

## **Customer Satisfaction Measurement: how not to do it, how to do it and why it should be done.**

**by Nigel Hill.**

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### **Abstract**

Many organisations fail to apply adequate rigour to their customer satisfaction research process and consequently produce misleading results. This is detrimental even if the results are used only as a guide for service improvement strategies but could be very damaging if they are to contribute to strategic decisions. In the USA, some leading companies have developed Profit Chain models enabling them to forecast the effect on financial performance of improving customer and / or employee satisfaction. Since customer satisfaction measures usually occupy a pivotal place in such models, the reliability of the measures becomes critical. This article highlights the main requirements of an accurate and effective customer satisfaction measurement process.

### **Article**

If you want real value from customer satisfaction measurement (CSM) there are some key things you just have to get right – but many organisations don’t. Customer surveys are sometimes seen as a ‘common sense’ activity that anyone can organise. After all, some say, it’s only a matter of asking a few questions to some customers and looking at what they say. This kind of attitude often results in responsibility for CSM being delegated to untrained staff with little knowledge of research techniques. Subsequent results will often be unreliable and may mislead decision makers.

A much publicised example of misleading CSM results concerns the surveys conducted by the privatised rail companies. According to Which? Magazine, the rail companies’ “current surveys are close to useless” because:

- (i) The questions avoid customers’ main requirements
- (ii) They distort definitions of satisfaction
- (ii) They use misleading trend data.<sup>1</sup>

**(i) Who sets the agenda?**

If you really want to know how satisfied your customers feel, the questions asked in your survey have to cover customers’ main requirements. Companies are tempted to include questions on areas where they’ve invested heavily or made improvements, but if these are of marginal importance to customers they will make little impact on how satisfied customers feel. Which? conducted a survey to identify rail passengers’ main requirements and the top 10 are shown in the chart.

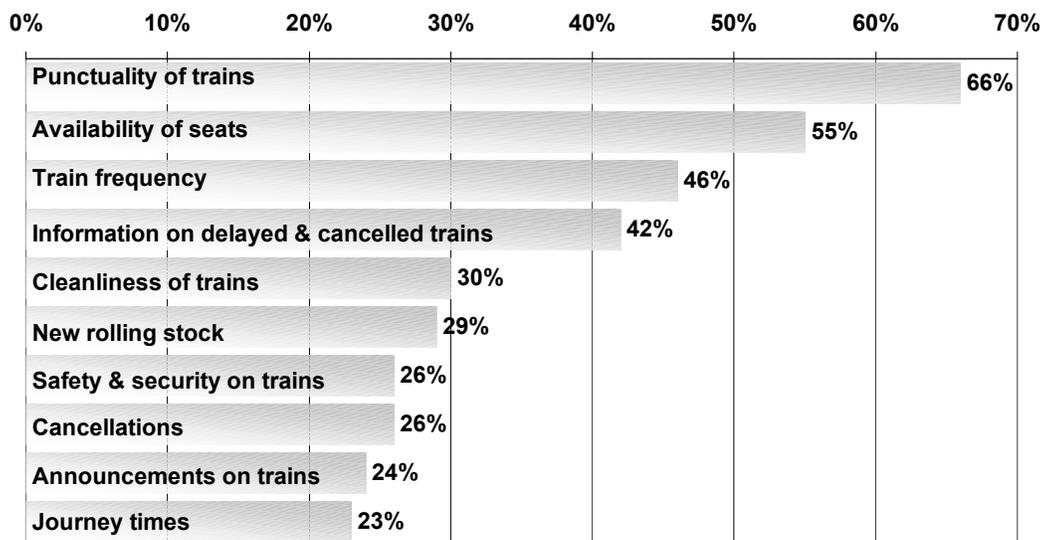


Figure 1: Passengers’ main requirements

Amongst the rail companies, the worst culprit for avoiding customers’ requirements was GNER, whose survey covered only one item from the customers’ top ten. They did ask about the on-train catering, and about staff appearance. Both came close to the bottom of customers’ priorities in the Which? Survey.

**(ii) Meaningless definitions of satisfaction**

Another old trick is to claim that survey results demonstrate satisfaction when they do nothing of the kind. A notable rail culprit here is Anglia who claim that an average score above 5.0 on a 10 point scale shows customer satisfaction. If you were a respondent, would you give a score of five if you were satisfied? Our evidence from a huge database of CSM results shows that only average scores of 8 or above mean satisfaction. Average scores in the 7s should be interpreted as ‘quite satisfied’, in the 6s as ‘marginally satisfied’ and in the 5s as ‘marginally dissatisfied’. Many companies

are now saying that only ‘top box’ scores (i.e. average scores above 9 on a 10 point scale) are acceptable. Another cunning way of distorting the results was used by Great Western who ask customers to rate performance against expectation. If you are meeting or exceeding customers’ expectations surely you must be doing well? Not if customers expect to stand up and arrive late on most journeys!

