

A Normative Model of Retaining Customer Satisfaction

Jagdish N. Sheth
Charles H. Kellstadt Professor of Marketing
Emory University

Paper Presented at
P.D. Converse Awards Symposium
University of Illinois
Urbana-Champaign
May 4-6, 1992

A Normative Model of Retaining Customer Satisfaction

Jagdish N. Sheth
Charles H. Kellstadt Professor of Marketing
Emory University

INTRODUCTION

In recent years, there has been considerable managerial interest in defining, measuring and developing customer satisfaction (Lele and Sheth 1987; Davidow and Uttal 1989; Carlzon 1987; Sewell and Brown 1990; Band 1991; Zaithaml, Parsuraman and Berry 1990). The academic interest in the concept of customer satisfaction can be traced back to Howard and Sheth's theory of buyer behavior (1969). They defined satisfaction as the difference between post purchase experience and prior attitude with respect to the brand choice in question. Customer satisfaction, as a construct, got its due attention when several scholars in consumer research began to focus on consumer complaints and the role of consumerism in marketing practice (Andreasen 1975; Hunt 1977; Hunt and Day 1979; Day and Hunt 1983). Consumer satisfaction/dissatisfaction became an ongoing research stream as focused annual conferences and special sessions got organized by the Association for Consumer Research under the leadership of David Gardner, Ralph Day and Keith Hunt.

Parallel to the academic interest and research, there was a growing managerial interest in the marketing concept (Kotler, 1991). The marketing concept forcefully argued that focusing on customer satisfaction was a better way to maximize profits than focusing on sales. Indeed, a number of

marketing academics and practitioners wrote extensively contrasting marketing from selling, and market driven from product driven organizations (Levitt 1960; Hanan 1974; McKenna 1991). Indeed, Druker (1954) flatly stated that the purpose of business is to create and retain customers.

However, the recent interest in defining, measuring and developing customer satisfaction can be directly attributed to the national drive to improve quality of products and services in the United States through the Malcolm Baldrige Award organized by the Department of Commerce. It mandated taking customer viewpoint, developing customer satisfaction measures, and establishing business processes that link quality with customer satisfaction. Indeed, to some extent, Total Quality Management (TQM) and customer satisfaction are perceived to be productivity tools and sources of competitive advantage (Reichheld and Sasser 1990; Magrath 1992).

Unfortunately, this focus on generating customer satisfaction, however useful it may be, needs to be supplemented by developing business processes that focus on retaining customer satisfaction. There is a presumption that the processes of generating customer satisfaction will assure that satisfied customers will be also automatically retained by the organization. This presumption is more a leap of faith, and empirical observations also point to the contrary. For example, a majority of excellent companies cited by Peters and Waterman (1982) are experiencing loss of market share and customer satisfaction presumably because they stopped investing in continuous improvement processes once they achieved desired levels in quality and customer satisfaction.

The purpose of this paper is to describe a normative model of retaining customer satisfaction. It is a process-oriented model built on the concept of continuous improvement. Also, it explicitly recognizes that both developing and retaining customer satisfaction is a cross-functional and multilevel phenomenon and cannot be limited to the marketing function and the frontline sales or customer service departments. In other words, retaining customer satisfaction is too important to be left to the marketing organization.

IMPORTANCE OF RETAINING CUSTOMER SATISFACTION

There are at least three reasons why retaining customer satisfaction is important to an organization. First, generating customer satisfaction requires significant front-end investment, often not recovered from the margins of a single transaction (Reichheld and Sasser 1990). For example, studies on customer retention economics in the insurance industry suggest that it takes, on the average, eight years of continued premiums to recover the front-end investment, in addition to making the expected ROA on a given policy. Other studies have also demonstrated that it is five times more expensive to create a customer than to retain one (Albrecht and Zumke 1985). Several recent studies out of the PIMS database have also demonstrated that customer loyalty and ROI have a strong positive relationship, even better than market share and ROI (Buzzell and Gale 1987). In short, it pays to retain customer satisfaction.

A second reason for the growing importance of retaining customer satisfaction is to preempt competitive threats. Compared to price wars, distribution blockades, advertising slugfests and product patents, the ultimate strategy to preempt competition is to reduce market desire for another supplier. In other words, it is creating market monopoly by choice (sole source). For example, Campbell's Soups, IBM, and Singapore Airlines have demonstrated that through retaining customer satisfaction, customers don't desire an additional choice, at least in the short run. In short, the greater the market monopoly, the greater the need to retain customer satisfaction (McKenna 1991).

