



## Customer Satisfaction

- I. Introduction
  - a. Customer satisfaction is the underlying goal all the time.
  - b. Satisfied customers buy more (of the same product or of related products), buy longer, may be willing to pay more, and will spread the word. Also don't cost as much to maintain.
- II. What Satisfies a Customer?
  - a. Did the purchase "work?"
  - b. Give customers something that they think is worth more than what they gave up.
  - c. Customer Surplus: Amount purchase is worth to the customer *above* its cost
  - d. When the customer has competitive choices, will buy the one with the greatest surplus.
    - i. Difference between perceived net monetary benefits and monetary price
    - ii. Incremental Profit
    - iii. Savvy customers don't look for the lowest price – they look for the highest incremental profit.
  - e. Implications
    - i. Changing the price doesn't change the worth of the product, just the surplus
    - ii. Raises / lowers incentive to buy
    - iii. With competition, more surplus means you've "outbid" your competitors
- III. A Problem
  - a. What if you're at a surplus disadvantage?
  - b. Increase customers' perception of benefits
  - c. Decrease Price
  - d. Functional Spin-Off
    - i. Some "ingredients" may have real economies of scale but you can't realize those economies until volume increases dramatically.
    - ii. Buy the part from the outside – outsource.
    - iii. May end up getting a better quality part than what you would've produced
- IV. Alternative Marketing Philosophies
  - a. Production Concept: Make a lot of cheap product and people will buy 'em up!
  - b. Technology Concept: We'll survive by being innovative and making the best product, even at a high price. Intel.
  - c. Selling Concept: The hard sell. Get customers to buy whatever it is we make
  - d. Marketing Concept: Figure out customers' needs by segment.
- V. Models of Customer Behavior
  - a. Introduction
    - i. From seller's perspective, products have features
    - ii. To customers, products have *benefits*.
  - b. Several theories model how behavioral intentions, et cetera influence behavior
  - c. Theory of Reasoned Action
    - i. Intentions are a function of attitude toward a behavior and "subjective norm"
    - ii. Behavior is a function of intentions
      1. Have belief (B) about the consequences of a particular purchase.
      2. Also have evaluation (e) of each characteristic
      3.  $\text{Attitude} = b \times e$
      4. We don't put a lot of emphasis on absolute value of those attitude scores, but rather on the distribution.
    - iii. Subjective Norm: Peer Pressure
      1. How likely are other people to buy the product?
      2. How motivated is the buyer to comply with those people's assessments?
      3. Again, rank and multiply, sum for the total score.
    - iv. How much is the intention weighted in the final score? How much is the subjective norm weighted?
  - d. Belief / Importance

- i. Just trying to study attitude (no peer pressure)
  - ii. Attitude toward the *thing*, not about behavior
  - iii. Still assume attitudes influence behavior
  - iv. Evaluate products on different attributes: *beliefs* about the products
  - v. The same people assign weights to each attribute (finite number of “points”, just distribute them). Importance of attributes.
  - vi. Calculate weighted scores for each product
  - vii. Could just assume the top score “wins”
  - viii. Could also say the *probability* of buying a product is that product’s score over the sum of all products’ scores.
  - ix. Now we need to figure out whether there’s an actual problem or a perceptual problem – that’s easy since the scores are based on specific attributes (and we know well our product actually performs on each of those attributes)
  - x. Want to increase the likelihood that consumers will buy “my” product
    - 1. Increase perceptions about the product’s attributes.
    - 2. Decrease perceptions that the other brands have those attributes
    - 3. Change importance of each attribute; increase importance of attributes on which you’re strong – that’s hard to do!
- e. Ideal Point Model
  - i. Third compensatory model (means not all attributes need to be strong – the strong ones can compensate for those that aren’t as strong)
  - ii. Plot two attributes (say Carbonation vs. Sweetness for a soda)
  - iii. Find the ideal point – what do people really want
  - iv. Presumably people will pick the brand / product that’s closest to their ideal point
  - v. If your brand is far removed from the ideal point, move yourself closer: change the perception of your product so consumers say it’s right at the ideal point
  - vi. Dissatisfaction = Sum (Weight \* | Believed Level – Ideal Level | )
  - vii. Increase Likelihood of Buying
    - 1. Change weight of attributes closest to ideal
    - 2. Move the ideal point
    - 3. Move perception of your product closer to ideal
    - 4. Move perception of your competitor’s product farther away
- f. Non-Compensatory Models
  - i. Conjunctive
    - 1. Need to meet specific levels on all attributes
    - 2. Sets thresholds
  - ii. Disjunctive: Must meet set levels on *any* attribute
  - iii. Lexicographic
    - 1. Rank according to importance and evaluate in order
    - 2. Take the winner as soon as there’s one clear winner

## VI. Decision-Making Criteria

- a. MaxiMin Criterion
  - i. Choose the action that maximizes the minimum payoff
  - ii. Does throw out probability, but otherwise an entirely logical approach
  - iii. Conservative strategy. Won’t get big payoff but will avoid big losses
- b. MiniMax Regret
  - i. Minimize the maximum regret that could be incurred
  - ii. In the event of a high-payoff you’d regret nothing.
  - iii. In the event of a low payoff you’d regret the entire difference between the low and high payoff (so if you could’ve gotten \$100 but only got \$10, you regret \$90)
- c. Perfect Information
  - i. First, what’s the estimated value (weighted mean) of the best alternative – the one with the highest estimated value?
  - ii. Next, what’s the estimated value if you could always make the right decision (pick whichever choice gave you the highest payoff in *any* outcome)
  - iii. The difference is the value of perfect information.