**(iii) Misleading trend data**

Have you noticed how the results are displayed on posters at stations? They impressively show improvements against targets based on previous results. I thought they looked good until Which? Pointed out that rail companies compare current scores only with levels recorded before privatisation so targets can be very low. The target Anglia has to meet for ‘ticket prices’ is 4.89! If it achieves a satisfaction score of 4.9 on a ten point scale its trend data can show improvement. Feeding that score into our *Satisfaction Benchmark* database, it comes out as the lowest score recorded by any organisation for customer satisfaction with prices!

In reality, there is a huge difference between gathering some customer feedback and obtaining *an accurate measure* of customer satisfaction. Rather than attempting to cover all aspects of the CSM (customer satisfaction measurement) process, this article will focus on the key areas that are often overlooked or under emphasised. Failure to get these things right will, at best, cast doubt over the accuracy of the satisfaction measures obtained and at worst seriously weaken the ability of the organisation to meet its fundamental objective of improving customer satisfaction and business performance. There are seven fundamental principles that organisations should adhere to for an accurate and effective CSM process.

**1. Allow customers to define the criteria for measurement**

Many organisations determine the criteria for measurement internally, yet research has often shown that suppliers rarely have an accurate understanding of customers’ priorities. Since satisfaction is about ‘doing best what matters most to customers’, it is essential that you measure ‘what matters most’. The only way of ensuring that your survey measures the issues of most importance to customers is to allow the customers themselves to determine the criteria to be measured. To do this you need to carry out exploratory research to identify customers’ most important requirements.

This ‘qualitative’ research involves detailed discussions to fully understand customers’ priorities. In consumer markets or with internal customers, focus groups will often be used at this stage whilst in business markets, one to one depth interviews are more common. Either way, wide ranging discussions must first draw out the issues of most importance to customers before quantifying their relative importance. After several focus groups in consumer markets or 10-20 depth interviews in business markets, you will have identified customers’ most important priorities. You should include the 15-20 things that matter most to customers on your questionnaire for the main survey.

**2. Measure importance as well as satisfaction**

Think about what makes you a satisfied or a dissatisfied customer. If your requirements are met you are satisfied but if they are not met you will be dissatisfied.

This tells us that satisfaction is a relative, not an absolute concept. It is relative to what was important to you in the first place. So to produce an accurate measure of customer satisfaction you have to survey both sides of that equation. By comparing importance scores with satisfaction scores everyone in your organisation can see at a glance where you are meeting, exceeding or failing to meet customers' requirements.

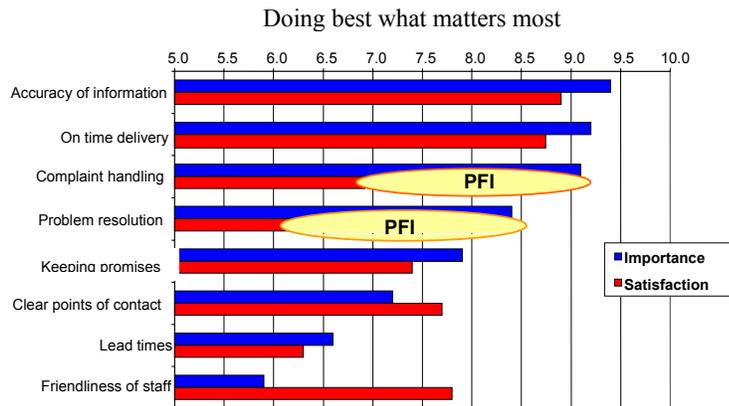


Figure 2: Doing best what matters most

This highlights PFIs (priorities for improvement), helping you to target your satisfaction improvement resources in the most effective areas. Helping you, in essence, to 'do best what matters most to customers'.