Finally, and probably most importantly, customer satisfaction is a hierarchical, dynamic phenomenon. In order to understand this fully, first we must define customer satisfaction and its key characteristics. Customer satisfaction means meeting or exceeding customer expectations. Depending on the degree to which expectations are exceeded, it can range from "satisfied" to "very satisfied" to "delighted customers."

Customer satisfaction has a number of unique properties which are important to recognize for retention purposes. First, it is partly psychological and partly real. Expectations are psychological and experiences are real. Therefore, reality of experiences can and will shape future expectations which are likely to have larger variances (diversity) than experiences. This is due to its psychological nature and diversity of sources of expectations. Therefore, one of the objectives in retaining customer satisfaction is to either reduce the variance in expectations or to customize, by segmentation and differentiation, experiences to individual customers. For example, customers expect different

things even in such basic needs as food, clothing and shelter. Furthermore, diversity of expectations is likely to be more with respect to wants and desires as compared to needs.

Third, if an organization focuses on its most demanding customers and/or most demanding market expectations, it is likely to exceed all other customers and expectations. Therefore, in retaining customer satisfaction, it is crucial to proactively look for demanding customers and/or expectations. For example, business travelers tend to be more demanding customers than pleasure travellers. If an airline organizes its processes to meet business customers' expectations, it is likely to delight pleasure travellers.

Finally, and most critically for this discussion, expectations rise with satisfaction. The more a customer's experiences exceed expectations, the greater the rise in his/her future expectations. Delighting the customer, therefore, requires that retaining customer satisfaction is even more critical. This tendency to expect more with positive experiences suggests that the organization must implement a continuous improvement process (Kaizan) by anticipating what customers will expect next.

Retaining customer satisfaction is, therefore, at least if not more, important than generating customer satisfaction.

RETAINING CUSTOMER SATISFACTION

Both the academic and professional literature review on brand equity, customer loyalty, switching costs and service excellence suggests that there are

three underlying dimensions to retaining customer satisfaction. The first relates to psychological comfort associated in an ongoing relationship. The degree to which an organization develops processes to maintain the psychological comfort of satisfied customers, it is likely to create an exit barrier for the customer to break the relationship. This comfort factor has been legendary for IBM, Marriott, Delta Airlines and McDonald's, as well as for such brand names as Ivory soap, Maytag appliances and Levi's clothing.

A second dimension of retaining customer satisfaction is the functional value inherent in the ongoing relationship with the customers. It includes such things as reliability, quality assurance, economic value and degree of product/service variety. Examples include AT&T, American Express, Taco Bell and Kellogg's cereals.

A third dimension of retaining customer satisfaction is structural linkage with customers on an ongoing basis. This includes organization structure, information systems and reward systems that link up the organization with its customers in a relationship which makes it difficult, if not impossible, for the customer to switch to another supplier. Examples include Federal Express, regulated utilities, as well as professional services, especially medical and financial services.

NORMATIVE PROCESSES FOR RETAINING CUSTOMER SATISFACTION

In this section, I will propose a normative model of retaining customer satisfaction. The model is based on extensive research on customer retention

and satisfaction, and it is integrative in nature. Furthermore, it is a process model and therefore, more useful for understanding and less for prediction. The model is represented in Figure 1. I will discuss each process element designed to increase retention of customer satisfaction.

(Insert Figure 1 Here)

1. **Corporate Culture.** Corporate culture, as the name implies, reflects the values and basic beliefs of the organization. In order to retain customer satisfaction, it is vital that the organization's corporate culture revolves around retaining customer satisfaction. Does the customer and its view point come first in all the activities of the organization? Is customer really an afterthought in the design, procurement, manufacturing, operations, sales, service and support functions? At Nordstrom's, a department store chain, the customer always comes first in everything they do. It even has a policy which requires that the frontline sales people must obtain permission from their supervisor if they have to say no to a customer. They are empowered to commit the organization to meet or exceed customer expectations. It is no wonder that customers feel a sense of psychological comfort and come back again. Similar examples include Land's End, L.L. Bean and Disneyland.
2. **Responsiveness.** It refers to the speed and courtesy with which business operations respond to customer requests and customer contacts. For example, American Express is legendary in its processes for replacing the lost traveller's checks or the credit card, as well as responding to inquiries related to charges on the monthly statement.

Similarly, most airlines provide instant access and response on a 24-hour basis for flight information and reservations. This responsiveness increases the psychological comfort of customers.

3. **Competence and Professionalism.** It refers to the degree of competence and professionalism of people serving the customers, either directly or indirectly. It requires careful selection of employees, providing them with technical training and deploying enabling technology to improve their competence and professionalism. The best examples in this area are Walt Disney, McDonald's and Federal Express. Employee competence and professionalism increases customer's psychological comfort.

