Customer Satisfaction Measurement for ISO 9000:2000

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Institute of Quality Assurance

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Foreword

At last! The world's most popular quality standard now includes requirements relating to enhancing customer satisfaction. Launched in December 2000, ISO 9001:2000 requires an organisation to have an effective system for monitoring its customers' views. Well-chosen statistics on customer satisfaction collated over time are an excellent predictor of future business performance. Happy satisfied customers will improve the bottom line of an organisation. Disaffected ones will prophesy a company's quick descent into the loss-making pit.

Businesses are desperate to appear tuned into their customers' needs. This can be seen in the ubiquitous annual report where it is difficult to find one that does not state: 'Our company is committed to the highest levels of customer satisfaction.' But you only have to turn this bland promise on its head to see that it is meaningless. How many companies are dedicated to the lowest levels of customer satisfaction?

Customer satisfaction is the most common form of market research in business-to-business markets and is often connected to quality and production measurement, rather than as straight marketing-based research. It is essential that an organisation has the will to actually make improvement changes before embarking on a customer satisfaction measurement exercise; otherwise it will simply annoy its customers by taking their time to collect information, then not doing anything with it.

Customer satisfaction has roots in two ideas about quality. First, quality can be measured by the gap between customers' expectations and their perceptions. This gap-based view of quality says that if you beat customers' expectations you have good quality. The second view is that quality is about conformance to a standard or specification. Once the design is set, quality is about ensuring that the end deliverable to the customer meets this design. Thus, customer satisfaction is about monitoring the quality of delivery of the product and service. This was the view of the old ISO 9000 standard and it had its limitations. It overlooked the fact that the product might be perfectly produced but it might not be satisfying customer needs and furthermore that competitors do not stand still.

Although design is an essential part of a customer's overall view of satisfaction, it is not possible to separate out design from delivery. Organisations must be careful to define what they are looking for from a customer satisfaction study. For example, a survey of 100 people reveals that they are very happy with the local bus service but closer analysis shows the majority of these people rarely, if ever, take the bus. The survey result is unhelpful. The right approach to studies must also be taken. One large high street retailer used to measure its customer satisfaction on returns. When it came to underwear it assumed that its customers were very happy, as there was only a 0.2 per cent return. That was until it found that it had lost market share. On further inspection it found that if customers found one item out of five unsuitable they would not bother to return it. Returns are not always a good customer satisfaction indicator.

Most customer satisfaction measurement is conducted using a fairly basic four or five point scale from 'very satisfied', 'satisfied', (neither), 'dissatisfied', 'very dissatisfied'. Typically satisfaction is reported as the percentage of customers rating an organisation as either 'satisfied' or 'very satisfied'. Unfortunately, this tends to be quite a crude measurement. Most companies will score around 75–85 per cent. Even poorly performing organisations can still easily reach 60 per cent. The difficulty is that within such studies the year-on-year improvements are very hard to spot. The accuracy of the study often means that changes of one or two per cent points are within the statistical tolerance of the design and show no real change, yet most companies would struggle to see changes beyond one to two per cent.

Customer satisfaction is not just about surveys. It is worthwhile devoting time to data from alternative types of feedback. For example from sales and marketing personnel, the customer complaints/compliments process, returns/rejects/etc, service or maintenance performance and warranty claims. This data does not have to be extensive but it can help to build up the whole picture of customer related feedback when used correctly.

The Institute of Quality Assurance (IQA) has long advocated putting customer satisfaction at the top of the agenda. Customer satisfaction measurement should be a driver of business improvement rather than a sweet add-on. ISO 9000 has over 400 000 certificates worldwide. It is expected that the majority of these will move forward to the updated ISO 9001:2000. For many organisations moving their quality management systems forward to include customer satisfaction measurement will be a mammoth task.

Nigel Hill is a regular contributor to *Quality World* magazine, published by the IQA. He, Bill Self and Greg Roche outline, in a user friendly manner, how an organisation can get to grips with customer satisfaction measurement to meet the requirements of ISO 9001:2000. Whether you are considering an upgrade to the new standard or taking the plunge into quality management for the first time, this is an essential read.

Helen Oldfield
Publisher
Institute of Quality Assurance

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Why measure customer satisfaction?