### 3. Robust samples

Exploratory research will ensure that you ask the right questions but will not guarantee an accurate measure of customer satisfaction if you ask them to the wrong people. The third key element of a reliable result is therefore a robust sampling process. To be reliable, a sample must be:

- Large enough
- Representative
- Unbiased

#### (a) Sample size

The accuracy of a sample is based on its absolute size, not its proportion of the total population. A larger sample will always be more reliable than a smaller sample whatever the total size of the population. As a general rule, 200 is regarded a minimum reliable sample size. Whatever the size of the customer base a sample of 500 would provide a very reliable result at the overall level (typically better than +/- 1% in satisfaction surveys). It is not a large customer base that creates a requirement for a large sample but the number of segments that the results need to be broken down into. As a rule of thumb, a sample of 50 is regarded as the minimum per segment, and preferably 100. So if a retailer has 90 outlets and wants to compare the relative performance of those outlets in satisfying their customers, it would need a sample of 9,000 in total.

### **(b) Representative samples**

Obtaining a representative sample is often straight forward. A retailer, for example, might include customers in the correct proportions by age, gender, spend, frequency of visit etc. However, business to business companies typically have a Pareto effect, a small number of large customers accounting for a large proportion of the company's business. If the result of your CSM study is to adequately reflect customers' disproportionate values, the sample must be stratified.

To achieve this the customer list must first be sorted by account value then divided into strata – typically large, medium and small accounts. If your top 20 customers account for 30% of sales they should be 30% of the sample. Perhaps a further 200 customers in the medium segment account for another 50% of sales, so should also account for 50% of the sample. 2000 small customers might account for the remaining 20% of sales and of the sample. Assuming a sample size of 200 that would mean 40 small customers who would be randomly selected from the 2000. It would mean 60 large customers, but in this example there are only 20 large customers, so 3 respondents would be required from each of the 20 companies concerned.

Including more than one respondent from the largest customers is common practice in business markets, but which individuals should be included? If you simply include your 'main contact' at each company you will end up with a sample biased in favour of the individuals with whom you have most contact, who may be more favourably disposed towards you. To be accurate, the individuals surveyed should be representative of the people who deal with you and are influential in determining customers' level of satisfaction. The exploratory research will identify the range of individuals involved and the extent to which they influence your customers' satisfaction. So if Purchasing Managers, for example, are most influential and account for, say, 40% of the decision process across customers generally, they should make up 40% of the sample and if Quality Managers influence 10% of the decision they should make up 10% of the sample.

### **(c) Unbiased samples**

To be unbiased, a sample must be randomly selected. It is easy to sample at random the required proportion of each customer value group. The problem comes at the response stage. The theoretical model of sampling reliability assumes a 100% response rate from the customers randomly sampled. A lower response rate reduces the reliability of the sample due to the problem of 'non-response bias.' The lower the response rate, the more the sample is likely to reflect extreme views since the most satisfied and the least satisfied customers have the strongest motivation to respond. It is generally considered that a response rate of at least 50% is required to reduce the problem of non-response bias to an acceptable level. It is no use sending out more questionnaires to get more back since it is the low response rate which causes the problem – so the only way to solve it is to exceed 50% response. This is why many organisations are abandoning self completion surveys for CSM in favour of telephone surveys where the response rate will be higher and the result more reliable.

## **4. Explain the survey to customers**

Whether the survey is self completion or telephone, it is still important to maximise the response rate. Explaining the survey properly to customers is the most effective

way of increasing response rates and provides an opportunity to enhance your image as a customer focused organisation. Quite simply you need to inform customers about what you are doing and why you are doing it.

If you have a very small number of customers in a business market it is most productive to explain the process personally to each one through well briefed customer contact staff. Larger samples require a personal letter to each respondent.

There are 3 things you need to tell them

Why you are doing it

How you are going to do it

The feedback you will provide afterwards

### **(a) The purpose of the survey**

Don't assume that customers will correctly interpret the purpose of a CSM survey. Many people confuse surveys with selling approaches. Others correctly distinguish research from selling but may see all research as a brain picking exercise which benefits the supplier rather than the customer. So although it seems obvious, point out that the purpose of the survey is to identify whether customers' requirements are being met so that action can be taken to improve customer satisfaction where necessary.

### **(b) The survey details**

If the introductory letter accompanies a postal questionnaire it will include the instructions for completing and returning it. If you undertake a telephone survey the introductory letter should give brief details of the topics that will be covered and should stress that an appointment will be made to interview customers at a time convenient to them. It is also useful to reiterate how valuable the customer feedback is in order to encourage the highest possible participation rates.

### **(c) Feedback**

Research evidence demonstrates that promising feedback is the single most effective element in increasing response rates. The introductory letter should therefore inform customers that they will receive feedback on the results, on the key issues that have been identified by the survey and on the actions that you plan to take to address any issues.

