The Reign of the Customer

CUSTOMER-CENTRIC APPROACHES TO IMPROVING SATISFACTION

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Dedicated to all the customer-centric researchers, managers, and executives we have engaged with during our collective century of being immersed in understanding levels, changes, and impacts of customer satisfaction relevant to people, companies, industries, economic sectors, and countries.

Preface

The authors of this book have spent several decades working on the collection and analysis of the American Customer Satisfaction Index (ACSI) data discussed in the book. Per Google Scholar, Claes Fornell is the top-ranked professor worldwide in customer satisfaction (in citations), G. Tomas M. Hult is ranked second, and Forrest V. Morgeson III is among the top 15, while David VanAmburg has been the person in charge of ACSI's management and day-to-day operations since its early beginnings. Our co-author team is committed to customer satisfaction, have the knowledge about what it takes to manage and achieve the appropriate levels and changes in customer satisfaction, and are immensely proud of this book that tells our unique customer satisfaction story. Our more-than-century of collective dedication to customer satisfaction is captured in *The Reign of the Customer: Customer-Centric Approaches to Improving Satisfaction*.

At the same time, a commitment of this depth and breadth to understand and continually push the boundaries on what it takes for companies to achieve satisfied customers profitably unavoidably has effects on those involved. Each of us, it is fair to say, has become immersed in the concept of customer satisfaction in a way alien to most others. We have authored—collectively and separately—hundreds of articles on customer experience, customer satisfaction, customer loyalty, the link of these to companies' financial performance, and so forth. Our goal in this book is to present the fruits of all of these labors to the reader in an accessible manner. Only through such a presentation can these ideas truly help consumers, researchers, marketing managers, businesspeople, CEOs, companies, and the global economy as a whole.

In the pages that follow, we will discuss the ACSI project and the findings and lessons derived from it over the past 25 years. There are multiple dimensions to these discussions, just as there are multiple dimensions to most consumer experiences. The one thread that connects all of the findings is the concept of customer centricity. When first designed in the late 1980s and refined in the early 1990s, the ACSI model was focused on better understanding what makes customers happy, keeps them coming back to a company, and keeps the economy expanding. To achieve these goals, companies must adopt a customer-centric approach that emphasizes the importance of customer relationship management, customer satisfaction, and customer loyalty. We often talk about "customer asset management" to capture the collective nature of these customer-centric issues from the viewpoint of a company.

Yet, customer centricity is neither homogenous across industries nor an "at all costs" proposition. Customers demand different things from different types of goods and services. Companies must provide these uniquely satisfying experiences from within the context of their own industry and relative to their competitors. They also must always do so in a way that is profitable for the business, or at least where revenue equals cost over the long term. The ideas presented in the pages that follow will, we hope, simplify these complexities in a useful way.

A project the size of the ACSI—with tens of millions of customer surveys over the years—and the findings from it can only be produced by a team. Beyond the authors whose words collectively make up this book, several researchers deserve thanks for their efforts in creating the data central to this book. Udit Sharma of the ACSI and Michigan State University provided immeasurable assistance in data aggregation and visualization for this project and deserves special mention. Tanya Pahwa and Yuyuan Pan, both researchers at ACSI over the last several years, have helped in many ways. Tina Detloff and Christina Stage, also of ACSI, have supported the efforts of the researchers in many ways, and are key to keeping the ACSIproject moving forward. Finally, Google Scholar tells us that more than 12,000 articles have been written using the ACSI data or ACSI results in some way. We are tremendously grateful to these authors for helping us push the customer satisfaction boundaries and linking work by the ACSI team to myriad positive individual, company, and country behaviors and performance metrics in the international marketplace.

Ann Arbor, MI
June 11, 2020

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Defining Customer Satisfaction: A Strategic Company Asset?

Chapter Overview

In this chapter, we provide an overview of customer satisfaction as a strategic company asset, as seen from the lens of the American Customer Satisfaction Index (ACSI). Included is a brief review of the ACSI project's history and the economic forces that originally inspired it, the methodology and model that guide its research, and the structure of the index vis-à-vis the sectors, industries, and companies included therein. The primary goal of this chapter is to explain the source of the ACSI data—which centers on customer satisfaction—that informs many of the insights that come in the chapters to follow, to provide a methodological primer to the data, and to reiterate the importance of customer satisfaction measurement today and in the future. The chapter closes with an overview of the chapters that follow.

