

Researchers uncover economic value of customer satisfaction

27 September 2012

(Phys.org)—If you're looking to justify a marketing investment, consider a new study by researchers at the University of Kansas School of Business.

Research conducted at KU has uncovered new insights into the [economic value](#) of [customer satisfaction](#) and clarifies how the stock market responds to information on a company's marketing efforts.

The study was conducted by Kissan Joseph, associate professor of marketing, and Jide Wintoki, assistant professor of finance. Their paper, "Disentangling the Market Value of Customer Satisfaction: Evidence from Market Reaction to the Unanticipated Components of ASCI Announcements," will appear in the *International Journal of Research in Marketing* in 2013. Joseph and Wintoki were aided by Vladimir Ivanov, former professor of finance at the KU School of Business, and currently at the [Securities and Exchange Commission](#).

"One of the limitations of marketing investments is the fact that executives have little knowledge on what they're getting back," Joseph said. "Intuitively, we know that customer satisfaction is worth it, but the cost-benefit payoff is often unclear. This study gives CMOs a baseline for determining the benefit of their investments and makes marketing more ROI-responsive."

The researchers' primary objective was to better understand the value of customer satisfaction, an important marketing metric, and to incorporate the notion of investor expectations into the context of customer satisfaction. Past studies have shown that improved customer satisfaction leads to a host of positive effects for companies, including higher willingness to pay, enhanced customer retention, lower payment defaults and reduced complaints. While customer satisfaction should add significant value to a company's [market valuation](#), previous research in the field has uncovered limited or

insignificant market reaction around customer satisfaction announcements.

Joseph and Wintoki examined how the stock market reacts to announcements by the American Customer Satisfaction Index, which tracks customer satisfaction of U.S. companies and makes regular announcements on such scores.

The paper proposes that investors form expectations with respect to customer satisfaction and respond only to deviations from such expectations. They found that trading volumes are 2.8 percent higher around customer satisfaction announcements. Joseph and Wintoki also found an increased volume of Internet search queries for the term "ACSI" around such announcements.

"Customer satisfaction is followed very closely," Wintoki said. "Industry press typically broadcasts these announcements. Our study shows that investors find the information value-relevant. There's a lot of tracking of this metric; rightly so, because we've found that customer satisfaction portends what the stock price is going to do."

More strikingly, the research found that investors respond rationally to deviations in customer satisfaction. Stock prices move up when the announced score is above investor expectations; conversely, stock prices move down when the announced score is below investor expectations. According to the study, on average, a one-point increase in customer satisfaction index led to a \$9 million increase in a firm's value.

Joseph and Wintoki analyzed two distinct investor expectation models: a naïve model where expected customer satisfaction is simply last year's customer satisfaction, and a model that includes firm characteristics and marketing investments. They obtained a measure of the "surprise" in customer satisfaction announcements and compared the [market's](#) response to their measure of surprise in

customer satisfaction. The study analyzed 116 firms spanning 11 years.

"Our study gives a ballpark estimate on the value of increasing customer satisfaction," Joseph said.

"Clearly, this estimate should prove invaluable to CMOs trying to justify their marketing investments to today's ROI-driven CEOs."

Provided by University of Kansas

APA citation: Researchers uncover economic value of customer satisfaction (2012, September 27) retrieved 26 November 2020 from <https://phys.org/news/2012-09-uncover-economic-customer-satisfaction.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.