MANAGING SATISFACTION IN THE AUTOMOTIVE INDUSTRY: THE ECONOMICS OF SAVING EXPECTED DEFECTORS

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ABSTRACT

This research was designed to empirically understand whether "intending" defectors (those who were *completely* dissatisfied with their product and *definitely* would not repurchase the brand when next in the market) could be regained as customers. Additionally, the variable "amount of time since the complete dissatisfaction was reported" was also tested. Three groups of automotive customers (200 subjects per group) took part in the study. All subjects had purchased or leased a new vehicle within the past 18-30 months. There were two experimental groups (Group 1 reported their dissatisfaction within the past 90 days; Group 2 reported their dissatisfaction 90-180 days previously) and one control group. Each subject in each Experimental Group was telephoned by the intervention team and an attempt was made to completely resolve their dissatisfaction. For Groups 1 and 2, 85.5% and 83% had their dissatisfaction resolved, respectively. For Groups 1 and 2, 47.4% and 29.5%, respectively, repurchased the brand at their next opportunity. In the Control Group, aside from 4 subjects who accidentally had their problems resolved, defection was 100%. The following general conclusions were reached: (1) unresolved complete dissatisfaction (addressed or not) leads to 100% defection; (2) timely resolution of dissatisfaction can lead to a regain rate of close to 50%; and (3) the longer the dissatisfaction is allowed to sit, the less chance of regaining the customer.

BACKGROUND

The study of customer satisfaction, loyalty, and defection has occupied marketing and customer relationship management (CRM) researchers for over 40 years. Cardozo (1964), Olshavsky and Miller (1972) and Anderson (1973) provided much of the original theory which established the foundation for all subsequent research.

The earliest satisfaction theories examined and tested some portion of the linkage of the disconfirmation paradigm, i.e., the discrepancy that arises when product performance fails to meet consumer expectation. In this theory, the size of the disconfirmation generates the degree of satisfaction or dissatisfaction. Prior to the early 1980s, no study had investigated all the interrelationships among expectations, performance, disconfirmation, and satisfaction. Churchill and Surprenant (1982) discovered that these interrelationships might differ for durable vs. non-durable products, in other words, the satisfaction process might differ across product groups. Day (1977) also suggested that the consumer satisfaction process might be different across products.

The disconfirmation paradigm was supported by the work of Cadotte, Woodruff, and Jenkins (1987) and expanded to include not only expectations as a standard for determining satisfaction but also (1) experienced based norms; and (2) the specific situation. The importance of this work was that it demonstrated that the explanation of the satisfaction process was not limited solely to a single standard.

As customer satisfaction research was expanding, customer/brand loyalty was beginning to emerge as a concept, Cunningham (1966) viewed brand loyalty as a "proportion of purchase" measure while Kahn, Kalwani, and Morrison (1986) saw it more as a "purchase sequence" metric. Later researchers like Cooil et. al. (2007) would describe customer loyalty in "share of wallet" terms. By the early 2000s, it was on everyone's mind. Bell (2002), surveying a composite of global CEOs, found customer loyalty and retention as the most important challenges that companies faced at that time.

The initial notion was, at least superficially, that customer satisfaction led to brand loyalty. Gradually this premise was deemed flawed. Deming (1986) articulated that it was not sufficient to merely have satisfied customers; Jones and Sasser (1995) stated that satisfying customers was not enough to keep them loyal; Reichheld (1996) noted that satisfaction, as a tool for predicting whether a customer will purchase more of the company's products and/or services, was grossly imperfect; and Oliver (1999) stated that satisfaction did not universally translate into loyalty. In earlier research, Oliver (1997) demonstrated that while there was a distinction between satisfaction and loyalty, they were also inextricably linked. As research was making clear, satisfaction was but a single element in the loyalty equation.

Equally important was Relationship Commitment. Morgan and Hunt (1994), Bendapudi and Berry (1997), and Fullerton (2003) identified and expanded upon two dimensions of relationship commitment that impact loyalty: (1) *affective commitment* is the emotional attachment/involvement that a customer has including a dimension of trust, while (2) *calculative commitment* is the rational cost/benefit analysis that accompanies brand switching. Gustafsson et.al. (2005) point out that satisfaction is a "backward looking element", i.e., a function of performance to date while the commitment dimensions are more "forward looking". The

commitment factors really represent the strength of the relationship moving forward.