## **5 An accurate satisfaction index**

Senior managers like to have an overall outcome from a customer satisfaction survey – something to monitor over time. There are several ways of obtaining this 'satisfaction index' but some are much less reliable than others. One method is to include a catch all question at the end of the questionnaire such as: *"And overall, how satisfied are you with the products and services of... ..?"*

The more variables you ask people to consider when responding to a question, the less reliable the answer is, and there are a lot of variables in that overall satisfaction question. In reality, you do not need to ask that catch all question if you have already asked each respondent about all the main things that make them satisfied or dissatisfied. A second approach would therefore be to calculate the overall average of all the satisfaction scores. That would be better, but not ideal, because some things are

more important to customers than others, and the most important requirements influence their satisfaction judgement more than things that are less important. An accurate satisfaction index therefore has to be more strongly influenced by the attributes with the highest importance scores. This weighted average satisfaction score is calculated as follows.

**(a) Calculating the weighting factors**

First use the importance scores to calculate the weighting factors. The first column of data in Figure X shows the importance scores given by one customer. To calculate the weighting factors simply add up all the importance scores then express each one as a percentage of the total.

	Importance score	Weighting factor
Quality of merchandise	9	13.2%
Range of merchandise	8	11.8%
Prices	6	8.8%
Loyalty scheme	3	4.4%
Ease of parking	8	11.8%
Queue time at checkout	10	14.7%
Help with packing	6	8.8%
Appearance of staff	2	2.9%
Helpfulness of staff	9	13.2%
Store layout	7	10.3%
Total	68	

Figure 3: Calculating the weighting factors

**(b) Calculating the satisfaction index**

Figure X shows that each satisfaction score is then multiplied by its corresponding weighting factor to produce weighted scores. The weighted average is found by adding up the weighted scores. It is normal to convert that score into a percentage and say that the respondent’s satisfaction index is 78.7%. The overall satisfaction index for the company is the average of every respondent’s individual satisfaction index.

	Satisfaction score	Weighting factor	Weighted score
Quality of merchandise	8	13.2%	1.06
Range of merchandise	10	11.8%	1.18
Prices	6	8.8%	0.53
Loyalty scheme	9	4.4%	0.40
Ease of parking	7	11.8%	0.83
Queue time at checkout	5	14.7%	0.74
Help with packing	7	8.8%	0.62
Appearance of staff	9	2.9%	0.26
Helpfulness of staff	10	13.2%	1.32
Store layout	9	10.3%	0.93
Weighted average			7.87
Satisfaction Index			78.7%

Figure 4: Calculating the Satisfaction Index

#### **6. Provide extensive internal feedback**

Feeding back CSM results to employees is essential if you expect them to take any action. The amount of feedback provided sends messages about the importance of the customer survey to everybody in the organisation. Rather than providing superficial feedback through newsletters, notice boards or e-mail, the results should be personally presented via feedback workshops, preferably to all employees but at least to those who have a role in delivering satisfaction. For large organisations, feedback workshops may be costly, but will be less expensive than the cost of failing to improve customer satisfaction.

#### **7. Provide accurate and ongoing customer feedback**

Many organisations fail to realise the potential value of feeding back the CSM results to their entire customer base. To achieve gains in customer satisfaction, customers must notice improvements made by your organisation and modify their attitudes accordingly. Many organisations take it for granted that customers will notice improvements but typically customers have other things on their mind and often fail to notice the changes. Once customers have noticed the changes, they still have to modify their attitudes before they will feel more satisfied, and certainly before they will communicate that increased satisfaction to anyone else. The more you can do to accelerate that process, the more effective your CSM programme will be. By working on communications, you can, to an extent, 'talk up' customer satisfaction. Providing feedback on the survey results and on the actions your organisation plans to take in response to the customers' views is the first step in that direction.

#### **(i) What information?**

The starting point is to produce a short feedback report containing a summary of the results followed by an outline of the key issues arising from the survey. Having outlined the results you need to tell customers what action will be taken and when it is going to happen. A difficult decision for many organisations is the level of detail in which to cover the results. One option is to feed back the results exactly as they are, comparing the average importance scores with the average satisfaction scores, as shown in Figure X at the beginning of this article.

Some organisations feel uneasy about providing the actual scores, perhaps through fear that they may fail to improve the following year or, in some markets, that the information might fall into competitors' hands. If so, an alternative is to provide indicative feedback, using symbols or general descriptions to suggest levels of satisfaction.

