TRUE LOYALTY

THE PREDICTIVE VALUE OF CUSTOMER SATISFACTION INDICATORS

Ton Otker
Maarten Schellekens
Harm van Leeuwen
Reinier Heutink

INTRODUCTION

The importance of customer care
In the past decade, customer care has gained an ever-increasing importance in company strategies. Many organisations are aware of the fact that – in addition to classical marketing factors – delivering excellent pre- and after-sales service offers new possibilities to stand out in the market.

The increasing importance of customer service and customer care is also a consequence of the increasing complexity of products and services. New options and new applications follow each other ever faster. The "digitalization" of society is happening at a fast pace, not only in the traditional IT field, but also in areas such as telephony, photography and consumer electronics. Consequently, consumers have more questions, both before and after purchase, and can rely less often on their own knowledge and experience.

Moreover, an increasing number of purchases are made outside the traditional channels. The traditional specialized retailers were always characterized by their extensive supply of (pre-sales) information, and a good after-sales service and support. Good service and support at the specialist retailer has become less self-evident.

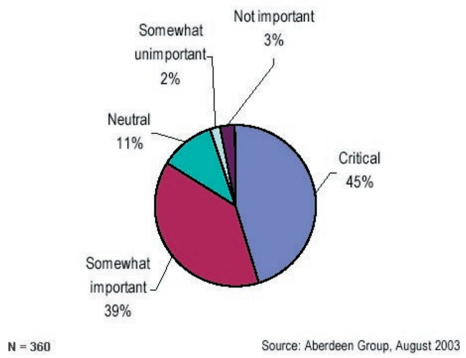
Good performance on all fronts is important for organisations since more and more consumers use the possibilities of obtaining information on the Internet. At present, in The Netherlands, Internet is the preferred channel in the orientation phase that precedes a transaction. This concerns not only information about possibilities, specifications, prices and distribution channels, but in addition, consumers tend increasingly to share their personal product- and service experiences.

As a result of this all (complexity of products and services, changes in distribution, the role of the internet, more critical customers) – and in addition to striving for high-quality products that fit consumer wishes – all leading companies invest great amount of energy, time and money in customer care operations. Such operations may play an important role in informing customers (pre-sales), in solving possible problems (after-sales) and as a direct-sale channel (cross- and up-sales).

Already in 2003, the Aberdeen Group reported that a large majority of executives considered the use of a contact centre critical (45%) or somewhat important (39%). (See figure 1).

The acknowledgement of the importance of customer care – in which contact centres have an important role – goes together with an increase in outsourcing. Currently, not all companies maintain complete in-house customer care operations any longer. Many have outsourced part of the operations, or even the entire operations.

FIGURE 1
STRATEGIC IMPORTANCE OF THE CONTACT CENTRE IN THE ENTERPRISE



The total market for contact centre outsourcing at present in Europe amounts to approximately 8 billion dollars. The expectation is that this will grow to about 10 billion in 2007, with Eastern European countries playing an increasingly present role.

Developments in customer satisfaction research
Customer satisfaction research has been ranked high on the strategic agenda for two decades already. There are several reasons for this. Consumers have not only become very critical, but also very well informed on the product offer and the experiences of other customers with these products. Product and brand choices have increased. Consequently, customer experiences with the products and service of a company in the post-purchase and usage phases strongly affect future brand decisions, and therefore the position of a company on the market.

The importance of striving for a high degree of customer satisfaction with product and service is therefore self-evident. In particular, producers of products and services with a low purchase frequency should keep a finger on the pulse. In fast-moving markets, the market itself will rapidly correct underperformance, but in the durables markets organisations need to develop their own instruments for timely monitoring their perceived performance.

Consequently, quality monitoring of (perceived) product and service performance is crucial for companies that produce durables.

In the past years, there has been a high interest in specific surveys on people's satisfaction with support contacts. This type of research – which is also called 'event-driven' or 'incident-based' research – systematically monitors the performance of customer contact operations. The results are primarily used to steer the operations and to evaluate the outsourcing partners.

However, a debate has recently arisen about the added value of customer satisfaction research in general and event-driven customer satisfaction research in particular.

Managers tend to ask more and more explicitly: "What are the costs and what does it bring in; what does it contribute to the increase of our turnover and profit; are we measuring the right issues?" Another question often asked is: "Most customers are fairly satisfied, what more could we desire?"

In satisfaction measurement there is a limit in performance that can be reached. This applies to product satisfaction and probably even more to customer care satisfaction. If a company uses all steering information that is available and implements improvement programmes systematically, the room for further improvement will be limited in the end. In such a situation, the results of customer satisfaction surveys will show a very stable image. It will then be difficult and costly to establish further improvements, the phenomenon we call "diminishing rate of return". Often, the costs required satisfying the last X% of dissatisfied customers will be exorbitant.

In addition, a lively debate has arisen regarding the question whether customer satisfaction – unmistakably a good indicator for operational performance and delivering tools for improvement – is the best indicator of the strength of the bond between customer and brand and, by implication, of a company's future success.