As the loyalty models expanded and became more complex, researchers began to focus their attention on the economics and intricacies of defection. Although customers can defect for a variety of reasons (e.g., in addition to being dissatisfied, they can be "conquested" by a competitor, change life stage or lifestyle, or just want variety), this analysis focuses solely on defection because of dissatisfaction. Defection can manifest itself in two separate ways – actual and intending. In actual defection, the customer, with or without warning, stops using the product or service, i.e., is lost. One of the most confounding elements of this action is that the customer may have expressed relative satisfaction with the product or service prior to the defection. Many explanations have been offered for actual defection. Jones and Sasser (1995) suggested that companies often attract the wrong customers and/or have an inadequate process for mitigating a bad product or service experience. Bell, Auh, and Smalley (2005) postulated that technical quality (quality of the service output) is a much stronger driver of defection than functional quality (the interaction between the service provider and customer. Chandrashekaran et. al (2007) believed "strength of satisfaction" was the key element in identifying customer vulnerability towards defection. In the second instance, intending defection, the customer has not actually defected but has provided some type of indication (usually through a satisfaction instrument or complaint mechanism) that he/she intends to defect when the opportunity next presents itself.

While there is considerable disagreement regarding the factors specifically driving defection, there is universal consensus that the economics of recapturing actual/intending defection customers is highly positive. Unfortunately, much of the knowledge we have about regaining lost customers comes from the telecommunications industry (and the

accompanying price wars) or is anecdotal. Reichheld (1993, 1996), drawing from his consulting experiences, concluded that reducing defection by as little as 5 points (e.g., from 15% to 10%) could double profits. He also cited MBNA as being able to increase profits by 60% within 5 years due to a 5% increase in the customer retention rate. Griffen and Lowenstein (2001) stated the average firm loses 20-40% of its customers per year and that a company was 2-4x more likely to make a sale to a lost customer as opposed to successfully closing a brand new customer. Stauss and Friege (1999) use the term "regain management" to define their conceptual process of winning back the two types of defecting customers -- **actual** (have already defected) or **intending** (who have given notice that they intend to terminate the relationship). While they identified five types of terminating customers (intentionally pushed-away customers, unintentionally pushed-away customers, pulled-away customers, bought-away customers, and moved-away customers), their purpose, like ours, was to focus on customers defecting because of dissatisfaction. In this respect, the "intending" unintentionally pushed-away customers are the sole focus of this research effort since this is far and away the largest group and, also, because some of the other groups (pulled-away customers, bought-away customers, and moved-away customers) are not necessarily leaving for "dissatisfaction" reasons while the intentionally pushed-away customers are not desired customers. Unintentionally pushed-away customers are customers who intend to defect for any of the following reasons: (1) the company's product and/or performance fail to meet the customer's expectations; (2) the company is not responsive to the customer's desires; or (3) because the customer is treated badly.

Stauss and Friege's (1999) conceptual process consisted of three steps:

1. regain analysis (who has defected and why?);

2. regain actions (what is the appropriate regain offer?); and
3. regain controls (what is the profitability of the regain action?).

Stauss and Friege postulated that the value of regained customers often exceeds the value of newly acquired customers because of several reasons, namely: (1) the regained customer is typically already familiar with the products/services being offered; (2) the company will most probably have considerable data about the likes and dislikes of the regained customer and be able to make more targeted offers than they would with any first-time customer; and (3) the personal interaction and recognition that accompanies whatever action "regains" the customer will likely generate a higher sales performance than an anonymous first-time customer.

The complexity of the Stauss and Friege model makes it extremely difficult to test all aspects of the model simultaneously. Additionally, many important aspects of the customer regain process will vary by product category. For example, regain actions for one product category will be inappropriate, impractical, or cost prohibitive for another. As an example, product replacement as a regain action makes sense for many lower price products but not for higher priced products. In some industries, such as telecommunications, most regain strategies are price related. In the marine industry, most regain strategies center on resolution of service issues. Thomas et. al. (2004) addressed and tested the Stauss and Friege framework utilizing only price related regain actions. No other regain actions were tested. Critically lacking in the Stauss and Friege (1999) framework is:

1. an understanding of the percentage of customers who might be potentially "regained" ;
2. whether the timing of the intercession (regain action) is important; and
3. whether a financial model can be formulated that demonstrates the

profitability (or lack thereof) of interceding with dissatisfied customers.

