

### TABLE OF CONTENTS

1. Strategic Planning and Management in Retailing Program Runs in Williamsburg, Virginia, and Cape Schanck, Australia
2. Sears/Kmart Update
4. Why Customer Satisfaction Still Matters

### CONTACT

#### BABSON COLLEGE

Babson Park, MA  
02457-0310 USA  
Phone: 1-800-882-EXEC  
or +781-239-4354  
Fax: +781-239-5266  
E-mail: [exec@babson.edu](mailto:exec@babson.edu)  
[www.babson.edu/bee/retailing](http://www.babson.edu/bee/retailing)

#### LAWRENCE J. RING, EDITOR

Chancellor Professor and  
EMBA Alumni Distinguished  
Professor of Executive Education  
Mason School of Business  
The College of William and Mary  
[larry.ring@mason.wm.edu](mailto:larry.ring@mason.wm.edu)

### PROGRAM SUMMARY

## Strategic Planning and Management in Retailing Program Runs in Williamsburg, Virginia, and Cape Schanck, Australia.

The open enrollment version of the Strategic Planning and Management in Retailing Program ran for the 48th time in North America in May 2008. The program was conducted at Williamsburg, Virginia, at the Mason School of Business of the College of William and Mary. In addition, the program was offered for the 23rd time in Australia later in May at the Cape Schanck Resort outside of Melbourne

and sponsored by the Australian Centre for Retail Studies of Monash University. This program is currently offered twice in North America (at Babson and at William and Mary)

and once in Australia. The program is next scheduled to be offered September 13–19, 2008 at Babson College. Those interested are encouraged to apply early. To apply, contact Deirdre Murphy at [dmurphy@babson.edu](mailto:dmurphy@babson.edu), or at 781-239-4340.

**The program is next scheduled to be offered September 13–19, 2008 at Babson College. Those interested are encouraged to apply early. To apply, contact Deirdre Murphy at [dmurphy@babson.edu](mailto:dmurphy@babson.edu), or at 781-239-4340.**

The programs kicked off with “The Eight Ways to Win in Retailing,” and, with slight differences from program to program, featured a new case on Target stores, as well as cases on Best Buy and Best Buy in 2005, Home Depot, Zara, and Meijer. In addition, the faculty delivered lectures and exercises on financial and productivity analysis, strategic thinking and planning, category scorecards, customer relationship management, and supply chain management, including a simulation.

On Wednesday afternoon at the Williamsburg program, the group participated in a store tour with visits to a new Wal-Mart Supercenter, Target Greatlands, Costco, Lowe’s, World Market, Ukrop’s, Best Buy, Circuit City, PETSMART, Toys “R” Us, TJMaxx, and others. In addition, they were given a guided tour of Colonial Williamsburg, followed by dinner at the King’s Arms Tavern in the restored colonial area.

Australia program participants enjoyed Cape Schanck's spectacular coastal environment and views of Southern Ocean and Port Phillip Bay. The Cape Schanck Resort is ideally located between the traditional resort areas and the burgeoning wine, food, and golf district of the Mornington Peninsula.

Participants in the programs represented 13 countries including the U.S., Australia, Austria, Canada, Finland, Germany, New Zealand, Poland, Singapore, South Africa, Sweden, Switzerland, and Taiwan. The group included companies in the drug, food, apparel, footwear, home improvement, consumer electronics, convenience, health appliance, jewelry, automotive, accounting, and consulting sectors. The class was composed of senior executives from buying and merchandising, marketing, store operations, strategic planning, human resources, logistics, finance and control, and business development. Channel management executives represented several manufacturers. Professors Larry Ring and John Strong were the primary program faculty on each of the programs.

## Sears/Kmart Update

**By Larry Ring and John Strong**

Mason School of Business

The College of William and Mary

In our Winter 2005 Newsletter, we commented on the merger of Sears and Kmart (which closed on March 24, 2005). The article was titled: "Kmart/Sears: A Happy Marriage or a Double Suicide?"

The results are now in. It was a double suicide.

At the time, Sears Holding Corporation Chairman Eddie Lampert promised to reinvigorate the faded retail icons and "transform them into a great company." It didn't happen. In fact, Lampert himself was named Worst CEO of the year for 2007 by MarketWatch.