Key Conclusions

- The ACSI project was launched in response to the emerging "customer-centric" economy and the need to measure the quality as well as the quantity of national economic output.
- In addition to customer satisfaction, the ACSI model includes measures of customer expectations, perceptions of quality, value, complaint behavior, and customer loyalty (retention) at the company, industry, sector, and national levels.
- Measurement is conducted for companies, then weighted and aggregated to the industry, sector, and national economy levels.

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- While the ACSI was launched before the most profound changes brought by the Information Age, its mission and purpose—to measure the quality of economic output for a more competitive and customer-centric economy—is more relevant than ever.

1.1 A Brief History of the American Customer Satisfaction Index

> To understand more fully the modern economy, and the firms that compete in it, we must measure the quality of economic output, as well as its quantity. *Claes Fornell, Chair of the Board and Founder, American Customer Satisfaction Index, 1995*

As in all good journeys, let us begin this book with a bit of history and foundation-setting. Given the primary subject of the book—to understand changes in the perceptions of American consumers over the last quarter-century and how to manage customer satisfaction given these changes—it is important to start with a brief overview and history of the American Customer Satisfaction Index (ACSI). How and why was the ACSI project created? How does it measure consumer satisfaction with individual companies, industries, and economic sectors? How has it evolved over the course of a quarter of a century? The fact that a large portion of the material contained in this book draws on ACSI data and findings, such an introduction is wise and necessary before proceeding. But beyond this straightforward goal, a clearer notion of how and why the ACSI was created and how it measures satisfaction across the U.S. economy and around the world will provide the foundation for a deeper understanding of the most important and enduring purposes of consumer insights and customer satisfaction measurement. In turn, this information will enhance the insights and lessons derived from 25 years of ACSI data and research offered in the chapters that follow, with personal insights from the founder of ACSI himself. So how and why did this project emerge?

In the early 1990s, researchers at the American Society for Quality (ASQ)—a prominent professional association founded shortly after World War II with the goal of advancing quality improvement principles and practices within economies around the world—recognized the need for a comprehensive national measure of quality for the U.S. economy. Only with such a measure, so it was thought, could a clear understanding of how well the U.S. economy was performing be achieved. ASQ began by investigating whether a national, cross-company, cross-industry measure of quality already existed, and if not, whether its development was feasible. With the help of a team of experts on the topic, ASQ examined myriad approaches to quality measurement and determined that no standardized measure of quality existed that could be applied to the multitude of diverse products and services offered within a modern economy. While many different quality measures existed, none was designed to effectively compare and benchmark these measures across distinct industries and categories (e.g., goods vs. services, cars vs. consumer-packaged goods (CPG)), or to *aggregate them into a national index of quality* (i.e., an economy-wide, macroeconomic view of quality). However, one potentially useful model that was being implemented outside the U.S. at the time was brought to the attention of ASQ: the Swedish Customer Satisfaction Barometer (SCSB).

A few years before ASQ began its search, in 1989, a Swedish economist and professor at the University of Michigan in the U.S. named Claes Fornell had designed and launched a national index of customer satisfaction for the Swedish economy, a project called the Swedish Customer Satisfaction Barometer (SCSB). Fornell had spent the first decade of his academic career writing extensively on the topics of customer satisfaction, consumer complaint behavior, the economic impacts of customer relationship management, and advanced statistical analysis of consumer survey data. It was this expertise that had led him to conceive and create the SCSB.

With support from the Swedish government, which had seen its economy struggle with increased competition and slower growth throughout much of the 1970s and 1980s as the effects of the European Common Market became fully apparent, the SCSB was the first project to apply a single, standardized statistical model for measuring both quality and customer satisfaction across the diverse sectors of a large national economy. In its first year, the SCSB successfully measured satisfaction with nearly 100 Swedish companies across 28 distinct consumer industries, interviewing approximately 25,000 customers of these companies in the process. Ultimately, it was this model that would attract the attention of ASQ, be chosen as the best alternative for measuring quality and satisfaction in the U.S., and be transported across the Atlantic to be applied to the larger U.S. economy as the American Customer Satisfaction Index.