This research will investigate the above questions and address the following hypotheses:

Hypothesis #1: Intended defectors cannot be regained; and

Hypothesis #2: The timing of intercession on intended defectors does not affect the regain rate.

The importance of understanding whether intended defectors can be regained, in what numbers, and the importance of the timing of intercession on intended defectors, has major implications for the entire customer satisfaction measurement industry.

RESEARCH METHODOLOGY

The measurement of satisfaction serves three (3) distinct purposes: first, it is a customer contact/touch point; second, it is an informational tool; and third, it's a diagnostic tool. Let's discuss each of these purposes briefly. During the ownership experience, manufacturers and/or dealers have several opportunities to have contact or "touch" their customers. It is well documented that: (1) consumers weigh (among other things) the positive cumulative value of these contacts/"touches" when deciding whether to repurchase a product; and (2) the fewer the contacts/"touches", the higher the likelihood of customer defection.

As an informational and diagnostic tool, satisfaction measurement is a window into the customer's mind and can provide significant insight into a customer's intent with regard to loyalty, retention, and defection. Customers satisfied with the "right things" (i.e., items that drive defection like "getting things fixed right the first time") are

much more likely to repurchase, i.e., be retained as owners while *dissatisfied customers often defect* (for non-essential products, e.g., recreational products, customers may defect in two ways: one option is they can switch to another brand; or a second, more devastating option is they can elect to leave the entire category and spend their recreational dollars elsewhere). Defection (either type) represents a direct impact to the manufacturer/dealer in the form of lost revenue. However, in many ways just as detrimental to the manufacturer/dealer are customers' networks (everyone they know) representing a less thought about indirect impact, that is, customers inform some portion of their network of contacts about their experience(s) with the manufacturer/dealer (good or bad) – *the pass-along effect* (see, for example, Blackshaw (2008)) . Generally speaking, negative experiences will get more airtime than positive experiences. Again the potential is for gained (positive "pass-along") or lost (negative "pass-along") revenue. The pass-along effect has new meaning in the ever expanding internet world. There are complaint and gripe sites (company and product specific), Facebook, blogs, communities, etc. all designed to provide a wealth of information about practically any product to those who are interested.

In the automotive industry, customer satisfaction is typically measured at several intervals and across several topics. Besides assessing the initial quality of a vehicle, there are comprehensive sales, service, feature, and dependability surveys. Each of these surveys may entail a wide variety of questions but always contain a sequence of questions which inquire as to the following:

a) the consumer's overall satisfaction with the product
b) the consumer's repurchase intention with respect to the brand

Additionally, each of the above items has an open ended section with space to provide comments as to reason for the

selection made. Some auto manufacturers measure overall satisfaction and repurchase intention with 5 points Likert type scales ranging from completely satisfied/definitely will repurchase to completely dissatisfied/definitely will not repurchase.

For this research, the authors were provided with 1,500 individuals from a major automotive manufacturer who met the following conditions:

1. they had originally purchased/leased their vehicle new and had owned/leased their vehicle for between 18 and 30 months;

2. they had completed a service survey [covering service department, warranty, the service process, and maintenance and repair problems] within the past 180 days;

3. they were "expected" defectors (completely dissatisfied with the product and definitely would not repurchase the brand when next in the market);

4. their dissatisfaction was with a brand controllable attribute (see Figure 1).

Controllable and uncontrollable attributes have been referred to in marketing literature as situational and reactional triggers. Roos (1999, 2002) describes these triggers as follows: a situational trigger is based on something that happens outside of the control of the brand, e.g., a demographic change in the family, a job change, or a change in the economy. A reactional trigger is a critical incident that the brand controls – like fixing a product correctly the first time the problem is presented.

