

## **Satisfaction Is Cheap – Loyalty Is Priceless**

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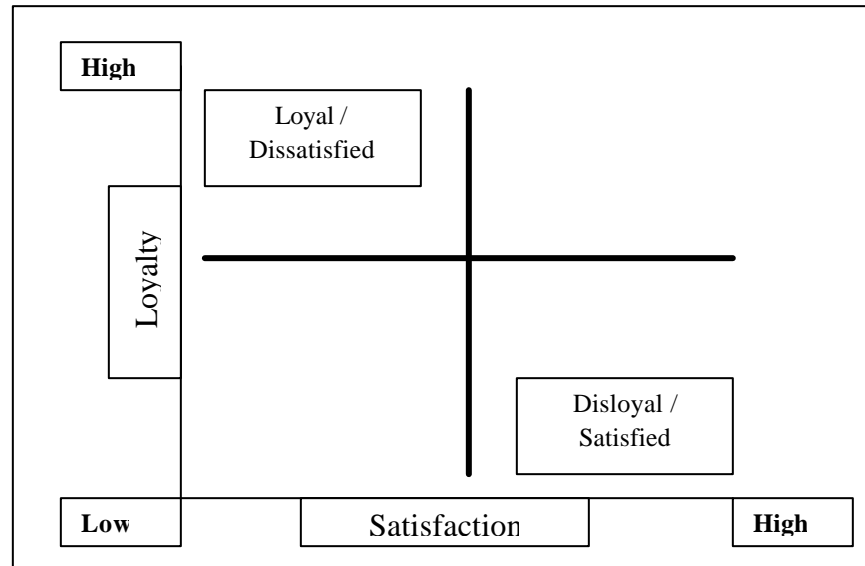
Many service providers measure customer satisfaction and pay attention to the results of these surveys as important indicators of how well their operations are performing. Satisfaction survey results, when done scientifically and carefully, can provide important guidelines to management for training, reward and recognition, as well as systems improvement. Another assumption underlying customer satisfaction surveys is that happy customers are more loyal customers. In other words, if my customers are happy, won't they keep coming back? Most managers when asked this question would answer, "Yes".

The truth is, however, that happy customers are oftentimes not loyal customers. And another important paradox is that unhappy customers can be loyal customers.

From an economic point of view, the viability of almost any service organization depends upon loyal customers. Customer loyalty is defined as the frequency of use or the proportion of re-use of a service. Loyalty can also be observed when service customers or consumers recommend or even urge others to use that service. So loyalty can be observed as a customer or consumer behavior. Satisfaction, on the other hand, exists in the minds and hearts of customers and consumers. This difference between satisfaction and loyalty becomes very important in terms of measurement: how satisfaction is measured is quite different from how loyalty is measured.

Loyalty is extremely important to the economic health of the service, and every bit as important as satisfaction. Yet, most service providers continue to measure customer satisfaction and make no attempt to measure, or manage toward, loyalty. Measuring loyalty and managing for higher levels of loyalty will produce greater levels of economic benefit than measuring and managing toward customer or consumer satisfaction. The service providers should, of course, continue to measure customer satisfaction. Measuring and managing for customer loyalty, however, will produce significant additional benefits.

The relationship between satisfaction and loyalty can be displayed as in the table below:



Customers may be loyal yet dissatisfied. This is true whenever a referral source or family does not have, or does not believe it has, a choice about service providers.

It's also very likely to find satisfied, yet disloyal customers. These are customers, for example, who are generally pleased with the services being provided, but are sending more referrals somewhere else because the other provider has succeeded in differentiating itself, or because of perceived value, or other features such as location.

Only by measuring both satisfaction and loyalty is a service provider able to determine the relationships between satisfaction and loyalty among family members and referral source.

A further explanation of the differences between satisfaction and loyalty will point out how to measure, manage to, and improve loyalty, while also improving satisfaction.

### **What is Satisfaction?**

Satisfaction is the fulfillment of a need, or the degree to which an expectation is met. Typically, satisfaction is measured in surveys which can be performed in many different ways. Because satisfaction is a subjective experience, two people may have very different

levels of satisfaction with fundamentally the same service. Satisfaction is usually measured through a self-reported rating scale, such as appears below.

	Completely Disagree				Completely Agree
Overall, I am completely satisfied with my relationships with the staff.	1	2	3	4	5

Satisfaction has four components:

- Expectation
- Importance
- Experience
- Value

Expectations affect satisfaction by raising or lowering the levels of performance that will achieve satisfaction. In other words, does the customer expect a lot or a little? If much is expected, any deviation will be seen as more significant than if the customer expects little. In healthcare services, expectations are also affected by the urgency or trauma of the need. For example, the expectations of a family whose mother requires significant rehabilitation care, will be very different than a family considering a retirement community for an otherwise healthy 85-year old mother. The frame of mind, so to speak, of the customer will have a significant bearing on his/her expectations and, therefore, satisfaction.

Importance also contributes significantly to satisfaction. Some things are more important to individuals than others. Service providers can more effectively manage by understanding what is more or less important to consumers. In assisted living, for example, Food and Dining Services are usually more important than Grounds keeping. Whereas the reverse would likely be true in an Active Adult Community. What's important can be discerned in several ways, but the most direct way is to ask repeatedly both customers and consumers about what's important to them. Overall satisfaction can be increased by reinforcing through communications that what is really important has been handled effectively. For example, your location may be less than ideal, but by reminding customers about your excellence in rehabilitation services – or another outstanding feature – customers' attention will be refocused on what they consider more important.