It was on the basis of the SCSB project that the ACSI was founded in Ann Arbor, Michigan, by a group of professors at the University of Michigan's Business School (now the Stephen M. Ross School of Business), under the direction of Fornell. With funding from ASQ, the University of Michigan, and several other organizations, an extensive "first wave" pretest of the ACSI was conducted in 1993.[1] Analysis of these results confirmed what had previously been discovered in Sweden: that a cross-industry, cross-sector measure of the quality and satisfaction of a nation's economic output was indeed possible, providing highly informative results about the conditions of the economy. One year later, in 1994, the baseline American Customer Satisfaction Index study was produced. This first wave of the ACSI study measured satisfaction with seven sectors of the U.S. economy, 30 industries, and approximately 180 large business-to-consumer (B2C) companies. The study has been replicated each year since, with fresh results collected and released throughout each calendar year. And as we will show below when reviewing the methods and models of the ACSI, the study has grown significantly in the intervening 25 years.

The central purpose motivating Fornell and his collaborators to create the ACSI was simple and relates to the mission that originally sent the American Society for Quality (ASQ) on its search for a national index of quality. This objective remains important in both understanding the material to follow in this text and in understanding the modern economy better. While nations had for many years (since at least the 1940s, and in some cases earlier) measured the quantity of output produced within their economies through a variety of different metrics (and continue to do so today), they had up until the 1990s predominantly ignored a more elusive but arguably more important feature of sustainable economic growth—the *quality* of output. In Sweden, for example, the SCSB was created with the explicit goal of increasing the quantity of economic output in that country, and thus its gross domestic product (GDP) growth, but doing so by measuring, monitoring, and improving the quality of that output *as perceived by consumers*. This would, it was hoped, increase consumer demand. The quality improvements were thus intended to make struggling Swedish firms more competitive both domestically and internationally by better pleasing consumers and inspiring them to spend more with domestic firms.

By the 1980s and 1990s many companies had begun to measure customer satisfaction internally (along with related "consumer insights" and the "voice of the customer" (VOC)). However, lack of access to this data and the disparate research methods (e.g., different survey items, samples, timeframes, statistical methods) used to conduct measurement across these companies, coupled with divergent quality of the resulting output, made comparison and aggregation of the data to the macro level impossible. In short, new economic realities were increasing competition dramatically and making quality and innovation more important than ever, but standardized data permitting a clear understanding of the quality of goods and services being produced were largely unavailable.

It was from within this context that Fornell and his collaborators on the ACSI project recognized that growing domestic and global competition demanded a clearer idea of the factors that satisfied increasingly powerful consumers. What motivated these consumers to open their wallets to spend money on certain brands of goods and services more so than others? Measuring satisfaction (alongside its drivers and outcomes) in a systematic, standardized fashion across the entirety of a national economy would provide vital information for fully understanding the health of companies, industries, and entire economies from the perspective of the ultimate and most important judge, the individual consumer. Clearly this perspective is more relevant than ever today, and will likely become even more so in the future as ongoing changes in the global marketplace appear to be dictating.

As the Information Age has evolved from science fiction to a fully developed reality over the last few decades, consumers now have more choice and greater power than ever before. The internet revolution has profoundly changed how buyers and sellers relate to one another, and in the amount of leverage and power held by consumers. The changes ushered in as part of the Information Age have given consumers many new advantages. These include greater access to information about specific products and services prior to purchase and consumption, greater access to information about alternative suppliers (sellers) of goods and services, an increased ability to punish sellers through more impactful complaint behavior and word-of-mouth, and an increased ability to more directly influence new product/service offerings (i.e., co-production of goods and services). As such, these changes have forced companies of all kinds to reconsider how they measure and manage their performance, and to focus more on the voice of the customer. In all of the chapters that follow, some mention will be made of this changed global marketplace spawned by the Information Age and how it has impacted consumer expectations, perceptions of quality, perceptions of value, satisfaction, complaint behavior, and customer loyalty.

