Why Value is More Important than Satisfaction

An MVS Position Paper

Central to the *stated* or *postulated* discipline of Six Sigma, as opposed to the current *practice* of the discipline, is the role and importance of the VOC (voice of the customer) in driving the application of Six Sigma principles and methodologies. For many practitioners within the Six Sigma community, that voice is based on the metrics of "customer satisfaction." But is the conventional wisdom correct or, is it value – *customer value* -- that is the better voice to listen to? How can we reconcile these two concepts? Which is the proper voice of the customer?

Satisfaction versus Value: A Distinction of Importance

Let's start with some definitions and properties of the two concepts. Value is the relationship or the interaction between the quality of a product or service and the price that the customer pays to obtain that product or service. In a simple example, one quality beer costing $1 is of greater value than the same beer costing $2. This is a *cognitive* calculus of the interaction between quality and price. It is a *thinking* evaluation. Most rational buyers would opt for the beer costing $1 – all other aspects of the beer being equal – thereby making a cognitive decision. In more complex situations, it is important to understand value from the point of view of the customer – one that encompasses all aspects of the quality side of the equation, from order to delivery of the product, including any service, repair, parts, or informational needs, as well as the price. However, the same premise holds. Customers evaluate the trade-off between the quality of the benefits they are acquiring and the price that they are paying for those benefits. The precise nature of this trade-off can be empirically modeled on the basis of those customer evaluations. Models of customer value have been generated within and across many industries, from consumer packaged goods to heavy earthmoving equipment, from financial services to the generation and distribution of electricity.

Satisfaction, on the other hand, is an *emotional* response to a purchase. We *feel* satisfied, we don't *think* satisfied. We evaluate the "happiness" of our purchase or our consumption experience. If we are dissatisfied with the purchase then we are unhappy. We can not properly evaluate our satisfaction of the beer until we have paid for and consumed it. Accordingly, satisfaction becomes a *reactive* response. On the other hand, beer drinkers can tell you what they want or value in a beer – its taste elements, its packaging, its availability, its image, etc. and, oh yeah, the price they are willing to pay for all of the above. We can understand and define value proactively. Beer producers, armed with this information can brew, package, distribute, communicate, and price the beer to satisfy a targeted segment's needs. They can create and deliver a product with a specific value proposition.

Proaction versus Reaction

This latter point is critically important. Understanding how targeted users define value enables producers to create and deliver a product or service that provides the requisite level of benefits or quality at the price the customer is willing to pay. After the fact, we can ascertain whether the customer who bought the product or service was satisfied or dissatisfied with any element of the product or service and any other ancillary factors that contribute to its availability.

Too often the concepts of value and satisfaction are used interchangeably. This is incorrect since they are two different dynamics associated with the buying decision. *We buy on value and repurchase based on the satisfaction of the value we received.* This adds insight into the use of the two measures. Value, a proactive measure, informs product configurations, distribution tactics, communication issues, process dynamics and pricing policies. Satisfaction provides a basis for evaluating a customer's reaction to those factors. Value is a *strategic* measure, whereas satisfaction is a *transactional* measure best used in a post sale interaction between the customer and the organization.

The Satisfaction of Value

Consider how the ACSI (American Customer Satisfaction Index) is calculated. It involves the difference between what the customer actually receives and what the customer expected in the transaction (air flight, dining experience, etc.). Is the expectation about a specific attribute or CTQ or is it about some other more global measure? The expectation is about value (the relationship of quality to price) which is then compared to the actual value the customer receives. The difference, if positive, is satisfaction – the actual experience is greater than what was expected. Conversely, if the actuality of the transaction were less than the expectation, a state of dissatisfaction exists. Satisfaction is a transaction-based measure about value where the value proposition of the product or service in the transaction has been strategically formulated.

We want our strategic measure to be predictive of some desired outcome such as increases in top line revenues or increases in market share. Value is the measure that does this, not satisfaction. Satisfaction has little if any predictive capabilities.

Customers versus Markets

The forgoing gives some additional insight into how the two metrics should be used. Satisfaction is a good report card measure of how an organization has handled a transaction. If we take a car into a repair shop and pay for repair services, gauging a customer's satisfaction will tell us whether they were happy with our repair work. If unhappy, we might want to find out why, especially if there is a systematic pattern to the unhappiness. If happy, the likelihood of that customer returning is increased – at least until the customer finds better value elsewhere. *The metrics of value* tell us how important the repair function is within the entire ownership experience, and how to manage it to produce a satisfied customer. Issues of on-time delivery, cleanliness, parts availability, knowledgeable technicians, clean waiting rooms, easy to understand invoices, courtesy, etc. all combine to define the repair process and in so doing tell us how to manage it *a priori*. The satisfaction is our grade.

Value also is a metric that applies to specific products or services within a clearly-defined market segment. Take for instance automobiles. Within a specific class of automobiles (e.g., sedans), customers within a specific segment (families with children) use a common calculus to determine which nameplates offer the best value. Satisfaction can vary from customer to customer but, within a specific market segment, a general value definition can be determined for specific product lines or services. Satisfaction is affected by the *delivery* of that value and may be impacted by any aspect of the transaction. That is why value is best measured across a market, whereas satisfaction is a customer specific measure.

In Sum

Six Sigma practitioners would be well advised to rethink their use of satisfaction as the voice of the customer. It is a reactive, non-predictive, metric best suited for evaluations of transactional situations and an emotional measure. Value is the proper voice of the customer to which Six Sigma practitioners need to listen. It is a central tenet of Six Sigma. It is the voice that has the power to inform issues concerning products or services, distribution and supply decisions, communication questions, and pricing concerns.