The service experience also contributes to satisfaction. Often, the service experience is considered exclusively in considering customer satisfaction, but the experience only

contributes to satisfaction and is not the exclusive factor on which the customer satisfaction judgment is made. Experience is made up of many moments in time, especially when considering a healthcare, senior living or human service environment. For a healthcare consumer, the experience includes everything from the interpersonal interactions with the service providers, to the complete visual, auditory and olfactory experience in the service environment. A major component of the service experience is the telephone. Since many contacts with service providers occur over the telephone, it remains an important source of service experience producing satisfaction or dissatisfaction.

Customers and consumers base their judgments about service experiences on three factors<sup>1</sup>:

- 1. *The Pain / Pleasure Trend***
- 2. *The High and Low Points***
- 3. *The Ending***

Customers want the total service experience to improve over time. This is oftentimes difficult, especially in long-term care situations or where the consumer's condition will most assuredly deteriorate, such as in Alzheimer's or hospice care. Customers and consumers also evaluate the services experience based on both the high and the low points. The overall rule is that bad news or difficult situations should occur quickly and as early in the service experience as possible. On the other hand, positive or pleasurable experiences should be stretched out and occur as long as possible during the service experience. Finally, the service experience is evaluated by customers or consumers based on the ending. A very strong or positive ending can overwhelm negative experiences during the service encounter.

### **What Is Loyalty?**

Loyalty is the repeated use or degree of re-use of the service being provided. It's observable and measurable to the extent that information about, for example, referral patterns is available. In assessing customer loyalty, we should evaluate not only whether referrals are being made by a particular referral source, but also the proportion and quality of those referrals. Loyalty behavior among service customers and consumers has been studied extensively. In the face of apparently fault-free service, customer loyalty will be approximately 45% - 50%. In the face of unsatisfactory service, loyalty will be

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<sup>1</sup> Chase RB, Dasu S. Want to Perfect Your Company's Service? Use Behavioral Science. Harvard Business Review. June 2001.

approximately 30% - 50%. The key to increasing loyalty, however, beyond these levels, is effective recovery.<sup>2</sup>

### **The Key To Loyalty – Effective Recovery**

The key to achieving far higher levels of customer loyalty than can be achieved through managing satisfaction is to manage effective service error recovery.

In a service environment, such as healthcare, senior living and human services, there will always be situations where customers and/or consumers experience a “defect”. A defect is a failure to meet an expectation and/or a bona fide error in service delivery. When these occur if the service organization can recover effectively the service provider can achieve higher levels of loyalty than by providing fault-free service in the first place.

Service error recovery must be:

- Prompt
- Authoritative
- Follow Through

Prompt recovery means that service workers should not delay in identifying and addressing service errors. For recovery to be authoritative, service workers should not dodge responsibility or shift blame to others for the error. We have all been annoyed with the expression “That’s not my job.” This kind of statement is exactly what will produce customer dissatisfaction and disloyalty! Service workers must be empowered to respond quickly and definitively when service errors become apparent.

Finally, the recovery, whatever is determined to be appropriate, should be done as promised. Nothing is more infuriating than to hear someone say “I will call you tomorrow,” and there is no call.

The nature of the service error should dictate the type of response that is appropriate. Task-specific errors such as lost garments or articles, broken eyeglasses and the like, should be responded to with compensation. On the other hand, process errors, such as rude or offensive behavior or an error on an invoice or a bill, should be handled with an apology, an explanation and a demonstration of how that particular process was corrected.

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<sup>2</sup> Albrecht, K. and Zemke, R. (1985). *Service America*. New York: Warner Books Inc.

If effective service recovery is so powerful at improving customer loyalty, why isn't this done everywhere, all the time? There are several reasons that make managing to customer loyalty a challenge.

### **Personal Defensiveness**

Nobody wants to feel as though they have done something wrong. This feeling of personal defensiveness needs to be overcome several ways and on a regular basis. Since it is part of our psychology as humans, to admit errors is at least challenging and for some extremely difficult. It is necessary to avoid blame and accusations and to encourage everyone in the organization to discuss service errors objectively and openly.

### **Professional Pride**

To admit an error for some is to confront the pride that they take in their work at a significant professional level. Many people are trained in their professions to perform at an error free level. While this is a laudable goal, it is, in fact, an impossible standard against which to judge oneself. Professionals can be encouraged to view service errors as golden opportunities to improve the process and their skills.

### **Culture of "CYA"**

Many organizations have an active culture of hiding errors. For the reasons mentioned above, as well as for fear of retribution or job security, individuals may make a concerted effort to hide or diffuse responsibility for service errors. This is a management challenge of the highest order, and also the greatest potential reward.

### **Loss of Wisdom through Turnover**

Turnover in healthcare, human services and senior living results in a loss of accumulated wisdom and knowledge, as well as skills. This loss through turnover includes the loss of experience about how something was handled effectively in the past. This loss of wisdom through turnover can be combated on two fronts simultaneously. First, by creating systems and recording how service errors were identified, addressed and resolved, a documented trail is created. Secondly, by combating turnover through measurement, training, recognition and reward, as well as reinforcement, valuable organizational wisdom is retained.

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In conclusion, Satisfaction may be easier to achieve than loyalty, but loyalty is more valuable to a service organization. Higher levels of loyalty can be obtained through effective recovery from service errors.