



# SATISFIED DEFECTORS OR HOSTAGE CUSTOMERS

At the moment, the business and marketing media are full of the value of customer retention. Companies need to hang on to all the customers they've got, especially in a recession. Every time you lose a customer, you're not just missing out on that one sale but on all the future cash flows from that customer – their lifetime value. But it might be worth thinking about the relative costs of dissatisfying versus losing customers? Defection might not be as bad as we sometimes imagine. Dissatisfying customers might be worse.



Seth Godin said: "I think the actions of almost all marketers say, "we'd rather you were happy, but if you can't be happy, please go away." What he means is that we often end up treating customers badly at the worst possible time – when they have a problem or when they want to leave. How often do sales or customer service staff deliberately ignore an unhappy customer because they don't want to deal with the hassle? It's human nature, but it's also immensely destructive. At a higher level, companies often claim to want to listen to customers...but they make it tremendously hard for customers to actually speak to them. Where's the number I can call? Where's an email address? How exactly do I make a complaint, and will it make any difference?"

Of course, we can use business logic to rationalise this behaviour. We know dissatisfied customers are expensive to deal with, and secondly, we tend to assume it's too late – a dissatisfied customer is bound to defect. The next step in that logic is that a defecting customer is a write off. All those future cash flows have gone and are never coming back. But are these assumptions really justified?

**Satisfied customers defect**

As long ago as 1995, Harvard Business Review published Jones and Sasser's<sup>1</sup>

seminal article "Why satisfied customers defect." They included evidence of the extent to which satisfied customers do switch in different industries. The superficial conclusion (drawn presumably by people who hadn't actually read the article) was that measuring and improving customer satisfaction was pointless since Harvard has now told us that satisfied customers defect. What they had actually told us was that satisfied customers do defect but dissatisfied ones defect more and very satisfied ones defect much, much less, as shown in the chart below.

The real conclusion of the article was that it is possible to make customers very loyal if you make them satisfied enough. The point is that customers are people, and individual people are unpredictable, but if you look at them en masse their behaviour becomes much more predictable, which is why we know that companies with more satisfied customers also have more loyal customers.

**Dissatisfaction and defection are not the same**

The crucial point that Harvard made was that we need to disentangle dissatisfaction and defection. The costs of dissatisfying customers often get lumped in with the cost of losing them, mainly because we tend to assume the two

things go hand in hand. But if that's not always true, it has important consequences for the way we think about and deal with both.

What does a lost customer actually cost? If we restrict it to the actual process of defection then we need to look at two things – the actual cost of the defection process itself (e.g. the staff time involved in cancelling the contract) and, much more importantly, the opportunity cost of the business they place elsewhere which they would otherwise have placed with you. And that's the end of it for a defecting customer who's satisfied.

But what about a defecting customer who is dissatisfied? If a customer is dissatisfied, the servicing cost at the point of defection will be higher on average, and the defecting customer's lifetime value has disappeared. Much more importantly, however, the dissatisfied defector will cost you extra business in future from cross-sales and referrals.

And there are two further twists in this tale. The satisfied defector can sometimes be won back. Their lifetime value hasn't necessarily gone forever. And what about the dissatisfied customers who don't leave? Perhaps because it's not worth the hassle of switching to a different supplier, or maybe they see all suppliers as being equally bad. This prompts two questions:

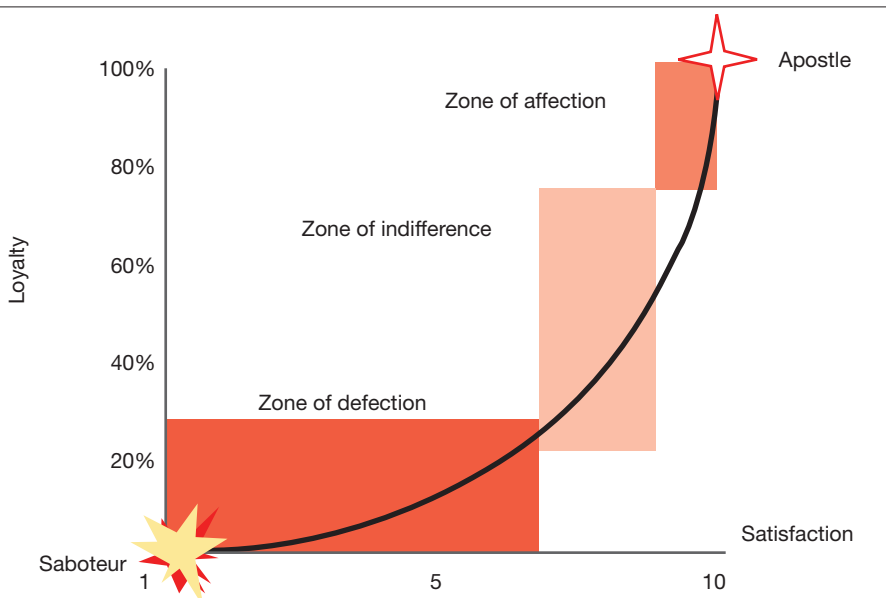
- Is there a cost to keeping a dissatisfied customer?
- Is the loss from all defectors the same?