In his letter to shareholders in February 2008, Lampert defended the merger. He said, "In November 2004, we believed that the company's (Kmart's) prospects could be enhanced by a partner who could help improve the productivity of Kmart's almost 1,500 stores. Sears had been challenged for many years and found itself seeking a way to grow outside of the mall. Expanding by building a large number of stores was a risky strategy. By merging, the combined company would have the scale, time, and capabilities to compete more effectively against many of its more profitable rivals."

Lampert then presents an elaborate table showing that total return on Sears Holdings—including Kmart out of bankruptcy before the merger—to be a market leader. He misses the point. His big call was the merger, and the total return on SHLD since the merger is a negative number. As shown in the table, between March 2005 and December 2007, the total return to shareholders for Sears is -23.4 percent. Compared to the largest U.S. retailers, it is the **second worst return** performance—only slightly better than Home Depot, which has been battered by the economy and its own strategic challenges. Moreover, Sears' price has dropped even further in 2008. Indeed, Sears' 2007 annual report notes that the company's return is almost six times worse than the Standard and Poor's Department Store Index (-17 percent versus -3 percent) between 2005 and 2008.

The table also shows that the market value relative to sales for Sears is the second lowest of all large retailers, with a ratio that is half that of JC Penney and only one-third that of Target. The table also shows revenues and capex for the largest U.S. retailers. A little rearrangement of his data reveals that Sears Holdings has the **lowest Capex/Sales ratio** of any of the 17 largest U.S. retailers.

In its most recent financial result on May 29, 2008, Sears Holdings Corporation reported a net loss of \$56 million, or \$0.43 loss per diluted share, for the first quarter ended May 3, 2008, compared with net income of \$223 million, or \$1.45 per diluted share, for the first quarter ended May 5, 2007.

Moody's Investors Service on June 6, 2008, lowered its outlook on Sears Holdings Corp.'s noninvestment grade ratings to negative from stable to reflect the broadline retailer's "lackluster" operating performance during the past few quarters. Moody's said, "... a fair amount of Sears' operating difficulties remain self-inflicted, in particular on the softness side."

The company's stock price is now \$82, down from a post merger high of \$195. The stock traded at \$132 the week the merger closed. Comparable store sales have declined continuously since the merger with fiscal 2007 numbers down 4.3 percent in the aggregate. In the most recent quarter, they were down 8.6 percent. It has among the **lowest comps** of all major U.S. retailers.

Meanwhile, the company has both raised prices and engaged in extensive cost-cutting. Sears has cut working capital, marketing, inventory, as well as capital expense (shown above) for short-term gains. The biggest use of cash has been to buy back shares. During the past three years, Sears has repurchased \$4.3 billion of stock, relative to cash flow from operations of \$5.2 billion. As a result, Sears stores are starting to look old and tired compared to those of competitors. This also calls into question the underlying real estate value, especially given the current severe problems in property and credit markets. So much for the vaunted real estate value. Capex-starved buildings in tired malls and seedy neighborhoods don't say value to us.

Company	Revenues (billions)	Total Return March 2005–December 2007	Market Cap/Revenue (Price: Sales) June 2008	2007 Capex/Sales
Lowe's	\$48.3	-19.4%	0.71	8.3%
Target	\$63.4	2.2%	0.64	6.9%
JC Penney	\$19.8	-12.8%	0.43	6.3%
Home Depot	\$77.3	-25.9%	0.58	4.4%
Gap	\$16.0	1.4%	0.84	4.3%
Safeway	\$42.3	88.7%	0.32	4.2%
Wal-Mart	\$378.8	-1.0%	0.60	3.9%
Macy	\$26.3	-15.6%	0.34	3.8%
Walgreen	\$55.1	-12.7%	0.62	3.4%
Kroger	\$69.9	69.9%	0.26	3.1%
TJX	\$18.6	20.3%	0.73	2.8%
Staples	\$19.3	12.3%	0.89	2.5%
CVS	\$76.3	53.4%	0.71	2.4%
Supervalu	\$43.9	18.4%	0.16	2.3%
Costco	\$66.1	62.2%	0.42	2.2%
Best Buy	\$39.5	49.4%	0.45	2.0%
Sears	\$50.7	-23.4%	0.21	1.1%

Note:  
1. Total return includes reinvested dividends, calculated using monthly data.