The above debate has resulted in a mental shift: next to customer satisfaction, the concepts 'customer value' and 'customer loyalty' have become important points of attention. By now, almost without a doubt, customer loyalty has proven to be an important, if not the most important predictor of future business success. For instance, Crosby and Johnson state that customer loyalty is a proven source of growth and business success. They report on a survey that showed that customer loyalty drives revenue growth of up to 20%, and that, for most large companies, long-term customers generate up to 95% of their profit. According to an old truth – almost a truism by now – finding a new customer costs three to seven times more than retaining an existing customer.

THE PREDICTIVE VALUE OF CUSTOMER LOYALTY FOR FUTURE BUSINESS GROWTH: A LIVELY DEBATE

How customer loyalty relates to customer satisfaction is less clear. Most models are based on the assumption that customer satisfaction determines customer loyalty. Larson takes this a lot further. He says that the consumer expectations with regard to product and service performance are becoming ever higher and that, in a competitive products and services market, these expectations must be constantly surpassed. Consequently, it is becoming increasingly difficult to satisfy customers. However, if this does not happen, loyalty will decrease. Therefore, the aims need to be ever higher.

In contrast to that, Neal states that customer satisfaction shows little direct relationship to customer loyalty. Customer satisfaction measurements are a good way of monitoring performance. However, according to him, researchers and customer relationship managers have not managed to produce loyal customers using customer satisfaction surveys. Neal maintains that ultimately it is the value delivered that predicts loyalty and the customer's choice. In addition, value is influenced by price, product/service deliverables and brand equity. Customer satisfaction must achieve a minimum acceptance level in order for a product or service to remain in the purchaser's consideration set. An increase in satisfaction does not automatically lead to a higher share in purchasing. In the end, it is the value structure that an individual ascribes to a product that determines whether that product will be bought. Brand value equation models allow this value structure to be measured.

Lele et al also claim that the relationship between a superior customer service and a company's bottom line is complex. They tested the relationship between customer satisfaction and the performance of a number of companies within twelve business sectors using a database from the 'Voice of the Customer' surveys. Their conclusion is that customer satisfaction influences consumer behaviour: "The higher the customer satisfaction level, the more likely customers are to buy the product or service again, the more likely they are to recommend it to other buyers and the greater the number of recommendations". However, they also state that the link with profitability is much less clear.

Given this variety of ideas and opinions, what would be the best way of keeping a finger on the pulse? How to learn the most about an organisation's performance and the future success that will stem from it?

In many surveys aimed at monitoring performance, questions are asked about recommendation and repurchasing intention. Often these questions are used to put loyalty into practice.

Research (Kroenert et al, Crosby) shows that repurchase intention and recommendation are probably better predictors of future purchasing behaviour than overall satisfaction. They also show that a loyalty index based on repurchase, future purchase levels and reference ability shows a strong correlation with future revenue growth. Reichheld goes much further: according to him, only one question has to be asked for the prediction of future behaviour, namely the recommendation question.

Many studies in this field have a limited scope, since they are either cross-sectional or are based on aggregated data. We are not aware of any large-scale longitudinal studies that measure the relationship between recommendation scores and follow-up behaviour on an individual level, for instance.

For us – Philips and Interview-NSS – this is a reason to design and perform this experimental study, in which we have tested Reichheld's statement in a large-scale longitudinal survey on an individual level.

CUSTOMER SATISFACTION SURVEYS AND CUSTOMER CARE AT PHILIPS

Customer satisfaction surveys at Philips

In general Philips evaluates the effectiveness and performance of all consumer touch points systematically, such as product and packaging experiences, customer care, advertising, websites and PR initiatives.

For example, after experiencing the product for some time, customers are approached to take part in a survey. All aspects, such as the out-of-the-box experience, installation and usage are included in this. The results of the survey are frequently used within the organisation in order to introduce further improvements and to enable the future product range to be better coordinated to consumer requirements.

Customer care at Philips

Philips has an extensive global customer care operation, which is regarded to be an important consumer touch point. Here a rigidly uniform approach is employed worldwide, in which a very limited number of vendors are used. Customers can ask for support by phone, via e-mail, e-chat or letter, concerning products that they have purchased (after-sales), or for information concerning products that they are interested in (pre-sales). In this way several million contacts are made with (potential) customers each year.

The performance of these activities is structurally measured by an event-driven customer satisfaction survey. Customers are asked about several aspects of the service received, as well as about their intention to recommend the brand. Extensive root cause analysis programs and systematic improvement planning are part and parcel of the PDCA cycle. Fieldwork is done by phone (for those customers who contacted Philips by phone) and e-mail (for those who contacted Philips by e-mail).

So Philips also invests a lot of money and energy in its customer care operation. As one of the world players in the area of consumer electronics products and domestic appliances and personal care, it is necessary for customers to be given good after-sales service and support and for potential customers to be given pre-sales information.

Evaluation of customer care at Philips

In addition, Philips needs to know the ultimate added value of its customer care operation. Obviously aiming for an excellent post purchase experience among customers is part of the company strategy, but Philips also looks increasingly critically at the influence of its customer care performance on its ultimate business success.

Part of the modern operational management of Philips includes testing this effectiveness. This was another reason for the experimental survey carried out in the second half of 2004.

The main aim of this survey was to examine the relationship, for Consumer Durable products in general and, more specifically, for Philips Consumer Electronics and Domestic Appliances & Personal Care products, between the customer's (post purchase) product and care experience and future purchasing behaviour.

