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## IMPORTANCE OF CUSTOMER SATISFACTION AND ITS IMPACT ON PROFITABILITY –Research Article

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### ABSTARCT

*Customer satisfaction plays an important role within any business setup. Customer Satisfaction is not only the leading indicator to measure customer loyalty, identify happy / unhappy customers, it also reduce churn and increase revenue for the firm.*

*It is also a key point of differentiation that helps you to attract new customers in today's competitive business environments.*

*Through this article we intend to figure out reasons as to why customer satisfaction is so crucial for a business firm. We intend to analyse its impact on company's productivity and the manner in which it impacts the profitability of a business.*

*We also try to analyze whether there is any trade off between customer satisfaction and productivity with in business.*

### KEY WORDS

Customer Satisfaction, productivity, profitability.

### INTRODUCTION

Customer satisfaction is a marketing term that measures how products or services supplied by a company meet or surpass a customer's expectation. In today's competitive scenario, customer satisfaction is the utmost priority to be considered by businesses. Customer satisfaction is important because it provides marketers and business owners with a metric that they can use to manage and improve their businesses overall.

It is seen as a key performance indicator, within business. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy of any firm.

## LITERATURE REVIEW

### ***Customer Satisfaction:-***

Customer satisfaction is defined as an "evaluation of the perceived discrepancy between prior expectations and the actual performance of the product" (Tse and Wilton, 1988, Oliver 1999). Satisfaction of customers with products and services of a company is considered as most important factor leading toward competitiveness and success (Hennig-Thurau and Klee, 1997). Customer satisfaction is actually how customer evaluates the ongoing performance (Gustafsson, Johnson and Roos, 2005). According to Kim, Park and Jeong (2004) customer satisfaction is customer's reaction to the state of satisfaction, and customer's judgment of satisfaction level. Customer satisfaction is very important in today's business world as according to Deng et al., (2009) the ability of a service provider to create high degree of satisfaction is crucial for product differentiation and developing strong relationship with customers. Customer satisfaction makes the customers loyal to one telecommunication service provider. Previous researchers have found that satisfaction of the customers can help the brands to build long and profitable relationships with their customers (Eshghi, Haughton and Topi, 2007). Though it is costly to generate satisfied and loyal customers but that would prove profitable in a long run for a firm (Anderson, Fornell and Mazvancheryl, 2004). Therefore a firm should concentrate on the improvement of service quality and charge appropriate fair price in order to satisfy their customers which would ultimately help the firm to retain its customers (Gustafsson, Johnson and Roos, 2005). It is a common phenomenon that the services a brand offers and the price it charges actually determine the level of satisfaction among its customers, than any other measure (Turel et al. 2006). Customer's involvement is also important as when buyer consider the product important and invests time to seek information then it ultimately enhances the satisfaction level (Russell-Bennett, McColl-Kennedy and Coote, 2007). This satisfaction may influence the concerned company by repurchase, purchase of more products, positive word of mouth and willingness of customer to pay more for the particular brand. Any business is likely to lose market share, customers and investors if it fails to satisfy customers as effectively and efficiently as its competitors is doing (Anderson, Fornell, and Mazvancheryl, 2004).

## RESEARCH METHODOLOGY

The research article is mainly descriptive in nature. Literature has been reviewed from various papers involving significance and issues related to customer satisfaction. Data has been gathered mainly from secondary sources including published work, books, journals, magazines and internet sources. The objectives included a study of the concept customer satisfaction and its impact on productivity and profitability mainly in Indian scenario. Moreover, the advantages of judging customer satisfaction have been discussed in this research paper.

## CUSTOMER SATISFACTION – IMPORTANCE

Customer satisfaction ratings can have powerful effects within organizations. They focus employees and guide them on the importance of fulfilling customers' expectations. Furthermore, when these ratings dip, they warn of problems that can affect sales and profitability within the firm. These metrics quantify an important dynamic. When a [brand](#) has loyal customers, it gains positive word of mouth marketing, which is both free and highly effective form of marketing.

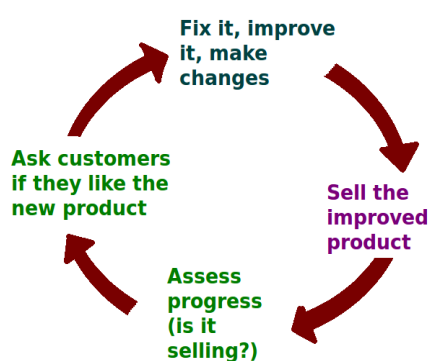
Therefore, it is essential for businesses to effectively manage customer satisfaction. To be able to do this, firms need reliable and representative measures of satisfaction. In researching satisfaction, firms generally ask customers whether their product or service has met or exceeded expectations.