Nevertheless, whereas companies—and national economies in their entirety—once relied almost exclusively on measures like labor productivity, market share, revenue growth, profitability, stock market valuation, and gross domestic product as performance indicators, now external, customer-facing measures and the linkages between these measures and financial performance are at the forefront. Indeed, practices like customer relationship management and concepts like "customer-centricity" now occupy a central place in the discourse of corporate performance precisely because of this changed landscape. More and more, measuring consumer satisfaction and related consumer perceptions and insights is viewed as a vital, necessary activity for the firm hoping to adequately compete for buyers in increasingly competitive free markets. The same imperative holds for the national economy looking to compete in an environment with fewer boundaries and obstacles to free trade. It is our hope that the findings and lessons in this book will reinforce the continued and growing importance of customer satisfaction and its measurement under these circumstances.

1.2 An Interview with Professor Claes Fornell, Founder and CEO of the ACSI (Image 1.1)

Question When you founded the ACSI more than 25 years ago, what was your primary goal? What did you hope the project would provide that didn't already exist (to researchers, companies, policymakers, etc.)?

Claes Fornell It was about that time 25 years ago when three big trends were beginning to become evident. The first was global competition, the second was the growth of services in most advanced economies, and the third was that consumers were beginning to be better armed with information (about purchase alternatives, prices, quality, etc.). These trends led to more buyer

Image 1.1 Source: American Customer Satisfaction Index LLC

power and fewer monopolies in the overall economy. In other words, there was a major shift in power away from producers to consumers. It also meant that the conventional measures about the performance of firms and economies needed updating and change. At the company level, it was clear that the more we knew about how satisfied customers were, the better we could predict future revenue from repeat buyers. At the macro level, we could also infer what an increase (or decrease) in aggregate customer satisfaction meant for aggregate consumer spending. This was very important since consumers account for about 70% of gross domestic product in the U.S. It is not possible to have strong economic growth without robust growth in consumer spending.

Question Have changes in the economy over the past 25 years impacted how customer satisfaction is measured?

Fornell Yes. Just about every company now measures customer satisfaction in one way or another. That's an important first step. The problem is that most companies still do not have enough quality in their measurements. Very little attention is paid to the integrity and properties of the measures. The concepts of reliability and validity seem foreign to many companies, which have led to measures that don't reflect what they purport to measure and contain more random noise than authentic variation. Over the long run, this is, of course, untenable.

Question Can you give us some idea of the economic and financial importance of customer satisfaction, both to companies and to national economies?

Fornell Most companies depend heavily on repeat business. There are only a few things we consume only once. In a competitive market, where consumers have a great deal of choice, it is therefore necessary to make sure one has satisfied customers. Otherwise, they will go elsewhere. We can see the financial impact not only in revenue and profitability, but also in stock returns. For more than 15 years now, we have had a stock fund that invests in companies with superior customer satisfaction (as measured by the ACSI), with very good results. The stock portfolio of these companies had a return of 518% between March 2000 and March 2014. This is much better than the market. The S&P 500 went up only by 31% over the same period of time.

Question Given that the ACSI has existed for 25 years, and that satisfaction measurement in general is more popular than ever, why do some companies (and even entire industries) continue to treat their customers so poorly (cable TV companies perhaps being an example here)?

Fornell The major reason for this is some form of monopoly power. Despite what I said about the increase of competition in general, there are exceptions. There are markets where purchase alternatives are few and/or where the cost of leaving a company can be substantial. I would put cable companies in that category. In industries with few product and service options, customers have limited powers to punish offending companies.

Question Finally, if you had one lesson or piece of advice from all of your research and all of your experience that you think would help companies most, what would that advice be?

Fornell Let me answer by first saying what advice I would *not* give. For example, it is a folly to believe that the customer is always right. Economically speaking, the customer is only "right" if there is an economic gain for the company in keeping that customer. Some customers are very costly and not worth keeping. It is also not helpful to believe that customer loyalty is priceless and customer satisfaction worthless. Unless the company has a monopoly, loyalty can be very costly unless it is produced by customer satisfaction. If loyalty is gained by price discounts instead of having satisfied customers, for example, it is usually a path to failure rather than to healthy profits.