The survey was designed and carried out in cooperation with INTERVIEWwNSS, a market research bureau established in the Netherlands, with a large experience in conducting international customer satisfaction research. For more than five years INTERVIEWwNSS, commissioned by Philips, has carried out the survey into satisfaction with customer care activities, covering Europe, the United States and Brazil.

EXPERIMENTAL SURVEY

Philips was in an excellent position to do this experimental survey. It owns a database of almost 90,000 e-mail customers (from Europe, the United States and Brazil) who contacted one of Philips customer care centres and who had responded to the e-mail customer satisfaction survey over the last two years (w1). Their satisfaction levels with Philips products and customer care activities and their resulting recommendation intention scores were known.

All these customers could be re-contacted with an e-mail questionnaire to measure their actual purchase behaviour in the period after the first contact.

Objective

The main objective of the survey is to:

• Determine the relation between recommendation intention (w1) and the actual product purchases/brand choices within a certain time period (w2), see figure 2;

• Create a simulation model (for direct and indirect purchases) based on this relation.

With direct purchases we mean products (brand X) directly purchased by the customer/respondent.

Indirect purchases are products (brand X) purchased by persons in the social environment of the customer/respondent, where brand choice – one way or another – was influenced by the customer/respondent.

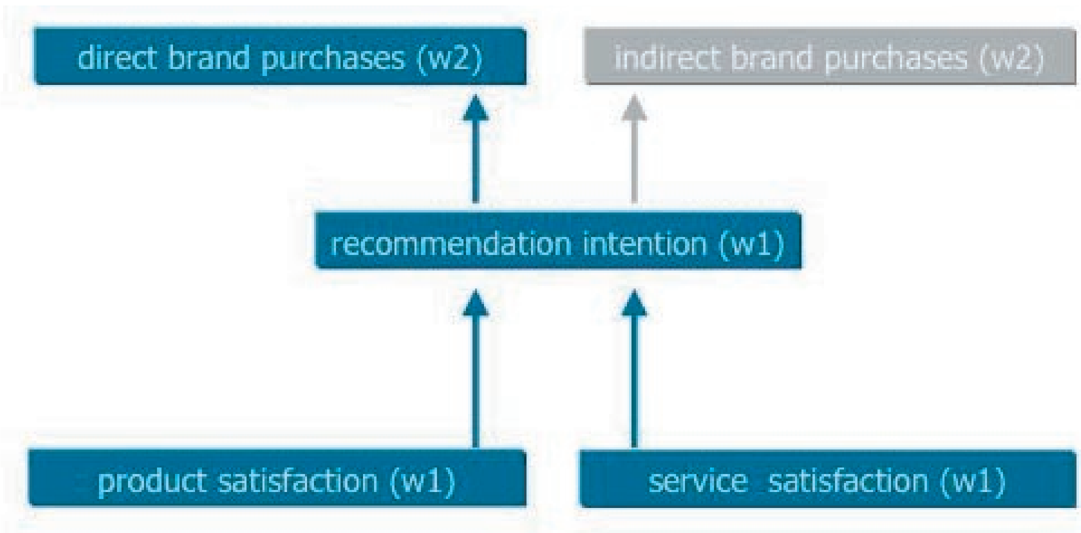
The main underlying hypotheses are:

1. There is a strong positive relation between product and care experience and the intention to recommend a brand;

2. Intention to recommend a brand is a better predictor of actual brand choices than product satisfaction or care satisfaction. This will be strongest at the extreme sides of the recommendation scale used;

3. The effects of negative recommendation on actual brand choices will be significantly stronger than the

FIGURE 2
MAIN MODEL FOR THE SURVEY



effects of positive recommendation;
4. The more often a customer has (positive or negative) experiences with products or services of a company, the stronger the effects of the resulting recommendation on actual brand choices;
5. Negative experiences, as measured by product and care satisfaction, will lead to more "word of mouth" than positive experiences.

Set up of the survey

Since 1998, Philips has regularly measured customer satisfaction with customer care activities. Evaluation is done via telephone survey (for those customers who have requested telephonic support) and by e-mail (for customers who have asked for support by e-mail).

Questions asked in the survey include:
• did the support request concern after-sales or pre-sales;
• satisfaction with product (after-sales only);
• overall satisfaction with service received;
• number of people customer has spoken to about service experience (WOM);
• satisfaction with aspects of service;
• recommendation intention.

For the experimental study the e-mail database was used (w1). Customers who took part in the e-mail survey in the period from April 2002 to June 2004 received a questionnaire between August 2004 and October 2004 (w2) in which the following questions were asked:
• have you purchased one of the following products (12 products relevant to Philips, both consumer electronics and domestic equipment appliances and products for personal care) since (date of first survey);
• brand purchased;
• performance of product;
• number of people spoken to about product (WOM)
• recommendation intention;
• brand actually recommended;
• has the actual recommendation resulted in a product purchase (direct or indirect).

Variables and terminology used

An abundance of variables and information was available in the survey. For this paper the most important of these are:

Key figures:
• Database w1: customers who asked for support or showed interest in a Philips product; 88,382 respondents, fieldwork period April 2002 - June 2004;
• Database w2: re-contacts of w1; 24,109 respondents, fieldwork period August – October 2004.