Figure 1

Controllable vs. Uncontrollable Brand Attributes
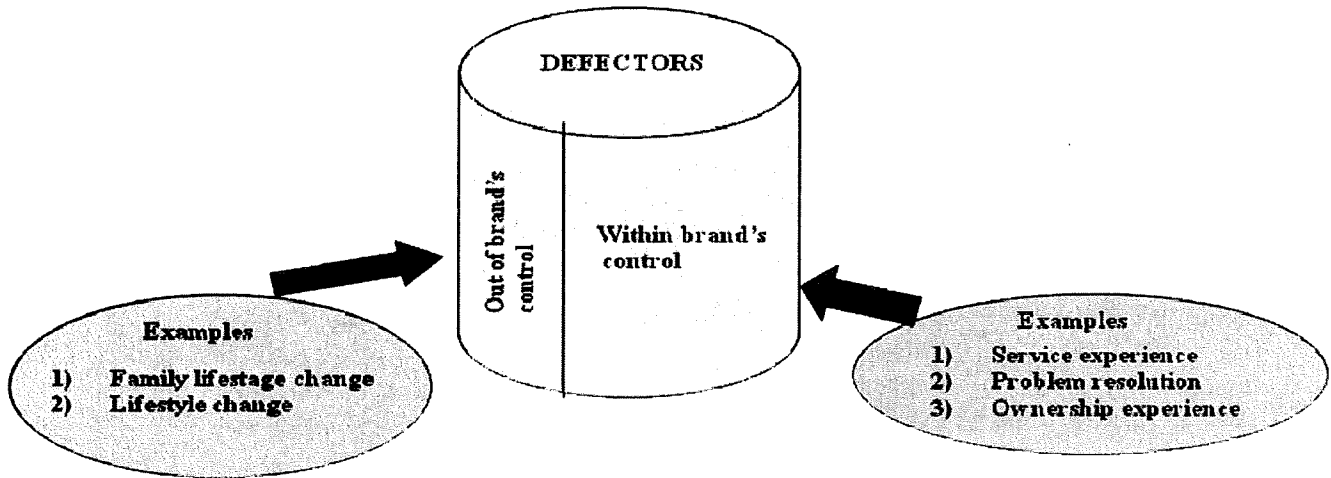
The 1500 individuals owned products which represented a good cross section of the models produced by the automotive manufacturer. The sample of 1500 was first broken down into those who had completed a survey in the past 90 days (841) and those who had completed a survey from 91-180 days previous (659). Three hundred (300) participants were selected randomly from each group. One hundred (100) were assigned to a control group and 200 were assigned to an experimental group. The 100 control participants from each group were combined to form a control group of size 200. Because of random selection and random assignment to groups, the control group "controlled" for geography and automobile model. Thus, the final sample consisted of three groups:

Experimental Group #1 – 200 "expected" defectors who had completed a service survey in the past 90 days

Experimental Group #2 – 200 "expected" defectors who had completed a service survey in the past 91-180 days

Control Group – 200 "expected" defectors - 100 each from the pool that formed each experimental group. (The control group was combined as a matter of convenience but members were tagged as being from one pool or the other in the event that it was necessary to match members of the control sample back to their original groups.)

CAUSES OF COMPLETE DISSATISFACTION

Automotive service surveys cover a wide range of topics and might include several hundred items to be rated. All the participants in this study were completely dissatisfied for one or more of the following specific reasons:

1) SERVICE PERSONNEL ISSUE

   a. Relationship with service advisor
   b. Knowledge of service personnel

2) SERVICE ISSUE

   a. Improper problem diagnosis
   b. Repair did not correct problem
   c. Repair parts not readily available
   d. Magnitude of problem/type of problem
   e. Number of problems

3) WARRANTY ISSUE

   a. Problem/work not covered by warranty
   b. Cost of non-warranty service

With the Experimental Groups, an attempt was made to intervene in their situation and satisfactorily resolve the "problem" with which they had expressed complete dissatisfaction. As is evident in

Table 1

Saving Expected* Defectors: The Evidence From Automotive

	Control Group	Experimental Group #1	Experimental Group #2
Original Size	200	200	200
Number Intervened	0	200	200
Problem Resolved Satisfactorily	4	171	166
Defector Total	197	119	151
Repurchase Total	3	81	49

* Dissatisfied with a controllable brand attribute, and, further, when next in the market, definitely would not purchase the brand again.

Table 1, a large proportion of each Experimental Group was intervened successfully, that is, their problems were resolved to their satisfaction (85.5% of Group 1 and 83% of Group 2). Twenty-nine individuals in Group 1 and 34 in Group 2 were intervened but did not have their problems resolved satisfactorily; Eighty-one of the 171 (47.4%) in Group 1 and 49 of the 166 (29.5%) in Group 2 whose problems were resolved went on to repurchase the brand. Participants were tracked for two years after the intervention and repurchase was actual repurchase of the brand. To be credited as a brand repurchase, the purchaser was not required to purchase from the same dealer as he/she had originally.