Summary

ISO 9001:2000 has placed customers at the heart of a quality management system whose objective is continual improvement in customer satisfaction. But why is that? Why is customer satisfaction so important? This chapter will explain:

(a) Why loyal customers are more profitable.
(b) How customer satisfaction drives loyalty.
(c) Why measuring customer satisfaction is essential, though not an end in itself.
(d) The key milestones of a customer satisfaction measurement process that will provide a reliable measure of customer satisfaction and meet the requirements of ISO 9001:2000.

1.1 What the Standard says

ISO 9001:2000 is very clear that the central purpose of a quality management system is to ensure that the organisation provides goods and/or services that satisfy customers. To quote from the introduction to the Standard:

> *This International Standard promotes the adoption of a process approach when developing, implementing and improving the effectiveness of a quality management system, to enhance customer satisfaction by meeting customer requirements.*

The Standard contains considerably more detail on customer satisfaction and this will be reviewed in full in Chapter 2, with subsequent chapters focusing on specific requirements of ISO 9001:2000 that relate to customer satisfaction measurement.

1.2 Keeping customers is profitable

Ever since the American Consumer Association announced in the late 1980s that it was five times more expensive to win a new customer than to keep an existing one, organisations have become very interested in the economics of customer retention. Many case studies have confirmed this view. MBNA rose from the 38th largest bankcard supplier in the USA in 1982 to the 2nd largest by the late 1990s due to superior customer retention and more selective customer acquisition. MBNA selects its new customers very carefully and keeps them for much longer than other credit card companies. It measures customer satisfaction continually and pays staff a proportion of profit as a bonus for each day of the year that its customer satisfaction measure is above target.

Some companies make the value of customer retention more tangible by calculating and promoting to employees a customer lifetime value figure based on how much typical customers spend and how long they stay with the business. The most famous early example of customer lifetime value was provided by Domino Pizza where Phil Bressler came up with a figure of \$4000 as the lifetime value of a typical customer. He encouraged his employees to think of customers as worth \$4000 when delivering an \$8 pizza.

Carl Sewell considered that the lifetime value of a typical customer of his Cadillac dealership was \$332 000 and encouraged employees to suggest ways of enhancing service levels to recognise such high value customers. Initiatives implemented included painting the workshop floor white and mopping it every time a car was driven over it to keep it spotless. Customers, who were also invited into the workshop to meet the mechanic who had worked on their car would hopefully think that if they took so much care over the floor, they must be providing a very high quality service.

Keeping customers paid very handsomely for MBNA, Domino Pizza and Sewell Cadillac. It also pays for other organisations. In his book, *The Loyalty Effect*, Frederick Reichheld demonstrates the value of customer retention across several very diverse industries whose customer loyalty economics he studied in depth. Figure 1.1 shows the impact of a 5 percentage point increase in customer retention rate on customer net present value across a range of business sectors.

Reichheld went on to demonstrate why customers become more profitable as organisations keep them longer. Figure 1.2 shows that a significant profit increase is generated because customers buy more as they get to know and trust your organisation. As you get to know each other, the cost of servicing customers decreases. New customers need more help, make more enquiries, complain more and return goods more. Over time they are more likely to buy mainstream products or services that you recommend and, because they have developed accurate expectations about what will be provided, are more likely to be satisfied with the outcome. If they are satisfied, or even better, delighted, they will recommend your organisation to others. New referral customers are

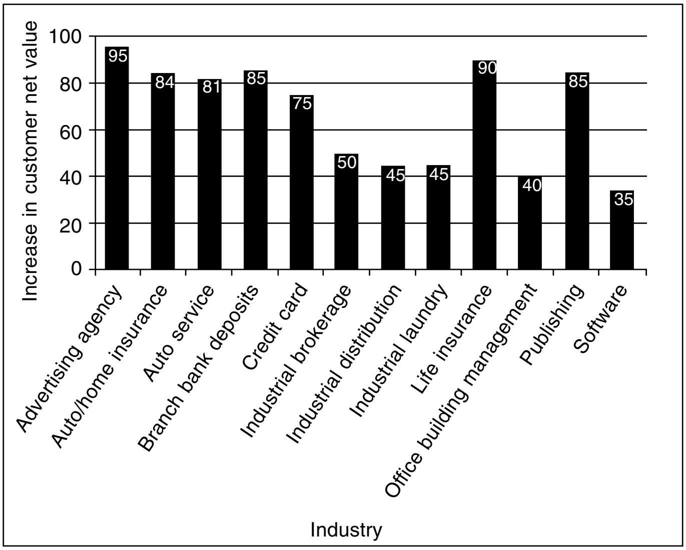

Figure 1.1 The value of customer retention. (Source, *The Loyalty Effect* by Frederick Reichheld, Harvard University Press.)