Most important variables from w1 are:
• Product satisfaction (if customer has purchased a product);
• Care satisfaction;
• Number of people customer has discussed service experience with;
• Recommendation intention;
• Variables w2 (re-contact of the w1 database):
• Product purchase (12 categories);
• Which brand;
• Product performance (brand level);
• The number of people customer has discussed product with;
• Recommendation intention;
• Actual recommendation;
• Has recommendation resulted in purchase.

Key indicators for revenues measured in w2 are:
• Product purchase;
• Total amount spent on certain brands;
• Share of category: number of products of a certain brand divided by total number of products (SOC);
• Share of wallet: share of a certain brand in total amount spent (SOW).

Analysis

In step 1, the data have been cleaned. In this phase, records are filtered whereby respondents in w2 indicate that they have purchased the product discussed in the first interview. Obviously, in that case the possibility that they are actually talking about the same product that they were interviewed about earlier cannot be ruled out. In addition, financial values (in line with market conditions) are ascribed to the products purchased. This makes it possible to use not only the purchase or non-purchase of a Philips product as a target variable, but also an estimate of the value.

The second part of the analysis consists of modelling. With (logistical) regression analysis, the contribution of the separate performance and recommendation items to the target variables is determined, whereby both direct and indirect brand purchases are used as target variables.

The analysis is further refined in a third step whereby an accumulated product choice file is used to test which respondent variables contribute to the explanation of the (Philips) brand choice. These are the 'control' variables, such as respondent's country of origin (e.g. possible cultural factors determining different scale of use), period between w1 and w2 (effect of forgetting), the number of products that respondents have bought, the individual products and age and gender of the respondents.

During the analysis, the above-mentioned hypotheses are tested first. Then two models are developed in which the effect of recommendation on future purchasing becomes visible.

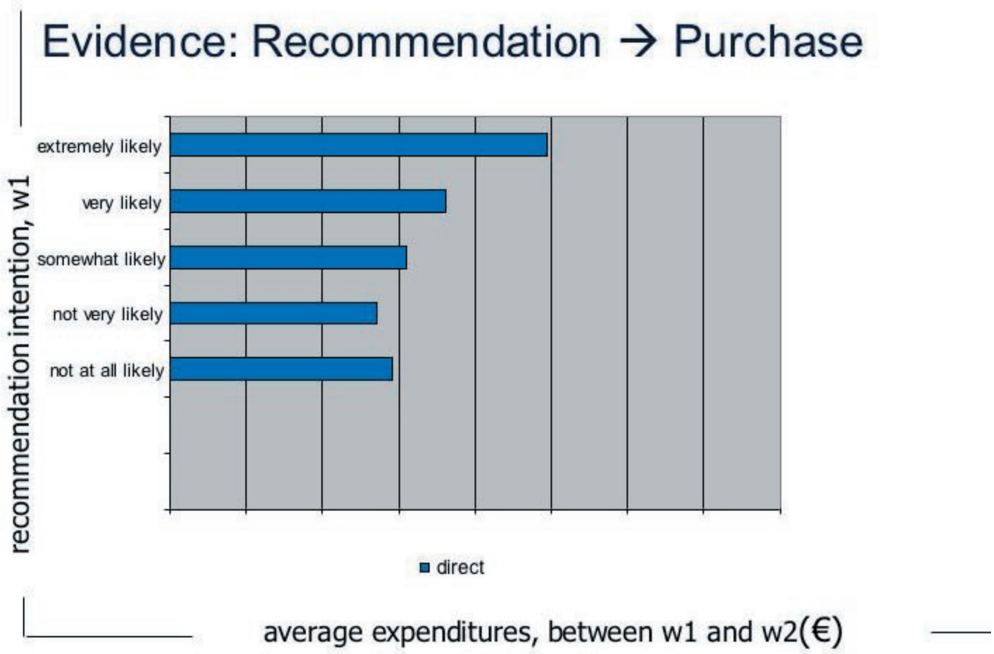
RESULTS FROM THE EXPERIMENTAL SURVEY

The predictive value of satisfaction and recommendation

In w1 product and care satisfaction, as well as recommendation intention, have been determined. The correlation between product satisfaction and recommendation intention is .63; the correlation between care satisfaction and recommendation intention is even higher: r=.73. Regression analysis shows that product satisfaction and care satisfaction have an equally large impact on recommendation intention in w1 (ß=.28).

On the other hand, there is barely a relation between product (Đ =.07)[1)] and care satisfaction (Đ=.04) in w1 and actual brand choice behaviour in w2. The relation

FIGURE 3
RECOMMENDATION VS. PURCHASE (DIRECT)



between recommendation intention (w1) and actual brand choice behaviour (w2) is somewhat stronger (Ð=.12). This confirms the hypothesis that recommendation intention is a better predictor of actual brand choice behaviour than product or care satisfaction. Figure 3 shows the relationship between recommendation intention (w1) and average expenditures in w2.

However, the hypothesis that the effects of a negative recommendation intention are significantly stronger than a positive recommendation is not confirmed. It seems that only 'extremely likely' means a stronger positive effect, and it seems that there barely are differences with regard to actual purchase behaviour between the three "bottom scores", 'somewhat likely', 'not very likely' and 'not at all likely'.

