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# Linking Customer Satisfaction Measurement to Financial Performance

One of the main benefits of Customer Satisfaction research is the capability to observe trends on indicators that are directly tied to financial performance. As a result, companies can use their ongoing measurement program as an early warning/detection system to monitor performance, detect drops and to determine how to take corrective action. When performance is stable or trending upward, calculated risks may be considered with greater confidence, coupled with respect to market position within the competitive environment. Under the best circumstances, increased performance in service delivery should be celebrated.

In addition to a heightened awareness into performance on key service indicators, a view into the basic health of customer relationships is provided through customer retention and loyalty measures. These are the early warning measures that are important to track. Valuable insights pointing to the cause and effect of the behaviors altering these measures often indicate market shifts or other economic impacts which may be anticipated.

While there are also many external factors affecting a company's financial performance, observing ongoing service performance lends to a fresh perspective regarding the firm's overall financial performance. A key benefit is reduced risk. While future planning depends on a stable business environment, this knowledge can provide additional level of confidence when considering if the time for change is right or wrong. Customer satisfaction is sensitive to changes in the market place and can warn of competitive threats and pressures. The key is to know how and when to react. Of course, the stability of the overall business climate is also important.

You don't have to just take our word for it. We cite the following examples from leading industry experts and reports on previous research.

From a study published in the *Journal of Management Accounting Research*, 2004

In this context of intense competition, the extent to which a firm achieves a high level of customer satisfaction and loyalty may result in relatively better financial performance. Consistent with a value chain view of performance relations, we find that product value attributes—determined by the performance of business processes—directly and differentially impact levels of customer loyalty as well as prevailing average selling prices. Furthermore, measures of customer loyalty explain levels of relative revenue growth and profitability, and relatively high customer loyalty engenders competitive advantage in the PC industry. For example, when comparing the average sales growth rates and return on assets (ROA) for a set of higher customer loyalty firms versus a set of lower customer loyalty firms based on quarterly customer loyalty scores, data revealed that firms with higher customer loyalty (greater than the quarterly median) have consistently higher sales growth and ROA throughout the period.

This analysis emphasizes customer loyalty rather than customer satisfaction, since loyalty is more closely linked to the customers' intent to make subsequent purchases (e.g., Anderson el al. 1994). There is also a parallel to customer satisfaction measures since "Satisfied customers are more likely to be loyal; offering a critical edge for both expanding existing relations and establishing new ones" (PricewaterhouseCoopers 2000). Furthermore, four of the five satisfaction measures are highly correlated with the loyalty measure, as reflected in Spearman rank correlations significant at the 0.001 confidence level.

From the *Bain & Company Guide* May 08, 2013

 

Loyalty Management tools grow a business's revenues and profits by improving retention among its customers, employees and investors. Loyalty programs measure and track the loyalty of these groups, diagnose the root causes of defection among them and develop ways not only to boost their allegiance but turn them into advocates for the company. Satisfaction and Loyalty Management quantifiably links financial results to changes in retention rates, maintaining that even small shifts in retention can yield significant changes in company profit performance and growth.

Bain contends that a comprehensive Satisfaction and Loyalty Management program requires companies to perform regular assessment of current loyalty levels through surveys and behavioral data. The most effective approaches distinguish mere satisfaction from true loyalty by asking current customers how likely they would be to recommend the company to a friend or a colleague, and frontline employees whether they believe the organization deserves their loyalty.

From a study published by *The Forum for People Performance Management & Measurement* at Northwestern University

*"There is a direct link between employee satisfaction and customer satisfaction, and between customer satisfaction and improved financial performance."*

## Employee commitment equals greater customer loyalty

Industry estimates point to a 60% loss of customers due specifically to perceived employee indifference. And the majority of customers who have a bad experience and no company follow-up won't return.

The other side of employee attitudes also holds true: 41% of customers credit their loyalty to a business because of positive employee attitudes. It's essential to know that your workforce reflects company values and attitudes.

## Committed employees improve business results

One major retailer found that just a 1% increase in employee commitment translated into a 9% increase in monthly sales. Other research has found that:

- Firms with engaged employees have increased operating income 19% per year
- Committed employees are 87% less likely to leave their jobs
- They are 43% more productive and more likely to promote the business
- They have a direct effect on customer loyalty
- Committed employees are directly linked to better sales

From the *Quality Texas Foundation—Driving Customer Satisfaction Through Employee Satisfaction*

Using the Malcolm Baldrige criteria to reinforce connections, it has been long established that organizations with a quality foundation have better leverage to achieve high levels of customer satisfaction, but research has shown that a specific key driver of achieving customer satisfaction is employee satisfaction. There is a "positive and significant relationship between customer satisfaction and employee satisfaction," these relationships are "positive and statistically and substantively significant." "Employee satisfaction is significantly related to service quality and to customer satisfaction, while the later in turn influences firm profitability…leading to a satisfaction-quality-profit cycle." In one study based on 7,939 business units in 36 companies, "on average business units in the top quartile on the employee engagement measure produced 1-4 percentage points higher profitability. Similar results were found for productivity (revenue or sales per month). Business units in the top quartile on employee engagement had, on average, from $80,000 to $120,000 higher monthly revenue or sales."

So, satisfied employees are more productive, innovative and loyal, which in turn leads to customer retention, which means that employee satisfaction plays a "strong, central role" in predicting profitability and "organizational effectiveness".