One of the main factors influencing the answer to both questions is the effect of word of mouth, especially when it's negative.

**Recommendation**

We all know that recommendation is a really important element of customer lifetime value. What is increasingly obvious is that, though marketing and advertising are undoubtedly important in building awareness, recommendation is a more powerful force in driving actual purchase. Let's look at some evidence.

Satisfaction - Loyalty relationship





Mortgage Purchase



Camera Purchase



A March 2009 survey of 1000 consumers by YourSayPays showed the power of personal recommendation for two very different purchases – mortgages and cameras. As shown in the charts, 23% of mortgage buyers use recommendation from friends and family as their main decision-making influence, and for cameras it's the single most important factor at 27%. As a much more expensive and high risk purchase, it's not surprising that expert advice ranks highest for mortgages, but supplier advertising has virtually no influence on either.

A study in 2003 by the Yale School of Management<sup>2</sup> examined the effect of consumer reviews on relative sales of books on Amazon.com and BarnesandNoble.com. They found that an improvement in a book's reviews leads to an increase in sales at the site, but that the impact of 1-star reviews is greater than the impact of 5-star reviews. So negative reviews deter us from purchasing more than positive reviews encourage us.

The subconscious emotional wiring in our

brain helps us avoid unpleasant experiences. From a customer satisfaction point of view that manifests itself in "asymmetric impact" – in other words bad experiences have more impact than good ones, which explains why 1 star reviews on Amazon have more impact than 5 star reviews, and why most stories about customer service are bad.

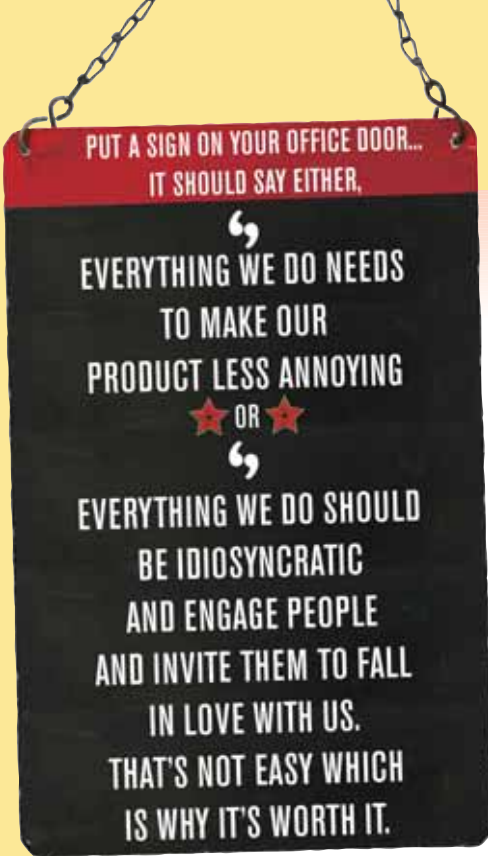
The customer lifetime

Let's think about what a typical customer's lifetime might look like. From acquisition, the company and customer have a series of encounters which might be perceived as good or bad by the customer. We know that the customer's cumulative experience of these events plays a big role in determining their satisfaction, but also that some of the interactions have more impact than others. At some stage customers will leave, perhaps because they were dissatisfied, but maybe because they wanted to try a competitor, or because they've moved house and the company is no longer convenient. Often, this leaving process is one of the salient events that makes a lasting impact, but we also know that it's one of the experiences where things so often go wrong.