Now, let me turn to some more constructive advice. The first is to realize that measurement equals information. Companies with the best measurements have the best information. Companies with the best information often win. However, the data gathered from surveys, focus groups, social media, and so on are not information. They are raw data. Data can become information, but that needs to be processed first. Think of crude oil and gasoline. There is a refinery between the two. We don't put crude oil in our gas tank. Without knowing how much noise there is in the data, what is causing what, and what the effect of a specific action will be on customer satisfaction, likelihood of repurchase, earnings, and ultimately stock price, the raw data points do not have much value. Data must be analyzed and processed. Many companies today act on raw data and, to the extent they do any statistical analysis at all, it is too primitive—with techniques that are often more than 100 years old. These techniques are not sufficient for customer satisfaction data, which are not normally distributed—no bell curve here—and have extreme multicollinearity (everything is correlated to everything else).

The second piece of advice I would give is that the most important thing to do in order to improve customer satisfaction is not what most managers think it is. It is not better service. It is not better quality. It is not better price. Consumers are individuals. They differ from one another, at least in most markets. Accordingly, the most important aspect of customer satisfaction is "fit." Pick the right customers (targeting) and customize the products to the extent necessary—there is a cost constraint here of course. It is the "fit" between the buyer's needs and wants and the company offering that determines the customer's satisfaction. Sell to the wrong customer and that customer will not come back. Treat everybody the same, and unless they actually are, nobody is going to be happy.

1.3 The ACSI Model and Methodology

Having discussed the background and history of the ACSI, along the nuggets provided in the interview with its founder Claes Fornell, we can turn now to a discussion of the structure, methods, and models underlying the ACSI system and measurement. We begin with a brief, non-technical review of the data collection and statistical methods used by ACSI to analyze the hundreds of thousands of consumer interviews collected annually for the study. We turn then to a macro view of ACSI, looking specifically at the structure of ACSI as it pertains to the economic sectors, the industries and companies included for measurement, and how satisfaction scores are produced and interpreted at these different levels of data aggregation. Again, the primary goal of this review will be to prepare the reader for the related analyses of ACSI model variables in the chapters that follow.

To measure customer satisfaction, ACSI relies on the perceptions of actual customers of companies, or what is sometimes called the voice of the customer. The ACSI study begins with survey data collected through interviews, and all ACSI satisfaction results (and those of all the other measured variables) are produced using information collected from actual customers of the companies being measured. To collect this information, ACSI uses a standardized survey instrument (questionnaire) designed to collect information about a set of consumer perceptions as quantitative (numeric) variables to be included for analysis within the ACSI statistical model.[2] The survey instrument, which has remained largely unchanged since it was first created in 1994, was specifically designed to apply to consumer experiences across diverse economic industries and sectors. It seeks to tap into multi-item variables (sometimes called "latent variables") for measuring the six focal constructs contained in the model: customer expectations, perceived quality, perceived value, customer satisfaction, customer complaints, and customer loyalty. The construct of customer satisfaction is often labeled simply as ACSI since customer satisfaction is the "ACSI score" or "ACSI index" as reported in media and updated publicly on the ACSI website.

Survey interviewing to collect the data for all ACSI constructs is conducted using standard market research approaches, including internet panel online interviewing (currently) and computer-assisted telephone interviewing (CATI) methods (in ACSI's first years, but no longer).[3] Multiple checks are employed to ensure a random sample of consumers as representative as is possible of each individual company's actual customer base (this is often called stratified sampling). "Representativeness" in the context of the ACSI study indicates that potential respondents are screened before interviewing to determine eligibility to participate, with eligibility meaning that the potential respondent has personally purchased and consumed the good/service for which interviewing is being conducted within a narrowly defined time period consistent with the repurchase cycle. The time periods range from a current subscription in certain services (such as an active bank account or current subscription to subscription TV service) to purchase and consumption within the last three years (for durable goods products purchased less frequently, like automobiles or household appliances).

