The Relationship between the Impact that Customer Satisfaction has on Service Companies' and Product Companies' Revenue

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Abstract

Nowadays, customer satisfaction has become an increasingly important factor in non-financial statement. Many companies try to use various means to investigate this information and connect it with measurements in financial statement. What is the exactly impact that customer satisfaction have on companies' financial situations? Researchers has given various answers regarding questions, proving the importance of customer satisfaction for companies' future performance. However, the impacts of customer satisfaction tend to vary greatly for different types of companies. Some research had focused on how customer satisfaction impact certain industry's future financial performance, but the difference between exact impact on the revenue between product companies and service companies is rarely studied. This paper discuss how customer satisfaction impact the revenues of product companies and service companies by comparing different research results and papers together to help product companies and service companies predict their future revenue.

Keywords

Customer Satisfaction; Service Companies; Product Companies.

1. Introduction

This paper examines the question about what are the differences between effects that customer satisfaction has on service companies' (e.g hotels, restaurants) and product companies' revenue. Service companies and product companies differ in certain ways, causing customer satisfaction means differently to them. We conduct this research in order to determine whether customer satisfaction is a good predictor for service companies' and product companies' future revenue. The research will help service companies and product companies to make better decisions regarding whether to focus on improving customer satisfaction or not and thus help companies to develop long-term strategies for reven ue growth. Also, this research tends to help investors to make reliable predictions of companies' future revenue by using customer satisfaction data and thus make better decisions of which companies to invest in. We have identified certain differences between service companies and product companies related to our research question. First, in service companies, customers interact with workers face-to-face, while customers don't normally interact with workers in product companies, meaning that customer satisfaction of service companies is affected by multiple factors in addition to the products of the companies. Second, service companies primarily deal with perishable, intangible products that are produced, presented and consumed in a single episode or in a series of closely related episodes. Third, customer mentally engage more with service company than product company. Due to the second and third difference, customer satisfaction will have more significant impacts on service companies than on product companies. Due to those differences between product companies and service companies, we expect that customer satisfaction will have greater impacts on the revenue of service companies rather than that of product companies. In order to thoroughly understand this question and find out the truth, we will consult a number of papers and generalize them to reach a final conclusion.

2. Literature review

According to Ittner & Larcker 2003, nowadays, measuring non-financial performance benefits a company's managers, employees and investors in different ways [1]. However, since most companies seldom identify, analyze, and act on the right non-financial measures, only a few companies realize these benefits. It then lists a number of mistakes companies tend to make on measuring non-financial performance. In addition, the authors of this paper claims that in their study, companies that use non-financial measures and establish a causal link between those measures and financial outcomes produced much more higher return on assets and equity over a five-year period than those companies that did not adopt such measures[1].

Some literature proves that non-financial information is very useful for the prediction of future financial evaluation and performance of different types of industries and companies. For example, Behn & Riley 1999 examined large amount of data and developed a model to predict quarterly revenues, expenses, and operating income [2]. Ultimately, the paper come out with a result indicating that non-financial measures in US airline industry like on-time performance, mishandled baggage, tickets oversales and so on have different types of influence on companies revenue, either negative or positive [2]. The result provides strong evidence that non-financial measures are good predictors of companies' future revenue and effectively proves the importance of non-financial measures.

Also, Trueman 2001 tests the role of non-financial measures in internet companies. It shows non-financial measures in internet companies like visitors and minute spent per page came from internet company[3]. At last, it finds out that web usage actually has incremental predictive power for e-tailers revenues which is a further proof for non-financial measures' predictive power[3]. According to Ittner and Larcker 1998b, the relation between customer satisfaction measures and future accounting performance generally are positive and statistically significant by using customer, business-unit, and firm-level data [4]. The authors thus claim that customer satisfaction measures are leading indicators of accounting performance even though many of the relations are nonlinear [4]. Additionally, the release of customer satisfaction measure is statistically associated with excess stock market returns[4]. The research results clearly prove that customer satisfaction is a leading indicator of financial performance and can help managers and investors make better decisions.

3. Hypothesis

We have identified several differences between service companies and product companies that might help us find out the answer of our question. Firstly, in service sector, customers interact with workers face-to-face, while customers don't normally interact with workers directly in product companies. This means that in service companies, customer satisfaction measures are influenced by multiple factors aside from the products of the companies, and also that customers may spend more money in that service company due to something other than its product. For example, in China, a restaurant called Hai Di Lao is famous for its service. In fact, the food there is not any more delicious than other restaurant, but its service is significantly better than any other restaurant, which makes level of customer satisfaction extremely high and thus becomes one of the most popular restaurants in China. However, for product companies, its almost impossible that level of customer satisfaction can be improved in such a way and thus will not have such great impacts on companies' revenue.

Secondly, customers tend to mentally engage more with service company than product company. Customers seem to have more emotional connection with service companies rather than product companies. The relationship between customers and service companies normally involves trust, promise and emotional connection. Therefore, there is large chance that

customer satisfaction measures will have greater impacts on service companies rather than product companies.

Thirdly, it is more complicated for service companies to improve customer satisfaction. For product companies, the only thing they provide with customers is their product, sometimes with after-sales service. However, service companies tend to show more to their customers. In China fast food restaurants, perceived Price, service quality, food quality, physical environment quality, and the moderating role of gender drives customer satisfaction, loyalty, and happiness. (Yongping Zhong, Hee Cheol Moon 2020) [5]. Clearly, it doesn't only present its product. Thus, customer satisfaction measures are affected by various factors.

4. Conclusion

This study contributes to help investors and managers better understand the difference between the influence of customer satisfaction measures to service companies' revenue and to product companies revenue. Consulting a number of papers, we find strong support for claims that customer satisfaction measures have greater impacts on revenue of service companies that on revenue of product companies. Our results suggest customer satisfaction will be even more crucial to service companies that completely rely on customer loyalty and regular customer to survive. Therefore, it is important for service companies to invest for the improvement of customer satisfaction. Customer satisfaction measures are effective predictors the future revenue of service companies.

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