The leaving experience

The key thing to remember here is that defection isn't for good, unless you make it so. A defecting customer can be perfectly satisfied, telling other people good things about you, willing to return at some stage in the future – unless you make them dissatisfied by the way you handle their defection. Another interesting statistic generated by the YourSayPays survey referred to earlier, is that 48% of positive word of mouth is based on product, whilst 49% of negative WoM is based on bad service.

This fits in with Seth Godin's theory that there are two types of company. The first type (e.g. Apple) does things that really engage customers, to the extent that they fall in love with the brand. These lucky few, the Apples of this world, can get away with being annoying because people love them and will often forgive them their quirks.



You can't do both, you must have one –

**Seth Godin**

Most companies, however, will never make customers fall in love with them, so they need to focus on getting the basics right, not being annoying, not giving the customers any bad experiences. Problem handling and defection (often linked) are two vital moments of truth where companies need to be less annoying. As we know, peak negative (as well as positive) experiences have an exaggerated effect and this is doubly true for the last event customers encounter. The point when customers leave is a crucial moment of truth and a great opportunity for companies – provided they embrace it. It's the last encounter in the customer journey...for now. Part on the right terms and maybe they'll come back. Make their last experience a bad one and they definitely won't.

## Conclusions

There are three important ways to address these issues:

- Understand satisfaction and loyalty
- Encourage complaints and measure your handling of them
- Focus on the defection process and build bridges

### 1. Customer satisfaction

As well as focusing on what drives customer satisfaction and loyalty, make sure you understand what drives the bottom

box. What makes customers really dissatisfied? We've seen that dissatisfaction has a potentially bigger impact on future actions than satisfaction. It might not be fair, but it's true. Find out what the drivers of dissatisfaction are by examining survey scores of customers with the lowest overall satisfaction and using correlation techniques to identify the factors that have the strongest relationship with their low overall satisfaction. These are the dissatisfaction drivers. You can use any of the three Rs, (retention, referrals and related sales) as outcome variables for your correlation if you want to identify what's driving defection, negative word of mouth or declining sales.

### 2. Complaints

According to Godin, "Angry phone calls are your friend. They're your friend because the alternative is angry tweets and angry blog posts." Angry customers are going to talk to someone – better you than their friends, thousands of twitter followers or the world. To improve how your customers feel when they have a problem with your organisation you should:

Really encourage complaints (remember Darren Cornish of Norwich Union in the last edition of Stakeholder Satisfaction? See the Customer Management Conference article on page 27).

Be proactive in looking for problems, using tools such as twitter, web tools for reputation management, etc. (I tweeted about no WiFi on Virgin trains and Richard Baker, the General Manager, sent me a message to say it was coming). But don't ignore basic customer service skills, like getting your staff to look out for people who are not happy and deal with it, or at least point them towards someone who can.

Include problem handling (not just complaint handling) in your customer surveys. Find out what percentage of customers have had a problem, what percentage make a complaint and identify what proportion of complaints you're capturing. Is it just the tip of the iceberg? If so you need to understand why some customers are not complaining. Is it because you make it too difficult, because they don't think it's worth

it or because they are reporting the problem (i.e. they think they're making a complaint) but your system is not capturing them?

For customers who do make it as far as the complaints process it's essential to survey them when the complaint has been resolved to really understand how they feel afterwards. Some companies succeed in turning complainants into advocates, others speed up their defection and encourage them to tell all their friends and fellow bloggers about their experience.

### 3. Managing the defection process

Finally, you really need to focus on your handling of the defection process itself. If you treat defectors as if they are still valued customers, then maybe they will be again. Don't erect barriers as a means to keep them hostage, try to build bridges instead. You want them to leave wondering if they've made the right decision, not feeling relieved to have escaped. Consider measuring the defection process by interviewing departing customers. It also gives you a valuable insight into the reasons people are leaving. **S**

#### References:

1. Jones and Sasser (1995) "Why satisfied customers defect" Harvard Business Review 73 November-December.
2. Chevalier and Mayzlin (2003) "The Effect of Word of Mouth on Sales: Online Book Reviews" NBER Working Paper No. W10148. Available at SSRN: <http://ssrn.com/abstract=476105>



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