This company is looking increasingly like a disaster. Tired stores with often empty shelves, limited inventory, and inadequate marketing add up to customers staying away in droves and continuing declines in comp store sales. Low returns result in investors staying away as well.

Where is the future in this story?

## Why Customer Satisfaction Still Matters

By **Ronald L. Hess Jr.**

Mason School of Business

The College of William and Mary

Customer satisfaction has received a considerable amount of attention during the past several decades. Most recently, it appears that customer satisfaction, often viewed as the gold standard metric of success, has fallen out of favor with some and is no longer the central issue. Instead, some argue that retention is the more important metric. Yet, there is significant evidence that satisfaction, not retention, is a more informative metric for a retailer's long-term financial success. This article will examine current issues related to customer satisfaction including the results of the ACSI, relevance of satisfaction versus retention, important outcomes, causes of dissatisfaction, complaint handling satisfaction, and a method to improve customer satisfaction.

### Recent Trends in the ACSI

The ACSI collects quarterly data on customer satisfaction across many industries, including retailing, banking, automobiles, energy utilities, cable/satellite television,

and government, among others. This organization has become the definitive authority on customer satisfaction, used for benchmarking purposes by a multitude of companies. An overview of the most recent trends in the ACSI can highlight some of the adverse effects of failing to satisfy valuable customers.

A surprising discovery from these results is that there is wide variation in customer satisfaction among retail industries. E-commerce retailers lead *all* industries in customer satisfaction with a cumulative five-year average of 82.2 (see Table 1). Although this retail segment has had its share of variability during the past several years, this five-year average is a noteworthy achievement considering the involvement of other companies for shipping and other activities, significant reliance on information technology, and lack of face-to-face interactions with customers that often can lead to the development of stronger relational bonds.

Results for specialty, department/discount, and food retailers are not as positive, however. These retail segments consistently have received satisfaction scores in the low to mid-70s. Considerable improvements must be made given that these scores are similar to industries not often recognized for high customer satisfaction, such as hotels and hospitals.

**TABLE 1: AMERICAN CUSTOMER SATISFACTION INDEX (ACSI) BY INDUSTRY\***

Industry	'03	'04	'05	'06	'07	% Chg.	5-year Avg.
E-Commerce Retailers	84	80	81	83	83	–	82.2
Automobiles	80	79	80	81	82	1.2	80.4
Banks	75	75	75	77	78	1.3	76.0
Specialty Retailers	74	75	74	75	75	–	74.6
Food Retailers	74	73	74	75	76	1.3	74.4
Depart./Discount Retailers	76	74	75	74	73	-1.4	74.4
Hospitals	73	76	71	74	77	4.1	74.2
Hotels	73	72	73	75	71	-5.3	72.8
Airlines	67	66	66	65	63	-3.1	65.4
Cable/Satellite Television	61	61	61	63	62	-1.6	61.6

\* ACSI uses a 100-point scale for measurement purposes.

**TABLE 2: AMERICAN CUSTOMER SATISFACTION INDEX (ACSI) BY RETAILER\***

Industry	2003	2004	2005	2006	2007	% Chg. '06-'07	5-year Avg.
Amazon.com Inc.	88	84	87	87	88	1.1	86.8
Publix Super Markets	82	81	81	83	83	–	82.0
Costco	80	79	79	81	81	–	80.0
Kohl's Corporation	79	79	80	80	79	-1.3	79.4
JC Penney Corp.	77	76	78	78	77	-1.3	77.2
Target Corporation	–	75	78	77	77	–	76.8
Sam's Club	77	75	76	78	77	-1.3	76.6
Lowe's Companies	77	76	78	74	75	1.4	76.0
Supervalu Inc.	77	75	77	74	74	–	75.4
Kroger	71	73	74	76	75	-1.3	73.8
Sears Holding Corp.	73	74	73	73	72	-1.4	73.0
Best Buy	72	72	71	76	74	-2.6	73.0
Wal-Mart Stores Inc.	75	73	72	72	68	-5.6	72.0
Circuit City	73	72	70	69	71	2.9	71.0
Home Depot Inc.	73	73	67	70	67	-4.3	70.0

\* ACSI uses a 100-point scale for measurement purposes.