The results show that concerning direct effects, even a low score on recommendation intention in w1 still goes hand in hand with purchases in w2. Only the amount the bottom 3 scores group spends is much lower than for those who score 'extremely likely' on recommendation intention. This confirms that apart from experience that has led to high or low recommendation intention, other factors play a role in future purchase and brand choice behaviour, such as:

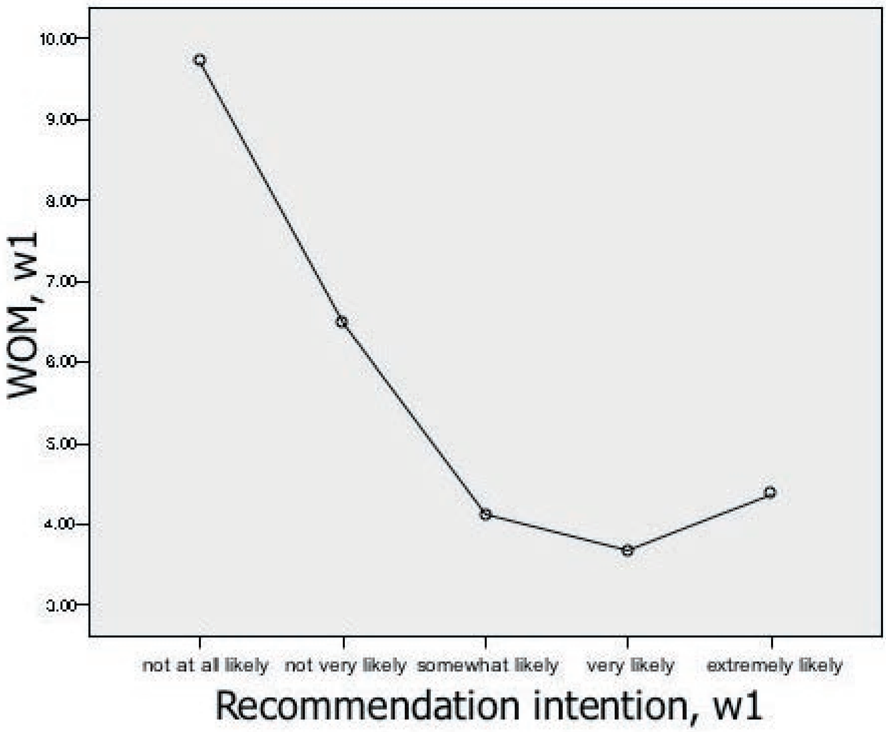
- Other experiences with Philips and competitors;
- Effects of other marketing mix variables, such as advertising and price;
- Influence of shop staff on brand choice.

Besides these results may be typical for a company that sells a great variety of different products under one and the same brand name. Positive experiences with one product do not automatically result in a brand preference for all other products. On the other hand, negative experiences with a product do not exclude that one might choose the brand when buying another product.

Word of mouth

In both w1 and w2 respondents were asked for the number of people with whom they spoke about their experiences (word of mouth, WOM). In w1 this specifically concerned the service experience

FIGURE 4
RECOMMENDATION VS. WOM (W1)



(measured two or three weeks after that experience), in w2 the experience with the purchased product (measured 3-18 months after the purchase of the product). The pattern in w1 (see figure 4) is different from the one in w2: in w1 especially the group 'not at all likely' talks with many people.

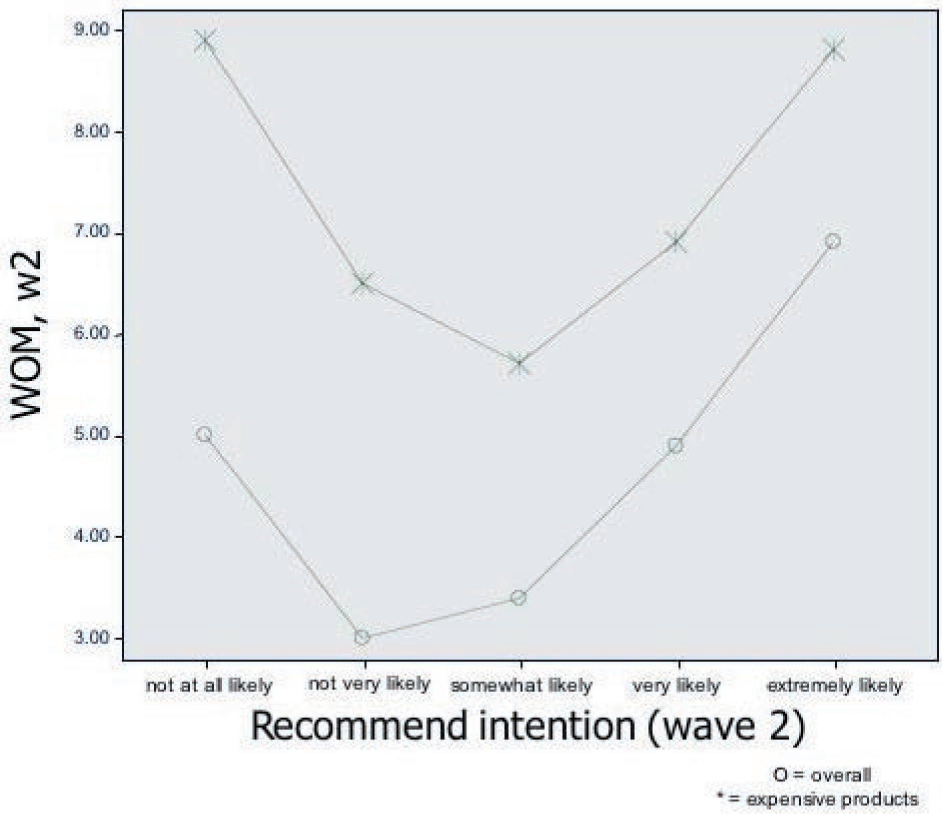
In w2, on the other hand, mainly the group that is 'extremely likely' to recommend their purchased product speaks with many people. For all products together, the pattern is less extreme here: this could be because an experience with products lead to less explicit WOM patterns, but that is not entirely self-evident. It could also be that the fact that the (w2) recommendation and WOM questions were only asked after customers already had experience with this product for a longer time is misleading. Due to this, among other things, the effects of forgetting could have played a role.