Thus, expectations are a key factor behind satisfaction. When customers have high expectations from a product or service and the reality falls short, they will be disappointed and will likely rate their experience as less than satisfying. For this reason, a luxury resort, for example, might receive a lower satisfaction rating than a budget motel, even though its facilities and service would be deemed superior in 'absolute' terms. Hence customer satisfaction cannot be considered as a mechanical terminology or a formula based concept.

Customer satisfaction provides a leading indicator of consumer's purchase interest and customer loyalty.

Customer satisfaction data are among the most frequently collected indicators of market perceptions. Their principal use is twofold mentioned below:-

- Within all organizations, the collection, analysis and dissemination of these customer related data, send a message about the importance of tending to customers and ensuring that they have a positive/ satisfying experience with the company's goods and services.
- Although sales or market share can indicate how well a firm is performing presently, satisfaction is perhaps the best indicator of how likely it is that the firm's customers will make further purchases in future. Much research has focused on the relationship between customer satisfaction and retention. Studies indicate that the ramifications of satisfaction are most strongly realized at the extremes.
- On a five-point scale, individuals who rate their satisfaction level as '5' are likely to become return customers and might even evangelize for the firm. Another important



metric related to satisfaction is willingness to recommend. This metric is defined as "The percentage of surveyed customers, who indicate that they would recommend a brand to friends. When a customer is satisfied with a product, he or she might recommend it to friends, relatives and colleagues. Hence, this can be a powerful marketing advantage. Individuals who rate their satisfaction level as '1,' by contrast, are unlikely to return. Further, they can hurt the firm's image by making negative comments about it to prospective customers. Willingness to recommend is a key metric relating to customer satisfaction.

## CUSTOMER SATISFACTION – IMPACT ON PROFITABILITY

### **Retention:-**

Your business risks losing customers through the effects of competitive activity as well as natural wastage. An average business loses 10 percent of its customers each year, according to Destination CRM.com, an online site dedicated to discussion of customer relationship management, while cutting customer losses by 5 percent can boost profits by 25 to 125 percent. By maximizing customer satisfaction, you can retain customers much longer so that they continue to make a contribution to revenue and profitability. It has a further effect on

profitability because the cost of acquiring new customers is much higher than the cost of increasing sales to existing customers.

***Value:-***

In sectors such as financial services considered, the top 25 percent of customers account for the majority of a company's profits, according to Pitney Bowes. Focusing on customer satisfaction and loyalty is therefore essential to maintaining profitability in any firm. You can maximize customer satisfaction by delivering what is valuable/ desirable to your customers so that they continue to come back to you to buy more of the products and services that meet their needs.

***Lifetime Customer Value:-***

The longer customers remain loyal to you, the more valuable they are to your business as well. You can use a metric such as lifetime customer value to measure the impact of customer satisfaction on long-term profitability. Lifetime customer value represents the total profits a customer generates while they continue to do business with you, according to the software and analytics company SPSS.

***Recommendation:-***

Satisfied customers have an indirect impact on profitability when they share their opinions with other consumers. Several Social networking sites play an important part in shaping attitudes towards a company and its products. By maximizing customer satisfaction and encouraging customers to post their views on a forum or product review site, you can attract new customers who use the reviews to make their purchasing decisions. These points prove crucial for start up firms particularly, to penetrate and sustain the market.

**Consequences of customer satisfaction and Dissatisfaction**

The consequences of not satisfying customers can be severe. According to Hoyer and MacInnis (2001), dissatisfied consumers can decide to:

- Discontinue purchasing the good or service of the company.
- Complain to the company or to a third party and perhaps return the item.
- Engage in negative word-of-mouth communication, etc.

Customer satisfaction is important because, according to La Barbera and Mazursky (1983), "satisfaction influences repurchase intentions whereas dissatisfaction has been seen as a primary reason for customer defection or discontinuation of purchase".

**CONCLUSION**

Maximizing customer satisfaction makes an important contribution to maximizing profitability, although other factors such as cost control, productivity and marketing strategy also impact the bottom line. By maximizing customer satisfaction, the company can increase the opportunity for repeat sales to customers, while reducing the cost of sales and marketing. Customer satisfaction helps to increase customer loyalty, reducing the need to allocate marketing budget to acquire new customers. Satisfied customers may also recommend your products or services to other potential customers, increasing the potential for additional revenue and profit.

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