

# *The Loyalty Effect*

essays

on the  
relationship  
between  
loyalty and  
profits

the  
satisfaction  
trap

essay # 5

**BAIN & COMPANY**

# the satisfaction trap

Are you falling into the trap of measuring satisfaction when what you really want is loyalty? By failing to link satisfaction measurements with customer loyalty and profits, satisfaction scores can become an end in themselves. In some organizations, they are considered a higher goal than profits. This tendency can be a costly mistake. Those managers who really understand the power of satisfaction surveys have also come to recognize their limitations. At Lexus, the consistent winner of auto satisfaction awards, surveys are not considered the best measure of satisfaction. In the words of Dave Illingworth, the first General Manager of Lexus (and now, Group Vice President of Toyota, U.S.), *“The only meaningful measure of satisfaction is repurchase loyalty.”*

Illingworth knows that the distinction between satisfaction survey scores and repurchase loyalty can be enormous. In the automobile industry, which pioneered the use of satisfaction research and probably spends more money on satisfaction programs than any other industry in the world, the dangers of the satisfaction trap are most evident. General Motors became an early champion of satisfaction technology when the company committed itself to reversing the inroads of foreign competition by focusing on customers. Its primary tool was the satisfaction survey. In fact, it began to base

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management bonuses in part on satisfaction scores. In the 1980's, the satisfaction scores improved, as do most measures included in management bonus calculations, but market share and profits declined.

Other companies will fall into the same satisfaction trap if they forget that satisfaction scores are not clearly connected to cash flows. Early successes with satisfaction programs often depended upon picking low-hanging fruit. Satisfaction surveys identified obvious dissatisfaction drivers that could be improved with little money or time (mechanics wearing dirty uniforms, customers not getting their cars on time, etc.). However, once the obvious improvements are made, the next level of satisfaction improvement often requires significant investments. Is it worth the \$10 million to retrain all the service managers? Is it worth \$10 million to increase the average satisfaction score from 85% to 90%? Is it worth \$100 million? Satisfaction surveys cannot answer these questions, which are basic to delivering the best value. Employees will naturally search out the easiest ways to improve scores, not necessarily the most profitable ways.

## Minding The Score, Not The Store

Whenever bonuses are based on satisfaction scores unlinked to repurchase loyalty and profits, unproductive behaviors result. Many automobile companies now track satisfaction scores with statistical rigor and include them in their incentive and recognition programs. As a result, over the past ten years, industry satisfaction scores have skyrocketed to an impressive level where more than 90% of customers report that they are satisfied or very satisfied. Meanwhile, repurchase rates for the industry remain

mired in the 40% to 50% range. How can this be? There is more and more evidence that people in the field are responding to the corporate obsession with satisfaction by creating higher scores in ways that don't necessarily improve customer value.

For example, one Toyota dealership offered a "Free Auto Detail" to every customer who agreed to return a survey to Toyota marked "Very Satisfied" in all categories. The dealer even provided a preprinted copy of the corporate survey showing the customer how to check it off properly! At another dealership, a recently-hired salesman pleaded with a customer to fill out the satisfaction questionnaire with favorable responses. He explained that, "Both my wife and I just lost our jobs at a local computer company so my young family is depending on me and I'll lose my job here if I don't get high satisfaction scores." These efforts may lead to increased scores, but they probably won't lead to increased loyalty. Toyota is working hard to fix these problems with dealers who, in the company's words, "are minding the score instead of the store."

Manipulating the system doesn't take place only at the grassroots level. Auto executives want to tout high marks in the J.D. Power satisfaction survey in their advertising campaigns. When some companies figured out how to manipulate the scores, the temptation was too much to resist. For example, companies found that they could get consistently high scores by calling customers just after they have bought a car. This realization gave rise to "boiler room" operations that telephone customers after their purchase and ask them satisfaction-related questions. Customer feedback is often ignored; the caller's primary purpose is to inflate the J.D. Power score.

Even when dealers legitimately try to implement satisfaction surveys for the right reasons, they run up against some of the technology's inherent limitations. For instance, they are finding that an increasing number of customers are tired of being surveyed. A leading Cadillac dealer related this story: "One of my customers cornered me at a charity board meeting, and she told me, 'I got a call after I picked up my car asking if I was satisfied with the sales experience. Then I got a call after the car was serviced, asking if I was satisfied with the service experience. Finally, another surveyor called several weeks later to check if my car was still running OK. So when I am going to get a call asking if I was satisfied with the satisfaction survey experience?'" Don't laugh! One of the leading auto companies admits that customers could get as many as six surveys or calls during a year. Imagine how much this costs the company, to say nothing of the customer's wasted time.