No attempt was made to resolve dissatisfaction in the control group. Quite by accident, four members of the Control Group had their problems resolved by dealers outside of the context of the experiment (even though dealers were instructed to refer any members of the Control Group to the intervention group without any intervention, four Control Group members got their problems resolved). Three of these four individuals ended up repurchasing the brand.

Two final notes regarding intercession and resolution: 1) although resolution was on an individual by individual basis, most resolutions took one of two forms: a) service personnel issues were addressed by a joint apology letter from both the manufacturer and dealer, a change to a different service person, an introductory call from that person, and a discount coupon for future service; and b) service and warranty issues were generally handled by cash back to the customer either for money out of pocket and/or compensation for the inconvenience of whatever incident occurred; and 2) 29 members of Group 1 and 34 members of Group 2 requested what the manufacturer considered an exorbitant amount to resolve their problems satisfactorily (most wanted new vehicles); as a result, the automotive manufacturer declined to do anything further for them at all.

Dealers willingly participated in the program because the entire cost was borne by the manufacturer and they had an opportunity to regain customers deemed likely to defect.

TESTS OF HYPOTHESES

The 'defect vs. regained' results of the three groups can be visualized as follows:

	Control Group	Experimental Group #1	Experimental Group #2
Defected	197	119	151
Regained after Intercession	3	81	49
Total	200	200	200

Hypothesis #1 is tested by comparing the Control Group with each of the Experimental Groups yielding $X^2 = 89.35$ (p<.0001) for Control Group/Experimental Group 1 and $X^2 = 44.76$ (p<.0001) for Control Group/Experimental Group 2. Thus, the hypothesis that intended defectors cannot be regained is rejected.

Hypothesis #2 is tested by comparing Experimental Group1/Experimental Group 2 yielding $X^2 = 11.67$ (p<.001). Thus, the hypothesis that the timing of intercession on intended defectors does not affect the regain rate is also rejected.

Additional Findings

There are several addenda to the tests of hypotheses above, namely:

- **If customer dissatisfaction is ignored, expect nearly unanimous defection** from customers who tell you they: a) are completely dissatisfied with an attribute you control; and b) definitely wouldn't purchase the brand again.

- **If customer dissatisfaction is addressed/acknowledged but not resolved, expect nearly unanimous defection** from customers who tell you they: a) are completely dissatisfied with an attribute you control; and b) definitely wouldn't purchase the brand again, i.e., intervention without resolution creates no value (all 29 in Group 1 and 34 in Group 2 who were intervened but not resolved ended up defecting).

- **For those whose dissatisfaction is positively resolved *in a timely manner*, expect a "regained/saved defector" rate of approximately 50%.** In the experiment, 47.4% (81/171) of Group 1 and 29.5% (49/166) of Group 2 whose problems were resolved satisfactorily repurchased the brand. Overall, the "regained/saved defector" rate for Group 1 was 40.5% (81/200) while Group 2 was 24.5% (49/200) [see item 4 directly below].

- **The longer dissatisfaction remains unresolved, the less chance you have to "regain/save the defector".** In the experiment, 29.5% (49/166) of Group 2 whose problems were resolved satisfactorily repurchased the brand. However, this is a 37.8% decline from Group 1 whose dissatisfaction was addressed sooner, and as pointed out above is significantly less than the regain rate for Experimental Group 1.

- **There was no significant difference in the type of issue for which consumers were regained.** In the experiment, the three types of problems for which consumers expressed complete dissatisfaction were service personnel issues, service issue, and warranty issues. Proportionately, a regained customer

was as likely to come from one group as any other. This suggests that there are no "unregainable" issues only unregainable customers (whose expectations for satisfaction are deemed unreasonable).

DISCUSSION

In summary, ignoring completely dissatisfied customers leads to defection; addressing customer dissatisfaction and resolving it in a timely manner regains nearly half of the completely dissatisfied customers. Unfortunately, many companies outside of the automotive industry regard customer satisfaction expenditures as strictly an expense and have not developed an holistic view of customer satisfaction. For many companies, it is deemed "too expensive" to have owner contact after the first year of ownership. But given these research findings, can a case be made for comprehensive

satisfaction measurement throughout the ownership cycle? Below is a fairly simple way to compare the defector savings versus cost of a CSI program for your business.