4. **Quality Obsession.** The most common definition of quality is doing it right the first time. It, therefore, requires a definition of what is right. In general, it means conformance to a predetermined standard and it is often measured by the failure rate to conform to that standard. Recently, there has been a considerable interest among researchers and practitioners about setting a statistical standard called six sigma or zero defect. Proponents of this normative expectation justify it as a productive tool based on their observation that a defect is at least three times more costly to correct than having no defect. In other words, cost of quality can be measured based on a cost-benefit analysis. The best examples for quality obsession are Motorola, Federal Express and, of course, most Japanese manufacturers, especially in consumer electronics. Quality obsession creates functional value for the customer.

5. **Value Migration.** Value migration refers to improving the performance-price ratio for customers by changes in process technology, procurement efficiency, as well as through design and engineering. It encourages satisfied customers to upgrade their behavior by paying less and getting more. The best examples for value migration come from electronics (semiconductors) such as computer chips which are dramatically increasing performance and, at the same time, lowering unit costs. Value migration adds to the functional value dimension of retaining customer satisfaction.

6. **Mass Customization.** Mass customization refers to a process which breaks up the oxymoron of efficiency of standardization and effectiveness of customization to unique customer requirements (Davis 1987). It is often referred to as flexible manufacturing or operations. However, more fundamentally, it is a technology architecture in which the total system is divided into interlocking or modular components which can be mixed and matched to create infinite combinations without sacrificing scale economy. It is especially useful in a highly repetitious process that requires highly diverse outputs. Examples include printing of personal checks, business forms, legal contracts, as well as manufacturing garments, consumer electronics, and more recently, automobiles. Mass customization adds significant functional value in retaining customer satisfaction.

7. **Proactive Innovation.** It refers to the development of new products or services by anticipating what customers are likely to ask for in the

future. Obviously, this is not an easy task and the traditional market research approaches are not likely to help since customers often do not know what they want next. The best approaches are: focusing on customer's customers since the latter are likely to be the drivers of the former and; watching changing demographics and analyzing how they are likely to shift market needs/wants and market resources (time and money). For example, as the population of the United States ages, it will generate significant changes in the foods we eat, beverages we drink and the housing we need. Proactive innovation is a process of understanding how these changing demographics are likely to impact the organization's customers and their emerging expectations. The best examples are Sony Corporation, 3M Company and Marriott Hotels. Proactive innovation adds to the functional value dimension of retaining customer satisfaction.

8. **Frontline Information Systems.** Frontline information systems (FIS) refer to deployment of online information systems (computers, databases and telecommunications) for the frontline employees who interface with the customers. Examples include Federal Express with its state-of-the-art portable scanner technology in the hands of its delivery people, or the check-out counter scanners in the supermarkets, or the airline reservation systems. In recent years it has been demonstrated that an FIS strategy is better in gaining competitive advantage than an MIS strategy. If the customers can directly access and use FIS, it creates a structural linkage. For example, travel agents using the SABRE or the Apollo computerized reservations system

(CRS) or hospitals and clinics using online order entry system provided by American Hospital Supply Corporation.

9. **Market-Based Organization.** If the business functions are organized around individual customers or market segments, it is likely to create greater structural linkage (Hanan 1974). Several organizations have recently attempted to reorganize and re-engineer themselves away from product or functional organizations into market- or customer-based organizations. One of the successful offerings is the Cash Management Account (CMA) by Merrill Lynch which provides a one-stop shop for a customer and offers a variety of financial services, all with a single objective of meeting or exceeding each customer's stated financial objectives. Unfortunately, successful examples of transforming functional or product-based organizations into market- or customer-based organizations are few and far between. If feasible, it is likely to generate structural linkage for retaining customer satisfaction.

10. **Customer-Based Compensation.** The reward system in most organizations for employees has very little correlation with retaining customer satisfaction. Most employees are appraised and given annual wages and bonuses for their functional excellence without directly linking them to retaining customer satisfaction. It is my contention that most investments in customer-oriented culture and market driven philosophy do not lead to retaining customer satisfaction, simply because the reward system is not aligned with corporate culture. Indeed, it is estimated that 90 percent of the job descriptions have no

word "customer" in them and for the 10 percent which explicitly describe "customer", the reward system does not depend on generating or retaining customer satisfaction. Once again, customer-based compensation is likely to add to the structural linkage dimension of retaining customer satisfaction. Recently, several hospitality chains, including Hyatt, Marriott and Embassy Suites have formally linked performance appraisal with retaining customer satisfaction. It should be noted that not only the frontline boundary personnel with direct contact with customers (sales, service, support), but all line functions (procurement, manufacturing, sales, marketing) and staff functions (legal, human resource, finance and information system) can be linked to retaining customer satisfaction by value chain analysis.

