



Customer Satisfaction

Most companies pay more attention to their market share than to their customers' satisfaction. This is a mistake. Market share is a backward-looking metric; customer satisfaction is a forward-looking metric. If customer satisfaction starts slipping, then market share erosion will soon follow.

Companies need to monitor and improve the level of customer satisfaction. The higher the customer satisfaction, the higher the retention. Here are four facts:

1. Acquiring new customers can cost 5 to 10 times more than the costs involved in satisfying and retaining current customers.
2. The average company loses between 10 and 30 percent of its customers each year.
3. A 5 percent reduction in the customer defection rate can increase profits by 25 to 85 percent, depending on the industry.
4. The customer profit rate tends to increase over the life of the retained customer.²⁵

One company bragged that 80 percent of its customers are satisfied or highly satisfied. This sounded pretty good until it learned

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that its leading competitor attained a 90 percent customer satisfaction score. The company was further dismayed to learn that this competitor was aiming for a 95 percent satisfaction score.

Companies that achieve a high satisfaction score should advertise it. J. D. Powers gave the Honda Accord the number one rating in customer satisfaction for several years, and this helped sell more Accords. Dell achieved the highest satisfaction ratings for its computer service and advertised this in its ads, giving prospects confidence that they could trust ordering a computer sight unseen from Dell.

The importance of aiming for high customer satisfaction is underscored in company ads. Honda says: **“One reason our customers are so satisfied is that we aren’t.”** Cigna advertises, **“We’ll never be 100% satisfied until you are, too.”** But don’t make too big a claim. Holiday Inns ran a campaign a few years ago that promised “No Surprises.” Guest complaints were so high that the slogan “No Surprises” was mocked, and Holiday Inn quickly canceled this slogan.

Customer satisfaction is a necessary but not sufficient goal. Customer satisfaction only weakly predicts customer retention in highly competitive markets. Companies regularly lose some percentage of their satisfied customers. Companies need to focus on customer retention. But even retention can be misleading, as when it is based on habit or an absence of alternative suppliers. A company needs to aim for a high level of customer loyalty or commitment. Loyal packaged-goods customers, for example, generally pay 7 percent to 10 percent more than nonloyal customers.

The company should therefore aim to delight customers, not simply satisfy them. Top companies aim to exceed customer expectations and leave a smile on customers’ faces. But if they succeed, this becomes the norm. How can a company continue to exceed expectations after these expectations become very high? How many more surprises and delights can a company create? Interesting question!