Look at your most recent customer satisfaction scores for sales, service, and/or ownership experience and note the percentage of "overall" completely dissatisfied responses. Based on the authors' experience, it's probably in the 3-10% range. Multiply your annual unit sales by this percentage. This number represents your minimum number of highly probable defectors. Take 40% of this number (this is the number you will likely regain/retain by solving their dissatisfaction in a timely manner [see % regained from Experimental Group 1]) and multiply by your average profit per unit (forget that this customer might buy multiple units in the future and/or might "pass along" his negative experience to a potential customer(s) that would end up buying a competitive product;

Table 2

Sample Firm: CSI Cost versus Defector Savings

Annual Sales (Units)	Completely % Dissatisfied (Sales)*	Completely % Dissatisfied (Service)*	# Defecting Customers (Sales)	# Defecting Customers (Service)	"Regainable" Defectors (Sales) - 40%	"Regainable" Defectors (Service) - 40%	Average Profit per Sales Unit	Combined Regained Defectors Savings	CSI Program Cost
1807	4.30%	6.65%	78	120	31	48	$9,600	$758,400	$10,840

*Customers dissatisfied in both areas were only counted once

that is, create a "best case" not "worst case" scenario). Compare this number to your current customer satisfaction expenditure. Table 2 above presents a sample calculation for a firm currently conducting both sales and service satisfaction surveys (customers who indicated complete dissatisfaction in both the sales experience and service experience were counted as a single defection). The percent sales and service dissatisfaction percentages are very typical (service dissatisfaction is usually 30-80% higher than sales dissatisfaction). Note that the positive effect of "regaining defectors" is nearly $750,000. This can easily be compared to the costs associated with saving the defectors. With

198 likely defectors (78+120), this company would likely be exercising unbelievably bad judgment not to have a comprehensive customer satisfaction program, one that maintains contact with every one of its customers throughout the ownership cycle. Keep in mind that the above scenario is just an example based on hypothetical numbers. The only number drawn from the findings of this research is the 40% regain rate.

One additional comment to conclude this discussion – many customer satisfaction programs have a "hot alert" component, that is, when a dissatisfied sales or service survey is received, an **immediate** message ("hot alert") is sent to the dealer and the

manufacturer letting them know of the situation. At the same time, many programs also send a postcard or e-mail to the customer acknowledging the dissatisfaction and letting the customer know that the dealer will be contacting them to address their problem. The final feedback loop in most "hot alert" programs is a follow-up phone call to the customer at some specified time interval (usually 21-35 days after the initial "hot alert") to see if the problem has been resolved to the customer's complete satisfaction and, if not, why not.

Lastly, while many expenditures to resolve dissatisfaction are costs a firm will incur anyway, there will occasionally be situations where the firm has to make a decision about the cost to satisfy versus ultimate value. This research had several individuals who were intervened but did not have their problems resolved satisfactorily (all wanted new vehicles). The manufacturer concluded that this was not a reasonable solution to their problem(s) and declined to replace the vehicles. Also understand that some customers will remain dissatisfied regardless of what you do for them. The high value for customer satisfaction programs comes with those customers who, although dissatisfied, can have their dissatisfaction turned around by a timely and satisfying intervention.

If you haven't evaluated whether a comprehensive customer satisfaction program is justified, use the methodology outlined in **Table 2** to do so. If your current customer satisfaction program doesn't have a "hot alert" component, consider adding it. In these tough times, it will be some of the most efficient/effective money you can spend.

FUTURE RESEARCH

It should be carefully noted that this study has examined "expected" defectors in just a single industry (automotive)with fairly

specific types of problems (service personnel, service, and warranty) in arbitrary time frames (90 and 180 days). While there is some anecdotal support that regaining 40+% of "expected" defectors is attainable [see, e.g., Griffen and Lowenstein (2001), p. 12 where they report a 60% regain rate], there is, to our knowledge, no other empirical evidence of either regain rates or whether timing of the regain offer is significant. Each of these concepts needs to be validated in industries outside of automotive.

Further, the regain strategy for each customer in the study was simply, "What action could be taken with respect to your vehicle to change your dissatisfaction to satisfaction?" This left it to the consumer to determine the regain action. It would have significant value to understand if specific regain offers had specific expected results.

Lastly, this research has focused entirely on "expected" defectors. This type of research needs to be conducted with actual defectors to understand to what extent this group is regainable.

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