The statistical model used to analyze the data and to measure satisfaction with companies and industries across the U.S. consumer economy—the "ACSI Model"—is represented graphically in Fig. 1.1. Appendix 1 includes a generic version of the ACSI survey instrument and discusses some of the technical science of the multi-equation econometric cause-and-effect system.

The ACSI model functions as a tool for accurately and reliably measuring not only the central construct in the model (customer satisfaction), but also the most important determinants or "drivers" of satisfaction (e.g., consumer

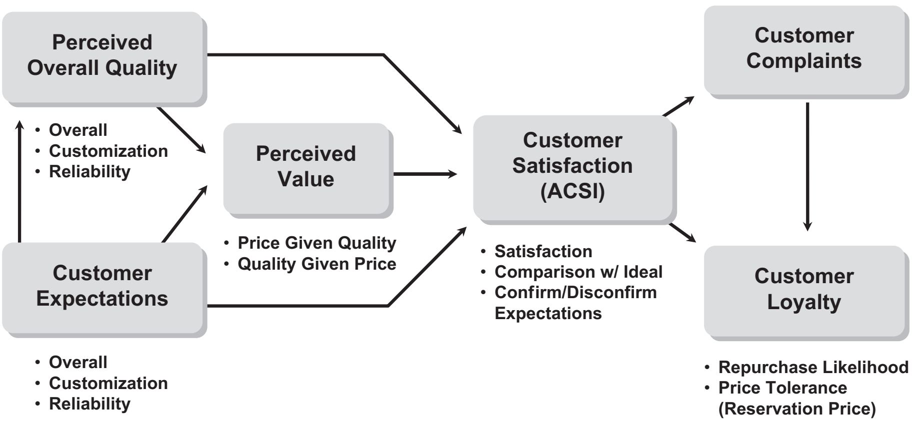

Fig. 1.1 The ACSI model. (Source: Authors' creation from American Customer Satisfaction Index data and methods)

perceptions of product/service quality and value) and the most vital outcomes of satisfaction. The latter, viewed as future consumer behaviors driven by satisfaction, includes customer complaints and customer loyalty. Because the model measures perceptions common to virtually every consumer experience, results produced through it can be compared and benchmarked across companies, industries, sectors, and national economies. The model produces various output, but two pieces of information are most essential: (1) *Scores* or ratings for the variables—produced on a 0–100 scale—which are most useful for determining levels of performance and benchmarking performance across companies, industries, economic sectors, over time, and so forth; and (2) *Impacts*, which dynamically relate the variables to one another (represented by the arrows in the model), and which are useful for identifying the most impactful drivers/outcomes of satisfaction.

Expanding on this general description of the ACSI model and providing some insight into the composition of the latent variables[4] and the relationships between them, customer satisfaction (ACSI) is the central variable in the model and it is measured with questions asking about the consumer's overall cumulative satisfaction with their experience (overall satisfaction), the confirmation or disconfirmation (either positive or negative) of prior expectations produced by the experience (confirm/disconfirm), and a comparison of the experience to an imagined ideal experience (comparison with ideal). Satisfaction has three primary antecedents (or drivers/influencing factors) in the ACSI model—perceived quality, perceived value, and customer expectations. All three latent variables are anticipated to have direct, positive effects on satisfaction, with satisfaction predicted to increase at higher levels of these drivers. Yet both empirically and theoretically, the relationship between quality and satisfaction is expected to be the largest, as consumer satisfaction has almost universally been found to be predominantly a function of a consumer's quality experience with a good or service with few exceptions (this anticipated result is further discussed and confirmed in Chap. 3). As conceptualized in the ACSI survey, there are three primary elements of the quality experience included in the perceived quality latent variable: perceptions of overall quality (overall quality), the degree to which a product or service fulfills subjective individual consumer requirements (customization), and how consistently and reliably the product or service performs (reliability).

The second variable anticipated to have a direct and positive effect on customer satisfaction is perceived value, which is measured in the ACSI survey as the level of perceived quality relative to the price paid, and the price paid relative to the perceived quality of the good or service. Adding perceived value to the model incorporates price information, yet still allows for comparison of