THE INCREMENTAL EFFECT OF SATISFACTION ON STOCK PRICES

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ABSTRACT

Satisfaction is a forward-looking marketing diagnostic that is theoretically related to firm financial performance. The conceptual link between satisfaction and superior performance is quite simple. When consumers are satisfied; that is, when their expectations are met or exceeded by their experience with a product, they develop a preference for the brand (Kumar, Pozza, and Ganesh 2013; Yadav and Rai 2019). Consumers are thereafter more likely to purchase the brand and related brand extensions. Satisfied consumers may also help recruit new customers at much lower expense. The discounted future value of this brand related buying activity results in an increase in brand equity and stock price (Anderson, Fornell, and Mazvancheryl 2004, Gupta, Lehman, and Stuart 2004; Kumar and Shah 2009). More specifically, any organization which satisfies its customers should find that those customers buy more, buy longer, and are often willing to pay more at lower associated expense than people whose expectations have not been met or exceeded in the past (Keller 2009).

Empirical evidence on the theoretical linkage between satisfaction and firm financial performance has been; however, somewhat mixed. For example, Fornell et al (2006) found that increased levels of customer satisfaction led to higher stock prices as well as lower investment risk (by increasing the consistency and size of future cash flows). The former authors also describe a market imperfection wherein there was a significant time delay between the public dissemination of firm satisfaction scores and related stock price adjustments. Using the same metrics as those incorporated in the previous study, Jacobson and Mizik (2009) suggest that the fore mentioned market pricing anomaly was an artifact of one extremely profitable market sector, computers and the internet, in conjunction with a unique sampling period. The latter study does not identify satisfaction as an intangible asset integrated in a stock's price or find any corresponding market mispricing.

Not surprisingly, the lack of consistent findings coupled with the potential to obtain above market returns sparked further research interest. Several subsequent inquiries have shown stock prices do benefit from increases in customer satisfaction across industries, even if they do not demonstrate a compelling time lag between when satisfaction scores are publicly disclosed and when they are reflected in stock prices (Fornell, Mithas, Morgeson, and Krishnan 2016; Sorescu and Sorescu 2016). Golovkova et al (2019) also recently explored a cross section of European bank institutions and found that superior financial performance was directly related to customer satisfaction. As provocative as these findings are in their own right, they raise at least three important and unanswered questions.

First, presuming higher levels of customer satisfaction do result in superior financial performance, are there diminishing returns to stock prices when customers are already very satisfied? If customers are already very satisfied, the marginal benefit of increasing customer satisfaction may be lower relative to other potential firm investments, e.g. research and development. There is a multitude of firm assets that may be related to stock price; consumer satisfaction is but one. Second, how does the relative expense associated with increasing customer satisfaction differ by industry? Reinartz and Kumar (2000) suggest the net value of investing in customer satisfaction may not be similar across

industries due to variation in sector cost structure. Finally, how long may it take for market prices across sectors to reflect firm specific satisfaction data?

This study explores these three questions. First, we provide readers with some background on the formation and consequences associated with satisfaction prior to identifying our hypotheses. Next, we discuss our sampling procedure, measures, and data. Thereafter, we describe the results of our analysis before reaching conclusions on the incremental benefits of satisfaction on stock prices. We also discuss the limitations of our study and make suggestions for further research.

Keywords: satisfaction, customer life-time value, intangible asset pricing