highly profitable because you didn't have to invest marketing budget to get them and, because your existing good customers tend to recommend people like themselves, they usually end up being good customers who are well suited to your organisation. Finally, loyal customers will usually pay a small

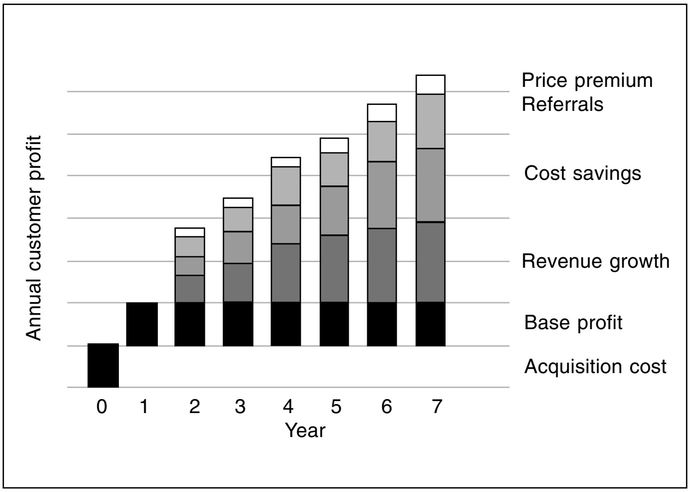

Figure 1.2 Why loyal customers are more profitable. (Source, *The Loyalty Effect.*)

price premium (estimated at 9% on average) because they have become convinced of the value provided by your organisation. Harvard Business School has coined the phrase 'the three Rs' (retention, related sales and referrals) to summarize the value of keeping customers.

1.3 Satisfied customers are more likely to stay

There is growing evidence of the link that we all intuitively know to exist between customer satisfaction and loyalty. Not surprisingly, many companies have discovered that there is a strong correlation between satisfaction and loyalty only at the highest levels of customer satisfaction. Figure 1.3, based on data from companies such as AT&T, Rank Xerox and The Royal Bank of Scotland, shows that on average, 95% of customers scoring 'excellent' or 'very satisfied' (ticking the top box) subsequently remain loyal compared with only 65% who score 'good' or 'satisfied'. Not surprisingly the loyalty rate then plummets even more dramatically to 15% for 'average' or the middle box, only 2% for 'poor' or 'quite dissatisfied' and no future loyalty for those scoring the bottom box. This explains why many organisations that are experienced in customer satisfaction measurement say that only 'top box' scores can be regarded as an acceptable level of performance.

Some companies have put numbers against the value of customer satisfaction. IBM calculated that each 1% rise in its customer satisfaction index was worth $500 million in additional sales over the following five years. Toyota

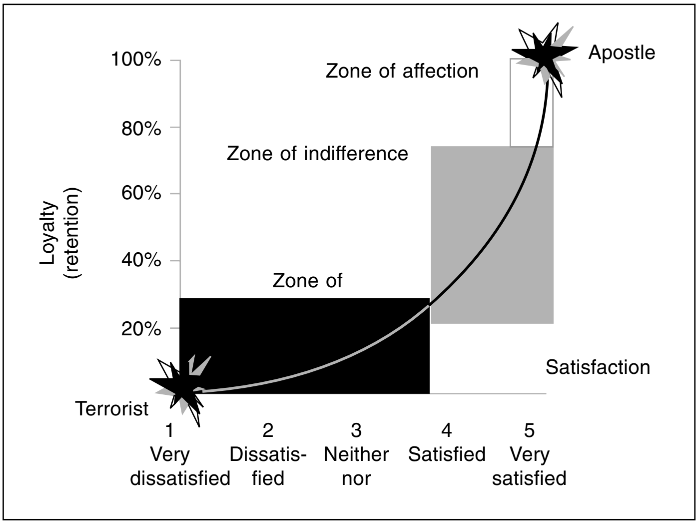

Figure 1.3 Satisfaction–loyalty links. (Source, *The Service–Profit Chain* by James L. Heskett, W. Earl Sasser Jr and Leonard A. Schlesinger, Free Press.)