### ACSI Comparison of Retailers

ACSI data collected about the retail industry reveal that several retailers are achieving very impressive satisfaction scores (see Table 2). Amazon.com, the leader in customer satisfaction within the retail sector as well as across all companies included in the ACSI, has a five-year average satisfaction score of 86.8 and a 1.1 percent increase for 2007. During the past several years, Amazon.com has invested heavily in improvements to better serve customers. It was an early adopter of the “one-click” purchase option, customer-generated product reviews, electronic-purchase confirmation, and many other technological advances that have contributed to its consistently high satisfaction results.<sup>7</sup>

Other retailers that also have obtained consistently high satisfaction scores during the past five years include Publix (82.0), Costco (80.0), and Kohl's (79.4). These retailers have been leaders in financial performance, as well.

In contrast, retailers with the lowest satisfaction scores include Home Depot (70.0), Circuit City (71.0), and Wal-Mart Stores (72.0). Most notable are the significant percentage drops for Wal-Mart (-5.6%) and Home Depot (-4.3%) in 2007.

A comparison of satisfaction scores of direct competitors also can be quite revealing. Large satisfaction gaps between direct competitors often provide strong indicators of significant problems for trailing retailers. One notable five-year satisfaction gap of 4.8 exists between Target at 76.8 and Wal-Mart at 72.0. In fact, the satisfaction gap has widened significantly in the past several years (2.0 in 2004; 6.0 in 2005; 5.0 in 2006; and 9.0 in 2007). Although Wal-Mart appeals to a highly price-conscious consumer segment that tends to be less responsive to low satisfaction, poor scores combined with a significant competitive satisfaction gap with Target have taken its toll on Wal-Mart's performance and stock price during the past

several years. Recently, Wal-Mart has shown an improvement in performance resulting from a renewed emphasis on providing lower prices, expanding its generic drug programs, and offering a greater selection of economical clothing items.<sup>ii</sup> One explanation for this widening satisfaction gap involves Wal-Mart's employment practices that have resulted in high employee turnover of 44 percent compared with 17 percent at Costco.<sup>iii</sup> The significant size and growth rates of some retailers such as Wal-Mart and Home Depot presents significant challenges for recruiting, training, and retaining quality employees.

A second notable competitive satisfaction gap exists among consumer electronic retailers. While the five-year satisfaction gap is only marginal between Best Buy at 73.0 and Circuit City at 71.0, the gap became much larger in 2006 reaching 7.0. Circuit City continues to struggle to regain customers lost during that time period. When these retailers are compared to Amazon.com at 86.8, this satisfaction gap is massive at 13.8 (for Best Buy) and 15.8 (for Circuit City). A satisfaction gap of this size has allowed Amazon.com to become a key competitor in this segment, growing its global sales in consumer electronics by 56 percent in the first quarter of 2008.<sup>iv</sup>

Another satisfaction gap that has received considerable attention in the press is between Lowe's (76.0) and Home Depot (70.0). The significant drop in satisfaction for Home Depot in 2005 to 67.0 and an increase for Lowe's to 78 that same year resulted in a sizable satisfaction gap of 11.0 points between these rivals. Although this gap has narrowed in the past few years, Home Depot continues to struggle with a gap that is currently 8.0 points.

**WAL-MART HAS SHOWN AN IMPROVEMENT IN PERFORMANCE RESULTING FROM A RENEWED EMPHASIS ON PROVIDING LOWER PRICES, EXPANDING ITS GENERIC DRUG PROGRAMS, AND OFFERING A GREATER SELECTION OF ECONOMICAL CLOTHING ITEMS.**

## Why Satisfaction Still Matters

There are many important implications of customer satisfaction that should be carefully considered. Most obvious is that higher customer satisfaction results in greater loyalty/retention. Evidence clearly shows that satisfaction has the greatest influence on this outcome. Unless customers have few and/or no alternatives or it is too costly to switch, they are likely to switch to retailers offering a better customer experience and higher satisfaction. This threat is most pronounced when the satisfaction gap between retailers widens and becomes noticeable to customers.