The pattern of recommendation for more expensive products is more extreme: both 'extremely likely to recommend' as well as 'not at all likely to recommend' lead to a WOM of average 9, suggesting that the "monetary risk" and/or the "status" of the product may play a role in WOM.

On a respondent level, there is a big difference between the WOM in w1 and w2. So it is not the case that people who speak with many people in w1 also do it in w2, and vice versa.

The conclusion seems to be that concrete product experiences are (mainly) talked about if they are very good or bad, while the contact with the helpdesk is only talked about when the experience was very bad. This creates an additional risk in case of a bad care experience.

FIGURE 5
RECOMMENDATION VS. WOM (W2)



Double experiences
In the database (w2) we come across consumers who bought more than one product. We examined whether (double) positive or (double) negative experiences have influence on WOM and actual recommendation. Based on their experiences, the customers who bought two products are divided into five groups:
• Double negative: a negative experience with both products
• Negative: a negative experience with one product and a neutral experience with one product
• Mixed: a positive experience with one product and a negative experience with the other product, or a neutral experience with two products
• Positive: a positive experience with one product and a neutral experience with one product
• Double positive: a positive experience with both products

There clearly appears to be a 'multiplier-effect' when it comes to recommendation. Multiple positive experiences increase the recommendation intention and negative experiences lower it. (See table 1)

We observe comparable effects when analyzing double positive or double negative effects for customers with both product and care experiences.

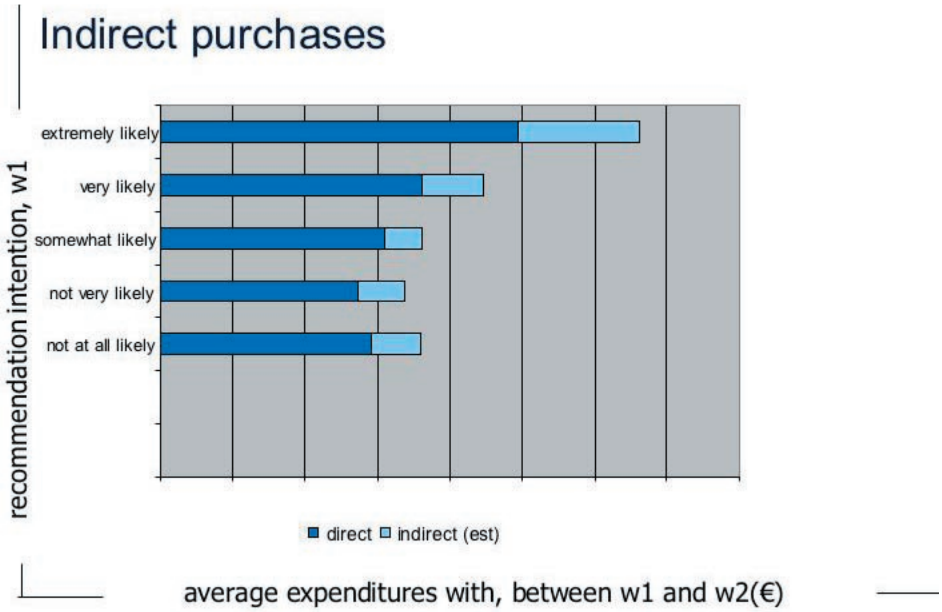
Indirect effect
Based on the results of w2, a model with the target to determine the indirect sales was developed.

A conservative estimate was made for this purpose. Here the assumption is that everyone in w2 who claimed to have recommended a product to someone, and where that recommendation resulted in a purchase, has created one indirect purchase. The value of this purchase is then equal to the value of the own purchase. Also here it seems that 'extremely likely' has the biggest effect.

TABLE 1
DOUBLE EXPERIENCES

	RECOMMENDATION INTENTION (average)	ACTUALLY RECOMMENDED (%)
Double negative experience	1.84	15
Negative experience	2.63	31
Mixed experience	3.24	44
Positive experience	3.73	58
Double positive experience	4.26	72
Total	3.79	59

FIGURE 6
RECOMMENDATION VS. PURCHASE (DIRECT + INDIRECT)



This w2 recommendation is strongly influenced by the experiences with the products purchased in w2. It may well be that a customer who scored low on recommendation intention in w1, purchased a product in w2 and had very positive experiences with it. Such positive experience will have influenced the willingness to recommend the brand to friends and relatives in w2. Therefore the relationship between indirect purchases w2 and the recommendation intention scores from w1 is less direct than that of the direct purchases w2.