Customer Requirement	Satisfaction
1 <sup>st</sup> Location	
2 <sup>nd</sup> Range of Merchandise	 
3 <sup>rd</sup> Price	
4 <sup>th</sup> Quality of Merchandise	
5 <sup>th</sup> Checkout time	 
6 <sup>th</sup> Staff Helpfulness	
7 <sup>th</sup> Parking	
8 <sup>th</sup> Staff Appearance	

Figure 5: Indicative feedback

Unfortunately, indicative feedback often looks worse than the real scores. Moreover, if customers draw the conclusion that the results have been massaged in an attempt to disguise poor performance, their impression of the organisation will be adversely affected.

**(ii) How to communicate it?**

The method of feedback depends on the number of customers. Personal presentation is the most effective and is quite feasible for companies with a small number of key accounts. For a medium sized customer base, a copy of the feedback report should be mailed with a personalised letter. In mass markets, wider marketing communications will need to be used, including newsletters or point of sale material. Even TV advertising has been used to communicate to very large customer bases the fact that the company is responding to the views expressed by its customers.

**(iii) Progress reports**

Even after customers have noticed your improvements, they still have to change their attitudes before a satisfaction gain will be achieved. Although people can form attitudes quickly, they tend to change them slowly, but it is possible to speed up the process and improve satisfaction by providing customers with updates on action that has been taken, preferably at least twice between annual surveys.

### **Beyond Satisfaction**

Although satisfying customers is an important goal, it is not an end in itself. It is a means to an end. The main goal is loyal (retained) customers because there is almost invariably a strong correlation between customer retention and profit. For most businesses, there is a strong correlation between satisfaction and retention although the linkage can be distorted by factors such as lack of product/service differentiation, extreme price competition and lack of customer interest and involvement in the product/ service category. Satisfaction can therefore be seen as a necessary, but not always a sufficient pre-condition for customer loyalty.<sup>2</sup>

To improve their understanding of how customer satisfaction and loyalty inter-relate to drive business performance, an increasing number of leading edge organisations are developing Profit Chain models.<sup>3</sup> Most have also recognised that satisfied and motivated employees are more effective in meeting customers' requirements so models usually quantify the linkages between employee commitment, customer satisfaction, customer loyalty and business results (typically sales and profit). Some companies know exactly how much they need to improve customer satisfaction to achieve specific revenue goals. Sears, for example, knows that a 5% increase in employee satisfaction drives a 1.3% improvement in customer satisfaction which, in turn results in a 0.5% incremental revenue gain.<sup>4</sup>

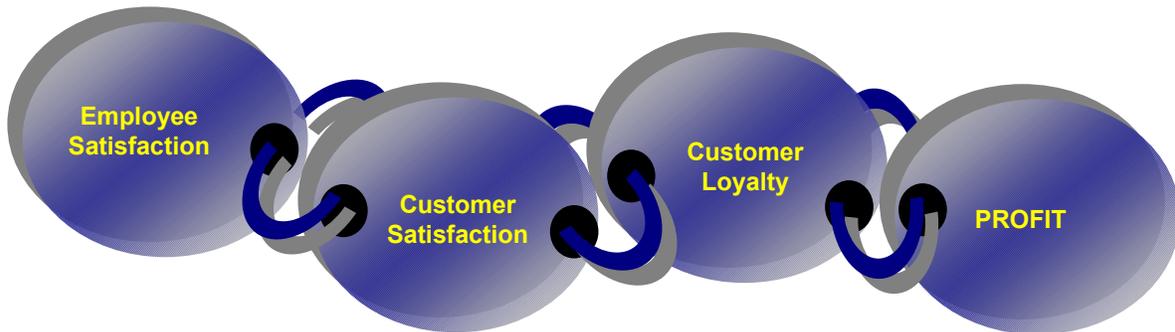


Figure 6: The Profit Chain

Put simply, achieving business goals depends on keeping loyal customers whose satisfaction is assured by attracting and keeping motivated and committed employees. Of course, the most effective models will accommodate other variables that can influence the Profit Chain such as location, intensity of competition and economic climate. However, in essence, the main drivers of profit are usually employee commitment, customer satisfaction and customer loyalty and customer satisfaction occupies a pivotal position in most models. So unless customer satisfaction is measured accurately the models will not work and decisions will be misconceived. To ensure that your CSM system is accurate and effective you must let the customers define the criteria to be measured, measure satisfaction and importance across reliable samples and use importance scores to weight satisfaction scores to produce a

meaningful Satisfaction Index. It is also very helpful to communicate extensively with employees and customers before and after the survey.

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