DISCUSSION

These ten processes are presumed to be synergistic and, therefore, the total strength of retaining customer satisfaction is equal to the weakest link. It is possible to use the model as the diagnostic tool to identify which of the ten processes are relatively weaker than others. In some preliminary evaluations, I have found that the weakest process is Customer-Based Compensation, followed by Frontline Information System and Market-Based Organization. This suggests that the primary obstacles to retaining customer satisfaction are structural in nature. On the other hand, processes that score high are Corporate Culture, Competence and Professionalism, and Responsiveness. It suggests that predominant focus in retaining customer satisfaction is toward creating psychological comfort with customers. What is

needed, however, is enhancing functional value through Quality Obsession, Mass Customization, Value Migration and Proactive Innovation processes.

I hope this normative model of retaining customer satisfaction will be useful to both the practicing professionals and academic researchers.

REFERENCES

Albrecht, Karl and Ron Zemke, (1985), Service America, Homewood, IL: Dow Jones-Irwin.

Andreasen, Alan R., (1975), The Disadvantaged Consumer, New York, NY: Free Press.

Band, William A., (1991), Creating Value for Customers, New York, NY: John Wiley and Sons.

Buzzell, Robert D. and Bradley T. Gale, (1987), The PIMS Principle: Linking Strategy to Performance, New York, NY: Free Press.

Carlzon, Jan, (1987), Moments of Truth, Cambridge, MA: Ballinger Publishing Company.

Carr, Clay, (1990), Frontline Customer Service, New York, NY: John Wiley and Sons.

Davidow, William H. and Bro Uttal, (1989), Total Customer Service, New York, NY: Harper and Row.

Davis, Stanley M., (1987), Future Perfect, Reading, MA: Addison-Wesley.

- Day, Ralph L. and Keith H. Hunt, (eds.), (1983), International Fare in Consumer Satisfaction and Complaining Behavior, Bloomington, IN: School of Business, Indiana University.
- Desatnick, Robert L., (1987), Managing to Keep the Customer, San Francisco, CA: Jossey-Bass Publishers.
- Drucker, Peter, (1954), The Practice of Management, New York, NY: Harper and Row.
- Hanan, Mark, (1974), "Reorganize Your Company Around Its Markets", Harvard Business Review, November-December 1974, p. 63-74.
- Howard, John A. and Jagdish N. Sheth, (1969), The Theory of Buyer Behavior, New York, NY: John Wiley and Sons.
- Hunt, Keith H. and Ralph L. Day, (eds.), (1979), Refining Concepts and Measures of Consumer Satisfaction and Complaining Behavior, Bloomington, IN: School of Business, Indiana University.
- Hunt, Keith, H., (ed.), (1977), Conceptualization and Measurement of Consumer Satisfaction, Cambridge, MA: Marketing Science Institute.
- Keith, Robert J., (1960), "The Marketing Revolution", Journal of Marketing, January 1960, p. 35-38.

- Kotler, Philip, (1991), Marketing Management, 7th Edition, Englewood Cliffs, NJ: Prentice Hall, Inc.
- Lele, Miland and Jagdish N. Sheth, (1987), Customer Is Key, New York, NY: John Wiley and Sons.
- Levitt, Theodore (1960), "Marketing Myopia", Harvard Business Review, July-August 1960. p. 45-56.
- Magrath, Alan J., (1992), The 6 Imperatives of Marketing, New York, NY: Amacom American Management Association.
- McKenna, Regis, (1991), "Marketing Is Everything", Harvard Business Review, 69, January-February 1991, p. 65-79.
- Peters, Thomas J. and Robert H. Waterman, (1982), In Search of Excellence, New York, NY: Harper and Row.
- Reichheld, Frederick F. and W. Earl Sasser, Jr., (1990), "Zero Defections: Quality Comes to Services", Harvard Business Review, 68, September-October 1990, p. 105-111.
- Sewell, Carl and Paul B. Brown, (1990), Customers For Life, New York, NY: Doubleday Currency.

Zaithaml, Valerie A., A. Parsuraman, and Leonard L. Berry, (1990), Delivering Quality Service: Balancing Customer Perceptions and Expectations, New York, NY: Free Press.

FIGURE 1

Processes of Retaining Customer Satisfaction

