
WHITE PAPER:
**Quantifying the Impact of Customer
Satisfaction on Business Performance**

The Love-Hate Relationship with Customer Satisfaction

“There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.” – Sam Walton, Wal-Mart

Business owners and managers often have a love-hate relationship with customer satisfaction – they know they should care about it, but they’re not sure how it impacts the company’s bottom line. Over the last two decades, academic researchers have studied the statistical relationship between customer satisfaction and various corporate performance metrics. Results of the research are compelling.

Improved customer satisfaction has a statistical impact on customer behavior including purchase intentions, referrals, and customer retention. Additionally, customer satisfaction has a statistically significant impact on various business performance metrics including market share, total sales revenues, gross margin, and shareholder value. In fact, research shows that a portfolio of companies with high customer satisfaction rates experienced cumulative market returns that outperformed the Dow Jones Industrial Average, Standard and Poor’s 500, and the NASDAQ. By comparison, a portfolio of companies with low customer satisfaction experienced no cumulative stock returns.

Additionally, research suggests that some customer satisfaction metrics are better at predicting future business performance than others. Average customer satisfaction and “top-2” box scores are some of the strongest satisfaction metric predictors of future business performance. By contrast, the recent push to use recommendation metrics including “net promoter” scores may be detrimental to companies using these scores to replace more traditional satisfaction metrics. Companies that best maximize their use of customer satisfaction conduct surveys at multiple touchpoints in the customer experience to gain the deepest and most reliable data.

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How Customer Satisfaction Impacts Profits

Companies want their customers to be happy; it is logical to think that happy customers would behave in a way that would benefit the company. However, for various reasons, marketing departments and third-party research companies rarely provide business leaders with reports that couple customer satisfaction scores with hard data about actual consumer behavior. As a result, business leaders find it difficult to justify spending valuable company resources on tracking customer satisfaction. Many studies, however, provide substantial evidence to suggest that the strength of a company's customer relationships, as measured through customer satisfaction, is an important indicator for business performance.¹ For example, high customer satisfaction has been shown to statistically affect a company's bottom line by:²

- Increasing purchase intentions
- Reducing price sensitivity
- Increasing referrals
- Improving customer retention
- Increasing cross-selling reception
- Reducing customer complaints

As an additional benefit, customer satisfaction appears to transform consumer behavior from that associated with transactional oriented goods and services into behavior associated with relationship-type goods and services. The transformation of customer behavior from transactional to relationship-based gives companies pricing flexibility without significantly diminishing customer loyalty and retention.³ The relationship between customer satisfaction and customer behavior is clear and can positively impact a company's bottom line.

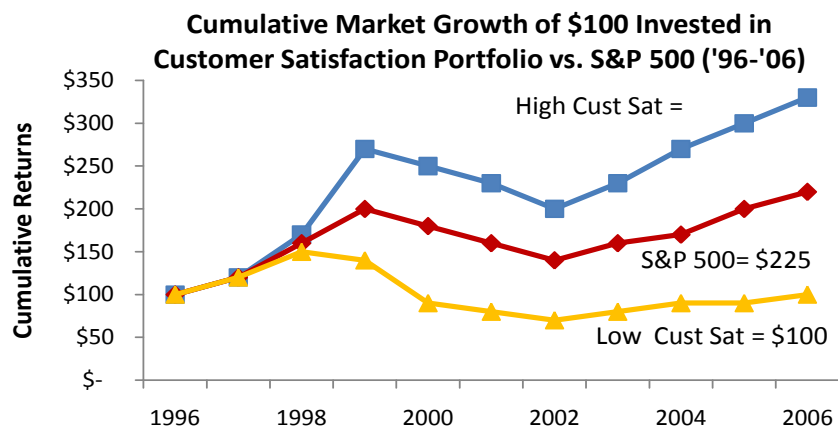
Customer Satisfaction Impact on Business Performance Metrics

In addition to impacting beneficial customer behaviors, customer satisfaction has a direct and predictive relationship with various business performance metrics. There is little question among researchers that customer satisfaction directly affects equity prices, valuation ratios, net operating cash flows, annual sales growth, market share, and gross margin. Furthermore, satisfaction creates shareholder value by increasing future cash-flow growth and reducing its variability.⁴ Research also suggests that companies that are better than their competitors in terms of satisfying customers generate superior returns at a lower systematic risk.⁵

Aksoy and colleagues (2008) showed that, over a ten-year period, \$100 invested in a portfolio of companies with high customer satisfaction resulted in returns approximately 50% greater than investing the same amount in the Standard and Poor's 500 (S&P 500). Conversely, the same amount invested over the same ten years in a portfolio of companies with

...companies with high customer satisfaction generated cumulative returns which outperformed the major stock indices including the Dow Jones Industrial Average, S&P 500, and the NASDAQ.

low satisfaction resulted in essentially no cumulative returns.⁶ These findings have been confirmed by other researchers, showing that companies with high customer satisfaction generate cumulative returns which outperform major stock indices, including the Dow Jones Industrial Average, S&P 500, and the NASDAQ.⁷



Selecting the Right Customer Satisfaction Metric

Most companies do not need to be convinced by the overwhelming evidence linking customer satisfaction, financially beneficial customer behavior, and business performance. However, little attention has been paid to which satisfaction metrics specifically deserve a company’s primary attention. As a result, research consultants have pushed some companies to eliminate traditional customer satisfaction metrics in favor of single numbers (e.g. net promoters) that supposedly consolidate customer experience and satisfaction. Unfortunately, statistical evidence supporting these changes is rarely presented.

