to express their dissatisfaction. Companies with world-class recovery organizations frequently ask customers if they are satisfied, provide toll-free customer comment numbers, fully involve frontline employees in the crusade to identify and help customers frustrated by service or product failures, and regularly review their approaches to dealing with customer problems.

The Defector and the Terrorist

Defectors' ranks include those who are more than dissatisfied, quite dissatisfied, and neutral. The merely satisfied—many more than most managers realize—defect, too. And as we've said, so do once highly satisfied customers who have encountered failures. Letting those customers defect is perhaps the biggest mistake managers can make. When a company has strong processes in place to understand such customers' needs better and to shower attention on them if isolated problems strike, most of them can be converted or turned once again into highly satisfied customers.

Not all defectors should be retained, however. The unreasonable demands of unhappy customers whose needs do not fit with the company's capabilities can devour excessive resources and wreak havoc on employee morale. For just this reason, such outstanding service organizations as Nordstrom department stores, Sewell Village Cadillac Company in Dallas, and Southwest Airlines regularly "fire" customers they cannot properly serve. They recognize counterproductive efforts when they see them.

The most dangerous defectors are the terrorists. These are the customers who have had a bad experience and can't wait to tell others about their anger and frustration. They are the airline passengers who because of bad weather were stranded at an alternate airport and were not given appropriate assistance. They are the retail customers who found that the product they just bought did not work and encountered an inept or uncaring service employee when they tried to get help or compensation. They are the new car owners who had to return countless times to try to get the same problem fixed. With each telling, their stories grow in intensity and the actual facts become increasingly distorted.

Unfortunately, terrorists generally are far more committed and hence more effective at telling their stories than apostles. Like many apostles, they had bad experiences. But in their case, no one listened, no one responded, no one corrected the problem.

The Mercenary

Another customer who can make a company's life miserable is the mercenary. This individual defies the satisfaction-loyalty rule: He may be completely satisfied but exhibit almost no loyalty. These customers are often expensive to acquire and quick to depart. They chase low prices, buy on impulse, pursue fashion trends, or seek change for the sake of change. Although it often takes as much effort to please them as to please long-term loyal customers, they do not remain long enough for the relationship to turn a profit.

The Hostage

Hostages are stuck. These individuals experience the worst the company has to offer and must accept it. Many companies operating in a monopolistic environment see little reason to respond to the plight of hostages. After all, these customers can't go anywhere. So why bother to correct the problems?

There are two important reasons why companies should bother. First, if the competitive environment suddenly shifts, these companies will then pay the price. Their customers will defect quickly and many will become terrorists. Second, hostages are very difficult and expensive to serve. They may be trapped, but they still take every opportunity to complain and to ask for special service. Hostages can devastate company morale, and their negative impact on per unit costs is astounding.

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