

## CUSTOMER SATISFACTION AND CUSTOMER LOYALTY

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Are those two concepts identical? The answer is a definite NO. Too often people use the two notions—customer satisfaction and customer loyalty—interchangeably, implicitly assuming that they mean the same thing. But they do not, and they should not be confused. The difference is in what they measure.

Customer satisfaction is a static measure of the way customers judge their experience with a given vendor. When it is quantified, product and service providers often use it to measure their internal performance. Sometimes executive bonuses are keyed to customer satisfaction metrics.

However, customer satisfaction does not predict what customers will do in the future, specifically whether they will continue to purchase from a particular supplier, which is after all what really interests any business. This is where the main difference between satisfaction and loyalty lies: customer *loyalty* can safely predict the degree to which repeat sales will occur, while customer *satisfaction* cannot.

Customer loyalty measures the propensity of customers to remain with their product or service supplier(s). It is a dynamic variable that all businesses should be interested in measuring since it can predict their future health. Loyalty generally requires satisfaction, except in those cases where no alternative supplier or product exists; such situations, often described as monopolies, tend to force loyalty upon the customer without regard for satisfaction.

However, customer satisfaction is rarely sufficient by itself to generate loyalty if other choices are open to the customer. In fact, a customer may be satisfied with a supplier but decide to buy from someone else because even more is expected from the new vendor. This shows that *preference*, aside from *satisfaction*, is also a factor in customer *loyalty*.

Unforced customer loyalty also includes *trust*, which is defined as confidence in and reliance on the integrity, strength, and ability of the supplier. (Trust is often missing in the relationship between the customer and a monopolistic organization.) The concept of trust is paramount in the relationship that exists between the customer and the supplier and is one of the keys to predicting customers' actions, particularly when it comes to buying from a supplier.

Customer *loyalty*, therefore, is made of three distinct ingredients, all of which can be reliably measured, benchmarked, and monitored over time: customer satisfaction, customer preference, and customer trust.

The ideal purchasing scenario—from the supplier's perspective—is one in which the customer, on his own, decides to buy a product or a service from the supplier. For this to happen, three conditions must be satisfied simultaneously: the customer must identify the

need; the customer must have the means to fulfill it (typically referring to the budget); and customer loyalty must be present.

This is why customer loyalty is so important: not only does it ensure sales and repeat business, but it also reduces the cost of the sale considerably.