In response, Morgan and Rego (2006) conducted a landmark study comparing a variety of customer satisfaction metrics to business performance metrics. The research found that average satisfaction and “top 2” box scores had the strongest statistical relationship for predicting future business performance metrics including net operating cash flows, total shareholder returns, annual sales growth, market share, and gross margin. Other metrics that had less significant relationships with performance metrics included the proportion of customers complaining and likelihood-to-repurchase metrics. Perhaps most surprising in Morgan and Rego’s research is that net promoter scores have no predictive relationships on the business performance metrics included in their study. This finding goes contrary to the recent focus on “the one number you need to grow.”⁸ Most importantly, the research helps companies focus

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their research efforts on tracking the satisfaction metrics which are statistically related to predicting future business performance.

Customer feedback metric	Relationship of customer satisfaction metrics to future business performance metrics				
	Net operating cash flows	Total shareholder returns	Annual sales growth	Market share	Gross margin
Average Satisfaction	Strong	Strong	Strong	Strong	Strong
“Top-2” Box	Strong	Weak	Strong	Strong	Strong
Customers Complaining	None	None	Strong	None	Strong
Net Promoters	None	None	None	None	None
Repurchase Likelihood	None	None	None	Strong	None

*Table adapted from Morgan and Rego: *The Value of Different Customer Satisfaction and Loyalty Metrics* Marketing Science 25(5), pp. 426-439, June 2006

Maximizing Satisfaction by Measuring at Multiple Touchpoints

Companies most successful at utilizing customer satisfaction metrics measure satisfaction at a variety of touchpoints, allowing designers to construct surveys that dig deeply into specific areas of the customer experience with multiple, relatively short surveys. Achieving a similar level of depth in a single survey would require customers to answer an exhaustive number of questions. Survey length is directly related to the quality and reliability of survey responses. Adiquzel and Wedel highlight the importance of shorter surveys in the Journal of Marketing Research:

“Companies are conducting longer surveys than ever before. However, massive questionnaires take more time; induce the use of undesired response styles; increase respondent fatigue and boredom; and result in more non-response, item non-response, and early break-off.”

Assessing customer satisfaction through shorter surveys at key touchpoints allows companies to balance a need for data collection depth with data reliability.

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Case Study: Financial Services

A recent case study ties together the various topics discussed in this paper. A leading provider in Internet-based banking services for commercial banks and credit unions observed that their existing customer service and client relations systems and processes were negatively affecting the company's overall outcome. As a result, they made the decision to improve their customer service and client relations.

To facilitate this improvement, they developed three goals: mobilizing the organization to provide superior customer service, building an effective infrastructure to support the customer service activities, and measuring customer satisfaction and addressing key concerns. To help understand how to achieve these goals, the bank deployed multiple customer relationship surveys at key phases of the customer lifecycle: at customer acquisition and every 90 days thereafter. The feedback from the surveys facilitated new directives that ultimately improved overall customer satisfaction.

Over the course of two years, the bank's actions yielded the following results:

- Customer service improved from 6.5/10 to 8.0/10
- Account management improved from 6.4/10 to 7.7/10
- Client referrals improved from less than 5% to 23%

Holding other variables and business actions constant, the bank's focus on customer satisfaction and client relationship improvements resulted in:

- 5% increase in annual revenues from retained clients
 - 27% decrease in customer defections
 - 132% increase in cross-sold products
- 3% increase in annual revenues from new customers referred by satisfied customers

These revenue increases are even more impressive considering the bank's already large revenue base.

Conclusion

Customer satisfaction impacts a company's bottom line in myriad ways. High customer satisfaction positively affects purchase intentions, customer retention, referrals, and reception to cross-selling propositions. Additionally, high customer satisfaction reduces price-sensitivity and customer complaints. Customer satisfaction is also a strong predictor of future business performance metrics including net operating cash flows,

annual sales growth, market share, and gross margin. Furthermore, high satisfaction reduces the variability of future cash flows. Companies that are better than their competitors in terms of satisfying customers generate superior returns at a lower systematic risk.

Selecting the right customer satisfaction metric is of paramount importance. Analysis suggests that traditional measurements including average satisfaction and “top-2” box scores are strong predictors of various business performance metrics. However, recent directives for companies to replace these traditional satisfaction metrics with recommendation or net promoter metrics are misguided. Companies wishing to maximize the benefits of customer satisfaction should measure at multiple customer lifecycle touchpoints. The multiple touchpoint approach allows companies to dig deeply into the customer experience while not sacrificing data reliability.

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