Yet the benefits of high customer satisfaction go beyond customer retention. Considerable evidence also indicates that higher satisfaction results in changes to customer buying behavior (upward/downward migration),<sup>v</sup> lower price elasticity, greater cross-selling opportunities, increased likelihood of positive word-of-mouth recommendations, and other outcomes that lead directly to higher earnings growth.<sup>vi</sup> Higher satisfaction also insulates companies from the unfavorable effect of debt on market value. Thus, a company with high satisfaction is afforded greater capacity to assume debt without the associated decrease in share price.<sup>vii</sup>

Customer satisfaction also has been linked to greater market value of equity. Specifically, recent findings show that on average this "equity elasticity" is 4.6 percent, suggesting that a 1 percent positive change in satisfaction leads to a 4.6 percent increase in market value.<sup>viii</sup> Research also reveals that companies with the highest satisfaction ratings (highest 20 percent on the ACSI) had a cumulative five-year return of 145 percent versus 39 percent for the S&P 500. The highest 20 percent also were protected during market downturns.<sup>ix</sup>

## What Is Satisfaction: Let's Get a Little Academic

According to Oliver's disconfirmation paradigm, satisfaction includes three important components: disconfirmation, expectations, and perceived quality.<sup>x</sup> Disconfirmation involves a comparison of perceived quality to expectations. When performance exceeds expectations, positive disconfirmation and higher satisfaction result. A similar but

**TABLE 3: NATIONAL ACSI COMPLAINT HANDLING BY INDUSTRY\***

Industry	2002	2003	2004	2005	2006	5-year Avg.
Food Retailers	69	76	66	61	71	<b>68</b>
Automobiles	65	63	62	64	63	<b>63</b>
Specialty Retailers	61	68	58	57	58	<b>60</b>
Banks	61	61	61	57	59	<b>60</b>
Depart./Discount Retailers	55	59	59	62	62	<b>59</b>
Hotels	61	61	58	59	56	<b>59</b>
Cable/Satellite Television	54	59	60	58	59	<b>58</b>
E-Commerce Retailers	60	52	53	62	61	<b>58</b>
Airlines	50	51	44	46	46	<b>47</b>
Hospitals	43	45	34	38	39	<b>40</b>

\* ACSI uses a 100-point scale for measurement purposes.

negative pattern occurs when performance is lower than expectations. Although disconfirmation is often the most influential antecedent of satisfaction, perceived quality and expectations both have a direct influence on satisfaction as well. It is through these direct paths that satisfaction becomes rather complicated.

A direct effect of perceived quality on satisfaction occurs when customer expectations have not yet formed. Once customer expectations are properly formulated—often after just a single purchase occasion—this direct effect quickly dissipates. As such, expectations introduce complexities in any assessment of satisfaction because they change quickly and often, growing more influential over purchase occasions. Although higher expectations become more difficult to surpass, this does not tell the whole story. Beyond their effect on disconfirmation, expectations also have a direct and positive effect on satisfaction. The direct effect of expectations becomes a more powerful influence on satisfaction over time and the primary basis for developing quality relationships with customers and a strong reputation for satisfying customers. Thus, a strategy to meet and exceed customer expectations can provide significant benefits for retailers.

### Satisfaction Is More Informative Than Retention

Frequent monitoring of changes in customer satisfaction provides retailers with an opportunity to make adjustments and prevent customer defections. Once defections begin to occur, it is simply too late to recover. Luring customers back to retailers once the relationship is severed is extremely difficult, a reality that is well known by Home Depot and Circuit City.

Evidence reveals that customer defections lag behind changes in satisfaction.<sup>47</sup> This occurs because there are many other drivers of customer retention. The prevalence and quality alternatives, switching barriers, trust, and price can be quite influential on the retention of customers. These drivers often produce a lag in customer defection because greater effort is required for the customer to switch. Thus changes are deferred until a threshold is reached in dissatisfaction. Well-executed programs to monitor changes in satisfaction offer retailers a short opportunity to make the necessary changes in satisfaction to prevent customer defections. The monitoring of customer retention does not offer this valuable opportunity.