When looking to what extent experiences with products in w2 are translated into w2 recommendation and actual (indirect) purchases, it is obvious that those "extremely likely to recommend the brand" score much better than all others.

Based on the assumption that everyone in w2 who claimed to have recommended a product to someone, and where that recommendation resulted in a purchase, has created one indirect purchase we can observe that every 100 direct purchases in w2 result into 15 indirect purchases in w2. However, for those in w2 scoring "extremely likely to recommend", this is 30 (indirect) for every 100 (direct), for those scoring "not very likely" or "not at all likely" this is less than 2 for every 100. This indicates that the indirect effects presented in figure 6 may well be too optimistic for the low side of the scale (they may in reality be smaller) and too pessimistic for the upper side of the scale (in reality they may be larger).

However, the data from figure 6 are the best estimates for the "indirect effects" observed in w2 on the recommendation intention scores obtained from w1 presently available: that is why we will also use these data for our simulations, presented in the next section of this paper.

Further experimentations, actually taking place while writing this paper, will hopefully shed more light on the direction and magnitude of the indirect effects of recommendation intention on product purchases by those who received these recommendations.

What if: Simulation models
The data made available by the survey make it possible to create a simulation model. This model shows what the effects of changes in recommendation intention scores on the revenue are. The following variables are used in the model:
• Recommendation intention (w1)
• Average purchase behaviour (direct and indirect) (w2)

The above-described assumption was used in the calculation of the indirect effects. The percentages of recommendation intention that appear next to the current situation display the average of all brands together, so not just that of Philips. For the average expenditures an index is used, for which the value of 'not at all likely' is set at 100.

Simulation 1 shows that with an average improvement of the recommendation scores the average expenditures rise by 10%.

At the moment when the top-1 of recommendation intention (extremely likely) gets a high score (50%), the average expenditures rise by 24%.

These simulations clearly demonstrate that increase in customer satisfaction and resulting increase of recommendation intention are strong ammunition in the daily fight for market share and turnover. Especially nowadays with many stagnating markets, companies will have to generate business growth at the expense of the market share of its competitors.

The average expenditures used for these simulations are compounded based on direct and indirect purchases. Concerning indirect purchases, for each position on the recommendation intention scale it is known whether it led to actual recommendation and whether this led to an indirect purchase.

However, here a fundamental weakness of the "recommendation" scale we (and many) use comes

TABLE 2
EFFECT OF RECOMMENDATION ON AVERAGE EXPENDITURES (1)

RECOMMENDATION CATEGORY	CURRENT SITUATION (%)	AVERAGE EXPENDITURES PER CATEGORY (index: n.a.a.l. = 100)	TARGET SITUATION (%)
Extremely likely	19	184	30
Very likely	29	124	35
Somewhat likely	28	100	15
Not very likely	13	94	14
Not at all likely (n.a.a.l.)	10	100	6
Total	100		100
	index		index
Revenues (index, current = 100)	100		110

TABLE
EFFECT OF RECOMMENDATION ON AVERAGE EXPENDITURES (1)

	SITUATION (%)	PER CATEGORY (index: n.a.a.l. = 100)	SITUATION (%)
Extremely likely	19	184	50
Very likely	29	124	35
Somewhat likely	28	100	10
Not very likely	13	94	5
Not at all likely (n.a.a.l.)	10	100	0
Total	100		100
	index		index
Revenues (index, current = 100)	100		124

to light. With this scale, a good estimate of direct and indirect purchases, which are the result of a certain extent of recommendation, can be made. What is not known is whether those with a low score on recommendation intention also cause a negative indirect effect: more specifically, whether they advise friends and relatives against the brand.

What is also not known is whether, in case of active advising against a brand, the dissuaded people who were planning to buy a certain brand change their minds. So in this case there could also be a negative "indirect effect". It is very possible that this happens, but from the data obtained on the basis of a "recommendation" scale, which only includes positions that can measure the extent of recommendation, the magnitude of this event cannot be determined. This must be frustrating for everyone who works with the effects of positive and negative product or other experiences.

It seems to us that the market research world should give this problem high priority. For Philips and INTERVIEWwNSS this will certainly be the case!

IMPLICATIONS OF RESEARCH FINDINGS FOR PHILIPS

For a while already Philips is critically looking at how best to measure customer satisfaction and loyalty. That is also the reason for our involvement in this and other experimental research designs.

This involvement is also meeting the growing need of the marketing community to translate the effects of marketing investments (such as the costs and effects of loyalty building) in financial terms. We can refer to the new book of Kotler, *According to Kotler*. In this book he stresses the need for "accountability", as he observes a growing demand for this from the side of the CEOs. And this demand is certainly also put to the marketing departments.

Within Philips there is a growing demand for insight into what results from the experience of our customers in the "post-purchase" phase. We can refer to our new company theme "Sense & Simplicity": we want our customers to have a long-lasting and fully satisfying experience with our products, once they have bought it.

We have introduced Consumer Experience Centers, where we can measure elements of the post-purchase experience (such as unpacking of products, directions for use) and we are increasing our investments in customer satisfaction and loyalty measurements.