### **Watch What They Pay, Not What They Say**

Car companies serious about measuring the value they deliver to customers will not base their measurement system on satisfaction surveys. They will recognize that satisfaction is an inherently unstable and temporary mental state, that customer attitudes shift many times during the four years between auto purchases and that measuring genuine satisfaction is a tricky business. Instead, they will carefully track repurchase loyalty as a truer measure of how well their product and service offerings stack up against the competition. When customers do not return to the dealer for their service needs (dealers now earn less than 40% of post-warranty service

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purchases), and when they replace their present car with another brand, these are incontestable signals that customers are not satisfied with value received.

Satisfaction surveys are simply a poor litmus test for satisfaction. Bain & Company's research has shown that in business after business, 60% to 80% of customers who defect to a competitor said they were satisfied or very satisfied on the survey just prior to their defection. Clearly, broad-based satisfaction surveys cannot be the only tool used to manage defections. Far too many (the majority of) defectors slip through the cracks. Some companies have responded to this problem by refining their satisfaction measures. Most of the auto companies have chosen this route. Their satisfaction survey technology is state-of-the-art, but they still see only 45% of their customers returning when more than 90% say they are satisfied. Even so, most auto companies are still investing more in the refinement of their satisfaction survey system than in developing reliable loyalty measures.

One exception is Lexus. Drive by a Lexus dealership and you will notice a satellite dish on top of the building. Inside the building is an AS 400 computer that is, among other things, sending and receiving information on customer auto and service purchases to Lexus U.S. headquarters in Torrance, California.

Since Lexus believes that the only meaningful measure of satisfaction is repurchase loyalty, they built a system that enables them to track loyalty—of both auto purchases and follow-on service. Lexus can track which customers are coming back for more and which are not. They can analyze the differences between the dealers who are earning superior customer loyalty and those who are not. They can then use satisfaction research productively to help them understand customer purchase decisions.

### **Focus Satisfaction Investments On Profitable Customers**

Another advantage of watching what specific customers pay, not just what they say, is that this enables the tracking of lifetime purchases, a critical ingredient in determining the lifetime value of specific customers and customer segments. To be profitable, investments made to increase satisfaction and value must focus on the customers with the highest potential value. Satisfaction research applied broadly across the entire customer base, while statistically correct, ensures that scores will be influenced by the responses from unprofitable customers. For example, a bank branch manager might hear many complaints about long teller lines but the most profitable customers may not care. They rarely come into the branch, preferring

to do business by phone, mail and ATM. Investing in more tellers will inflate satisfaction scores, but it may deflate profits by increasing costs and service levels in areas that the bank's best customers don't value.

One leading bank invested significant energy in the development of a satisfaction tracking system that it used to compare performance across branches. Along with other important measures such as cost effectiveness and growth, the system was used to evaluate branch manager performance. Then the bank decided to measure customer retention rates as well. They found that the branches with the highest satisfaction scores did not have the best retention. This led some executives to call for the elimination of satisfaction measures and to focus more of the manager bonus on cost effectiveness. One trap embedded in satisfaction programs unlinked to loyalty and profits is that they may become discredited at a time when improving value to customers should be a critical objective. Lacking a reliable loyalty and cash flow-based measurement system, many companies default to cost reduction programs and layoffs.

Many of the telephone companies are groping for the right tools to manage their business in an increasingly competitive environment. Most of them have developed satisfaction surveys to help focus their organizations on customer service. But few have yet built a system to analyze lifecycle purchases and profits from various types of customers. When this analysis is done, companies find that the best 10% of their customers are worth 5 to 10 times as much as their average customers in terms of potential lifetime profits. If the telephone companies go the route of the auto companies and try

to manage through increasingly refined customer satisfaction systems, they will fall into the same satisfaction trap. Their organizations will concentrate on increasing broad measures of satisfaction, while competitors cherry-pick the most profitable customers with focused marketing programs designed to deliver outstanding value to these segments. The diminished cash flows that result will make it more difficult to deliver good value even to the average customers.

Companies must know how much they can afford to invest in increasing satisfaction for specific customers. To gauge the return on satisfaction-enhancing investments, the company must know customer lifecycle purchase patterns. Since lifecycle purchase patterns must be tracked to determine customer profitability, why not also use this information as the basis for measuring and managing satisfaction?

### **Satisfy Investors And Employees, As Well As Customers**

The true mission of the firm is to create value for three key constituencies: customers, employees and investors. In order to prosper, each of these three partners must be satisfied with the value they receive from the business. There's nothing wrong with measuring satisfaction. The problems begin when satisfaction scores become a goal unto themselves, independent of customer loyalties, rewarding careers for employees and superior profits to investors. Customer repeat purchase loyalty must be the basic yardstick of success. Companies can avoid the satisfaction trap if they remember: It's not how satisfied you keep your customers, it's how many satisfied customers you keep!

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*Bain & Company serves clients through an 18-country network of 25 offices across six continents. Since 1973, Bain has worked with over 1500 major multinational and other corporations, from every economic sector, in every region of the world, to improve bottom-line results.*

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