Another important issue is that satisfaction has a significant influence on changes in customer spending behavior.

Instead of switching, more customers migrate or alter their spending levels with a company. Evidence suggests that downward migration, a decrease in spending with a company, has a much greater negative impact on revenues than customer defections.<sup>xiii</sup> Downward migration is especially relevant for retailers because customers often have relationships with multiple retailers and can quickly alter their spending behavior when dissatisfaction occurs.

### Causes of Customer Dissatisfaction and Proper Handling of Complaints

Research shows that only 5–10 percent of customers who experience problems actually complain to companies.<sup>xiiii</sup> Complaints represent opportunities to make improvements in satisfaction before customer defections occur. In fact, some have argued for developing programs that encourage customer complaints.<sup>xv</sup> The most frequently expressed causes of customer dissatisfaction within retailing include 1) returns due to product defects (33.3 percent), 2) unfair store policies (14.1 percent), and 3) incorrect charges for purchases (13.5 percent).<sup>xvi</sup>

When problems such as these occur, customers experience losses that include lost time due to travel and product set-up, loss of product functionality, additional fuel costs for return travel, social costs required to voice the complaint, and many others. These losses can quickly lead to customer frustration, anger, dissatisfaction, and word-of-mouth complaints. Such negative customer responses can escalate considerably when complaints are not handled well. According to statistics collected by ACSI (see Table 3), most industries perform quite poorly in terms of complaint-handling satisfaction.<sup>xvii</sup> During the past five years, department stores, discount stores, and e-commerce retailers scored 59.0, 59.0, and 58.0, respectively. One noteworthy exception is food retailers with a five-year average of 68.0. Evidence clearly indicates that many retailers need to implement better complaint-handling programs.

Considerable research shows that customers evaluate complaint-handling programs in terms of the fairness of the company's response to their complaint. Four types of fairness are most important to customers: 1) distributive

fairness (fairness of decision outcomes); 2) procedural fairness (fairness of company policies); 3) interpersonal fairness (fairness of interpersonal treatment); and 4) informational fairness (fairness of information about the process). Together, these four types of fairness account for 82 percent of the variance in complaint-handling satisfaction.<sup>xviii</sup> A well-designed and highly satisfying complaint-handling program, therefore, should include practices that enhance perceptions of all four types of fairness. Successful complaint-handling programs should include the following practices: 1) Free (offer a free item or monetary discount); 2) Fast (quick resolution of problem); 3) Friendly (courteous and apologetic employee response); and 4) Feedback (follow-up activity to determine if problem was adequately resolved).

### Satisfaction Can Be Improved

The application of a rigorous approach to measuring customer satisfaction can have a very positive impact on this important metric. An effective approach begins with a thorough understanding of the key attributes of satisfaction. Qualitative methodologies such as the critical incident technique (CIT), personal interviews, and focus groups can be used to identify these attributes. Interviewers using the critical incident technique (CIT) ask respondents to identify 5–10 aspects about the retailer that they “like” and “dislike” (critical incidents). A careful selection of participants that corresponds with the segmentation of the company can reveal significant differences in these attributes. Independent judges are then used to sort each of the critical incidents into attributes, which are then sorted into applicable “higher-order” benefits (also called latent variables). For example, for a convenience store, the ability to locate products, organization of the product displays, and an enjoyable store atmosphere are associated with the store layout benefit.

Once the appropriate attributes and benefits are identified, a quantitative survey instrument is developed that measures these important issues. The survey is used to collect evaluations of each attribute, along with overall satisfaction and loyalty. The importance of attributes and benefits is not typically measured directly because customers often rate all of these issues as important to them. Instead,

derived importance models are developed through the use of statistical procedures. Principal components regression (PCR), structural equations modeling (SEM), partial least squares (PLS), or other multivariate statistical procedures are employed to identify the benefit-level impact scores (also known statistically as beta coefficients).<sup>xviii</sup> This is performed by assigning the benefit measures as the independent variables and customer satisfaction as the dependent variable. The benefits with the largest beta coefficients have the greatest benefit-level impact on satisfaction. These benefits are therefore the most powerful drivers of satisfaction.