It must be stressed that the results of the experiment presented in this paper are relatively "fresh" and still need to be fully absorbed by the Philips organization.

However, based on what we have learnt so far we have already decided to introduce "recommendation" as one of our KPIs and to define targets for all customer satisfaction measurements based on it.

We are further experimenting with the 10-point recommendation scale. One of our prime areas of interests is to learn more about the relation between the scores on the various scale positions and actual recommendation behaviour. As an example we want to learn more about the claim of Reichheld, that customer scoring on the bottom 6 positions must be regarded to be "detractors".

Furthermore the phenomena of WOM and indirect effects will get more of our attention.

We need to get a better understanding of the character and magnitude of these.

The fact that recommendation is a better predictor of future business growth may influence the design of future questionnaires for recommendation and loyalty studies. It may well be that we will be able to shorten them.

One of the outcomes of this experimental research to management is that it has confirmed the overwhelming power of a superior performance in all (product, care, service) activities we do. Only a performance so good that customers say they are strongly willing to recommend the brand will give us future loyal customers. And without these ... there probably is no future.

RESEARCH CONCLUSIONS AND RECOMMENDATIONS

1. In this large scale and longitudinal experiment, "satisfaction" and "recommendation intention" were both used to evaluate customer experiences with Philips products and customer care and the resulting purchasing and brand-choice behaviour.

Though there is a clear correlation between both, "recommendation intention" is clearly the best predictor of such behaviour. We expect this is true for any customer satisfaction measurement. It is therefore strongly advised to include "recommendation intention" as one of the key KPIs in such research. The results of our experimental survey strongly support Reichheld's statement.

2. High scores on the top (="extremely likely to recommend") position of our 5-point recommendation scale lead to twice as many Philips purchases than obtained from neutral or negative recommendations.

3. Both very positive and very negative product experiences lead to high levels of Word of Mouth. More neutral product experiences lead too much lower levels of W.O.M. W.O.M. can result into "indirect purchases". In the case of experiences with customer care this pattern is different: only very negative experiences coincide with high levels of W.O.M.

4. Multiple positive or negative experiences strengthen the effects above.

5. The recommendation scale used by nature assumes recommendation. Accordingly dissuasion is not a part of the scale positions. However, experiences can be so negative that they result in active "advise against" behaviour. All this speaks for the development of a scale that includes a number of "recommendation", as well as a number of "advise against" positions. Such a scale, coupled with W.O.M data, would also provide the best possible insight into the total "indirect effects".

MANAGEMENT CONCLUSIONS AND RECOMMENDATIONS

1. The strongest positive and negative effects on actual purchases are obtained at the extreme sides of our five-point recommendation scale. Any performance that is "just okay" does not bring about a positive business growth. In general it must be concluded that any significant positive loyalty effect can only be obtained if a company delivers an excellent performance (e.g. in product or customer care), which leads to as many customers as possible that are "extremely willing" to recommend the brand to others.

2. More specifically it can be stated that high scores on "extremely willing" to recommend the brand result in significantly higher future purchases by the one recommending the brand than by those scoring low on the recommendation scale.

3. For product experiences high recommendation scores also lead to high scores on word-of -mouth and strong "indirect effects" (purchases by those to whom the brand was recommended). Positive experiences with care are shared less with friends or relatives, probably a positive care experiences is what is expected anyway.

4. High scores on the lower positions of the recommendation scale result in much weaker future purchases by the one recommending the brand; they also result in strong negative word-of- mouth and this is so for product and especially for care experiences. Such negative W.O.M. may even result in active "advise against" behaviour and may make potential purchasers refrain from buying the brand.

5. It is advised that all business processes which have a direct or indirect influence on the customer's experiences with a company's products, care or service must be focussed on delivering an excellent performance. In general this does not require any extra investments, but much more an attitude of "doing those things that need to be done anyway, right the first time".

Footnote

1. Because product/care satisfaction (w1) and recommendation intention (w2) are measured on a nominal scale and brand choice (w2) has only two options (yes or no), the eta (Ð) was used to determine the relation.

References

Reichheld, Frederick F. (2003). The One Number You Need to Grow. Harvard Business Review, December.

Crosby, Lawrence A. and Johnson, Sheree L. (2005). Growing Up. MM, March/April.

Larson, John A. (2000). The importance of Expectations. MM, Winter.

Neal, William D. (1999). Satisfaction is Nice, But Value Drives Loyalty. Marketing Research, Spring.

Lele, Milind L.; Pingitiore, Gina and Rees, Mark. (2005). Reaping Rewards. Marketing Research, Spring.

Kroenert, Rob, Spalding, Leah, Cooper, Brian and Liz, Le. (2005). Making the Link. Marketing Research, Spring.

Crosby, Lawrence A. and Johnson, Sheree L. (2002). Managing the Future. MM, November/December.

The Authors

Ton Otker is Senior Manager Consumer and Market Intelligence, Philips Consumer Electronics, Netherlands.

Maarten Schellekens is Vice President Market Intelligence, Philips Domestic Appliances and Personal Care, Netherlands.

Harm van Leeuwen is Research Director, Interview-NSS, Netherlands.

Reinier Heutink is Director, Interview-NSS, Netherlands.