Consumer surveys drive stock prices, research shows

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New research co-authored by a Rice University professor of marketing finds that businesses interested in improving their stock prices should focus on improving customer satisfaction.

The study, published in the *Journal of Marketing Research*, analyzed quarterly data from 273 companies over a 10-year period and found that short interest—a measure of short seller activity—is an important indicator of customer satisfaction.

"Our research finds that customers can move a company's stock price by expressing their satisfaction or dissatisfaction with a product or service, such as when they fill out a feedback survey," said Vikas Mittal, the J. Hugh Liedtke Professor of Marketing at Rice's Jones Graduate School of Business.

"Professional investors or short sellers use customer satisfaction survey data to bet on companies' stock," he said. "When customers are dissatisfied with a company, short sellers bet against the company, which drives down a company's stock price. Short sellers avoid betting against a company with satisfied customers, and this increases the company's stock price," he said.

Consumers give negative experiences more weight than positive experiences, wrote Mittal and co-authors Ashwin Malshe, an assistant professor of marketing at the University of Texas at San Antonio, and Anatoli Colicev, an assistant professor of marketing at Bocconi University in Milan. They also found that dissatisfaction is more than twice as a strong a driver of stock prices as satisfaction.

"A one-unit increase in customer satisfaction is associated with a .56 percentage point increase in abnormal stock returns, while a one-unit increase in customer dissatisfaction is associated with a 1.34 percentage point decrease in abnormal stock returns," according to the study.

The authors argue that short sellers therefore act as a conduit between customers and stock returns, as investors monitor short selling activity when making decisions.

"The results are the first demonstration showing how customers affect board room decisions, and dissatisfied customers are a key source of stock price declines" Mittal said. "Today, many firms base executive compensation on improving customer satisfaction. Our results show that companies should also base executive compensation on reducing customer dissatisfaction, as we've learned reducing customer dissatisfaction is not the mirror opposite of increasing customer satisfaction."

"Potentially, our results provide a very persuasive argument to board members of public companies aiming to maintain and increase investments in customer satisfaction," according to the paper. "In this way, our work also links the customer satisfaction literature to the extensive research in finance, showing that short sellers are a crucial class of investors who affect the behavior of the stock market."

More information: Ashwin Malshe et al. How Main Street Drives Wall Street: Customer (Dis)satisfaction, Short Sellers, and Abnormal Returns, *Journal of Marketing Research* (2020). DOI: 10.1177/0022243720954373

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