A graph such as the one shown in Figure A can be created that includes benefit-level impact (importance of each benefit on satisfaction) on the horizontal axis and performance on the vertical axis. This graph can be used to demonstrate clearly not only the importance of each benefit, but also to assess the performance of the retailer on that particular benefit. Several conclusions can be drawn concerning this analysis. Improvements should be made to low-performing benefits that have high impact

on satisfaction. Retailers that make improvements on these benefits should eventually obtain significant improvements on overall satisfaction scores. For good performing benefits with high impact, retailers should maintain or make efforts to improve these benefits. A maintenance strategy also is applicable for good performing benefits with only low impact on satisfaction. Low-performing benefits with low impact are quite trivial to customers and thus require little resources.

In conclusion, it is vital for retailers to implement a measurement program similar to the one described above that continually tracks customer satisfaction over time. A thorough evaluation of customer satisfaction should take place on a quarterly, biannual, or annual basis. More frequent measurement provides retailers with the information necessary to identify changes in satisfaction promptly and make the necessary improvements in the retailing experience to restore satisfaction.

A quality program can be performed internally by a dedicated research department, but it often is outsourced to a marketing research firm. If outsourced, it is advisable to employ a firm that specializes or has extensive experience with customer satisfaction. This expertise will allow them to properly deal with some of the unique characteristics of customer satisfaction measurement and analysis such as highly skewed distribution abnormalities, appropriate scale properties, and the structure of the measurement instrument (see Allen and Rao for an excellent review of these issues<sup>xix</sup>).

It also is important that this analysis examine the strength of the relationships among customer satisfaction, retention (migration), and profitability.<sup>xx</sup> Detailed data about these important links will allow retailers to make financially driven decisions about improving satisfaction. Advanced techniques also can show retailers how they compare to direct competitors on the important drivers of customer satisfaction.

**FIGURE A. STRATEGIC DECISION MATRIX FOR CUSTOMER SATISFACTION**

Performance	High	<b>Low-Impact Issues</b> <b>High Performance</b> <i>Maintain</i>	<b>High-Impact Issues</b> <b>High Performance</b> <i>Maintain/Improve</i>
	Low	<b>Low-Impact Issues</b> <b>Low Performance</b> <i>Not Important</i> <i>Little/No Investment</i>	<b>High-Impact Issues</b> <b>Low Performance</b> <i>Make Improvements</i>
		Low	High
		Benefit-Level Impact (Importance)	

## References:

- <sup>i</sup> Claes Fornell (2007), *The Satisfied Customer: Winners and Losers in the Battle for Buyer Preference*, Palgrave Macmillan.
- <sup>ii</sup> Ann Zimmerman (2008), "Wal-Mart Gives Cautious Outlook," *The Wall Street Journal*, May 14, 2008.
- <sup>iii</sup> Wayne F. Cascio (2006), "The High Cost of Low Wages," *Harvard Business Review*, December, 23.
- <sup>iv</sup> Mylene Mangalindan (2008), "Amazon Stands Tall Amid Slowdown," *The Wall Street Journal*, April 24, 2008.
- <sup>v</sup> Stephanie Coyles and Timothy C. Gokey (2002), "Customer Retention Is Not Enough," *The McKinsey Quarterly*, May.
- <sup>vi</sup> Claes Fornell, Michael D. Johnson, Eugene W. Anderson, Jaesung Cha, and Barbara Everitt Bryant (1996), "The American Customer Satisfaction Index: Nature, Purpose and Findings," *Journal of Marketing*, 60.
- <sup>vii</sup> Fornell, 2007.
- <sup>viii</sup> Fornell, 2007.
- <sup>ix</sup> Fornell, 2007.
- <sup>x</sup> Oliver, Richard L. (1997), *Satisfaction: A Behavioral Perspective on the Consumer*, New York, NY: The McGraw-Hill Companies Inc.
- <sup>xi</sup> Terence A. Oliva, Richard L. Oliver, and Ian C. MacMillan (1992), "A Catastrophe Model for Developing Service Satisfaction Strategies," *Journal of Marketing*, 56 (3).
- <sup>xii</sup> Coyles, 2002.
- <sup>xiii</sup> Oliver, 1997.
- <sup>xiv</sup> Fornell, 2007.
- <sup>xv</sup> Scott W. Kelley, K. Douglas Hoffman, and Mark A. Davis (1993), "A Typology of Retail Failures and Recoveries," *Journal of Retailing*, 69 (4).
- <sup>xvi</sup> Fornell, 2007.
- <sup>xvii</sup> Ambrose, Maureen L., Ronald L. Hess, and Shankar Ganesan (2007) "The Relationship Between Justice and Attitudes: An Examination of Justice Effects on Event and System-related Attitudes," *Organizational Behavior and Human Decision Processes*.
- <sup>xviii</sup> Michael D. Johnson and Anders Gustafsson (2000), *Improving Customer Satisfaction, Loyalty, and Profit*, San Francisco, CA: Jossey-Bass.
- <sup>xix</sup> Derek R. Allen and Tanniru R. Rao (2000), *Analysis of Customer Satisfaction Data*, Milwaukee, WI: ASQ The Quality Press.
- <sup>xx</sup> Johnson, 2000 and Allen, 2000.

