

Satisfied customers don't mean repeat business

 By Sid Peimer

13 Jan 2015

We ask customers how satisfied they are, because we think that satisfaction means profitability and growth. That's not necessarily true. In addition, those lengthy feedback forms may give us a great deal of data, but do very little when it comes to telling us about future patronage. After two years of research with thousands of respondents, Frederick Reichheld showed that the real feedback you want is deceptively simple. It actually just boils down to one question.[1]

Just to stay in the good books

When you buy a new car, the inevitable customer satisfaction form will make its appearance at some stage. The car manufacturers spend a lot of time and money monitoring customer sentiment; after all, they need to know that the buyer is getting the required experience from the dealer.

When a car manufacturer, after having spent millions on customer satisfaction surveys, wondered why there was no correlation between the ratings of the dealers and their profitability, the dealers were quick to point out that there were more important factors that affected the bottom line. This included keeping pressure on salespeople, filling showrooms with prospective buyers through aggressive advertising and getting the highest possible price per car. They also sheepishly stated that it was all a bit of a charade really to remain in the good books of the manufacturers so they could get better allocations of new cars.[1]

When I purchased a car recently, I received an urgent plea from the salesperson to "Please give me a 10 on all scores". I was somewhat taken aback and only ready to give a 10 for chutzpah. The said questionnaire, however, never arrived.

The leaking customer bucket

The fact that loyalty affects profitability and growth is easy to substantiate - you can't grow a company if you have a leaky customer bucket. Fiercely loyal customers are also advocates for the brand and are risking their reputations through their recommendations. Customer retention rates are a measure of loyalty, but the problem is it measures the rate at which the bucket is emptying (or rather not emptying) as opposed to filling up.

Customer satisfaction has also been found to be flawed. The *American Customer Satisfaction Index*, published in *The Wall Street Journal*, shows the satisfaction ratings of 200 companies, but it is difficult to find a correlation with high customer satisfaction and sales growth. So Reichheld did something that would provide the answer - he would match survey responses with actual behaviour. He administered a test with roughly 20 questions to thousands of customers (the test is called the Loyalty Acid Test [available here](#)). After analysing the purchase history for each person, the answer was clear.

The only question you need ask

Although Reichheld expected to find a cluster of questions that would correlate with repeat purchase or referrals, he found something quite perplexing - there was one question that predicted whether people would buy and/or refer:

"How likely is it that you would recommend Company X to a friend or colleague?"

Taking it one step further, they analysed responses to the question by using a scale where 10 means "extremely likely" to recommend, 5 means neutral, and 0 means "not at all likely." After analysing customer referral and repurchase behaviour on this scale, they found three clusters. "Promoters," who gave ratings of 9 or 10 to the question, the "passively satisfied" gave a 7 or an 8, and "detractors" from 0 to 6. The amount of net promoters (percentage of promoters minus the percentage of detractors) was then plotted against company growth. The results were astounding: you can't have revenue growth without improving your net promoter number.

Although there are always exceptions (such as companies that grow with population growth irrespective of sentiment), the path to sustainable growth starts with creating more promoters and ensuring less detractors. As Reichheld says, "It's that simple and that profound".

So before you think that your extensive questionnaire will yield lots of information and clues to fuel future growth, maybe you just need to one question: "Would you recommend us?"

Reference

1. Frederick F Reichheld. [The One Number You Need to Grow](#), *Harvard Business Review*, December 2003.

Although this reference is more than 10 years old, the principles remain valid and illustrate once again how difficult we find it to focus only on meaningful data.

ABOUT SID PEIMER

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