Customer satisfaction & market share: how and when they are related

Introduction

Market share and customer satisfaction have long been used as key performance indicators, not only in relation to marketing but also in broader economic and management contexts. Over the years there has been a widespread assumption of a positive relationship between the two—customer satisfaction drives repurchases and word of mouth positively influences a company’s market share. This assumption has never been examined in detail until now.

A recent study by Rego, Morgan & Farnell (2013) has looked at the customer satisfaction-market share relationship over a longer period of time than has been possible previously. By researching a sample of consumer markets in the US, the study demonstrated a negative customer satisfaction-market share relationship. It also revealed that when customer switching costs are low, it was possible to use customer satisfaction to predict future market share when benchmarked against the nearest rival.

In examining why there was a negative relationship between customer satisfaction and market share, the research revealed that brand choice was a key influencing factor. This supports earlier suggestions that satisfying a customers’ needs will not necessarily result in higher market share unless there was homogenous demand for the product (Gounaris et al. 2001).

Marketing larger brand portfolios could therefore have a positive impact on future customer satisfaction and offer a potential strategic solution to address the customer satisfaction-market share relationship.

To shed light on the link between customer satisfaction and market share, here are two studies that were undertaken – albeit 12 years apart and in different countries.
Study 1:

This paper investigated the relationship between customer satisfaction and market share in Greece, to explore the possibility of developing a Customer Satisfaction Index there.

The consumer goods sector was selected as the basis of the study, namely bottled mineral water (an industry with high homogeneity of demand) and “oyzo” (a traditional Greek aperitif with high heterogeneity of demand). Consumers were contacted randomly and 300 responses were collected.

Analysis of the results showed that in the homogeneous market of bottled mineral water, the market leader enjoyed significantly higher customer satisfaction levels. By contrast, when data from the heterogeneous market was considered, the relationship between market share and customer satisfaction was uncertain. This was because more or less the same levels of overall satisfaction were reported regardless of position in the market.

Further analysis also revealed that the market leader didn’t always enjoy the highest customer satisfaction levels and, as the level of customer satisfaction decreased, so did the manufacturer’s market share.

In other words, users of the leading brand were not necessarily satisfied either with the product itself or any other element of the company’s marketing mix – in this case the brand ranking fourth for market share enjoyed higher levels of customer satisfaction.

Study 2:
“Re-examining the Market Share-Customer Satisfaction Relationship”

This study investigated the relationship between market share and customer satisfaction but over a period of time. The aim was to establish the effects of time on both, whilst seeking to understand the nature of the relationship between them, as well as the negative relationship that previous analyses had suggested.

The data from this study came from The National Quality Research Centre at the University of Michigan’s Ross School of Business, which consisted of American Customer Satisfaction Index data for approximately 200 companies from 1994-2006.

When compared with the nearest rival, analysis revealed that current customer satisfaction was positively associated with future market share, whilst current market share was negatively associated with future customer satisfaction.

What is more, the higher the customer switching cost, the weaker the positive effect of customer satisfaction on future market share. This means that heterogeneity in a firm’s customer base mediates the negative relationship between current market share and future customer satisfaction. In turn, the number of brands marketed by a firm is mediated by preference heterogeneity in the ‘market share-future customer satisfaction’ relationship.
Application today

Despite the huge economic and significant cultural differences between the US and Greece, these studies have produced a very similar picture of how customer satisfaction relates to market share. The link between the two is strong provided that there is homogeneity in the nature of the demand and the consumers’ preferences for a given industry.

So what is the impact for the modern day marketing manager? They need to evaluate the nature of demand for the customers they target before investing in improving customer satisfaction. The more disparate their tastes and preferences, the lower the impact of customer satisfaction on the company’s market share.

Managers facing increased levels of heterogeneity in their customer’s tastes and preferences need to investigate just what their customers draw value from. Only then can they rebalance customer satisfaction and maintain a valuable proposition. Alongside this, it is essential to carry out market research to monitor rivals and evaluate the customer’s perception of switching costs, as well as what drives buying behaviour and customer return.

In most cases, the benefit of investing in systematic research will outweigh the cost and will be invaluable in steering a company’s efforts to improve customer satisfaction.

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