#### PROGRAM DATES

- Babson, September 13–19, 2008
- William and Mary, May 2–8, 2009
- Monash, May 24–29, 2009

#### CONTACT

— Babson College  
Babson Park, MA  
02457-0310 USA  
Phone: 1-800-882-EXEC  
or +781-239-4354  
Fax: +781-239-5266  
E-mail: [exec@babson.edu](mailto:exec@babson.edu)  
[www.babson.edu/bee](http://www.babson.edu/bee)

— Lawrence J. Ring, Editor  
Chancellor Professor and  
EMBA Alumni Distinguished  
Professor of Executive Education  
Mason School of Business  
The College of William and Mary  
[larry.ring@mason.wm.edu](mailto:larry.ring@mason.wm.edu)

— Jeff Rogut  
Program Director for  
Monash Programs  
E-mail:  
[jeff.rogut@buseco.monash.edu.au](mailto:jeff.rogut@buseco.monash.edu.au)

#### RETAILING NEWSLETTER CATALOG

- If you would like to view additional issues of the Retailing Newsletter, please visit our Web site:  
[www.babson.edu/bee/retailing\\_newsletter](http://www.babson.edu/bee/retailing_newsletter)

Babson Executive Education offers a variety of engaging, high-impact solutions to help companies and individuals reach their strategic goals.

### **Coaching Consortia**

- Consortium for Executive Development
- Coaching Inside the Organization: The Certification Program for Internal Coaches
- IT Leader Development Consortium

### **Consulting**

#### **Custom Programs**

#### **Open Enrollment Programs**

- Beyond Performance Management
- Bio-Pharma: Mastering the Business of Science
- The Coaching Organization
- Entrepreneurial Strategies for Innovation and Growth
- Finance for Life Sciences Professional Series
  - Project Investments and Returns in Life Sciences
  - Understanding Financial Statements and Performance
  - Valuation and Value Drivers for Life Sciences
- Finance for Life Sciences Professionals Program
- From Vision to Action: Launching, Mobilizing, and Sustaining Change
- Innovation Foundations: From Clutter to Clarity
- Leadership and Influence
- Moving From Managing to Leading: The Women's Program at Babson
- Strategic Planning and Management in Retailing

#### **Research Centers**

- Center for Business Innovation
- Process Management
- Talent Leadership
- Working Knowledge

Visit [www.babson.edu/bee](http://www.babson.edu/bee) for any program changes and updates.



BABSON PARK, MA 02457-0310 USA  
PHONE 1-800-882-EXEC OR +781-239-4354 FAX +781-239-5266 E-MAIL EXEC@BABSON.EDU  
[WWW.BABSON.EDU/BEE/RETAILING](http://WWW.BABSON.EDU/BEE/RETAILING)