



Stock Returns on Customer Satisfaction Do Beat the Market

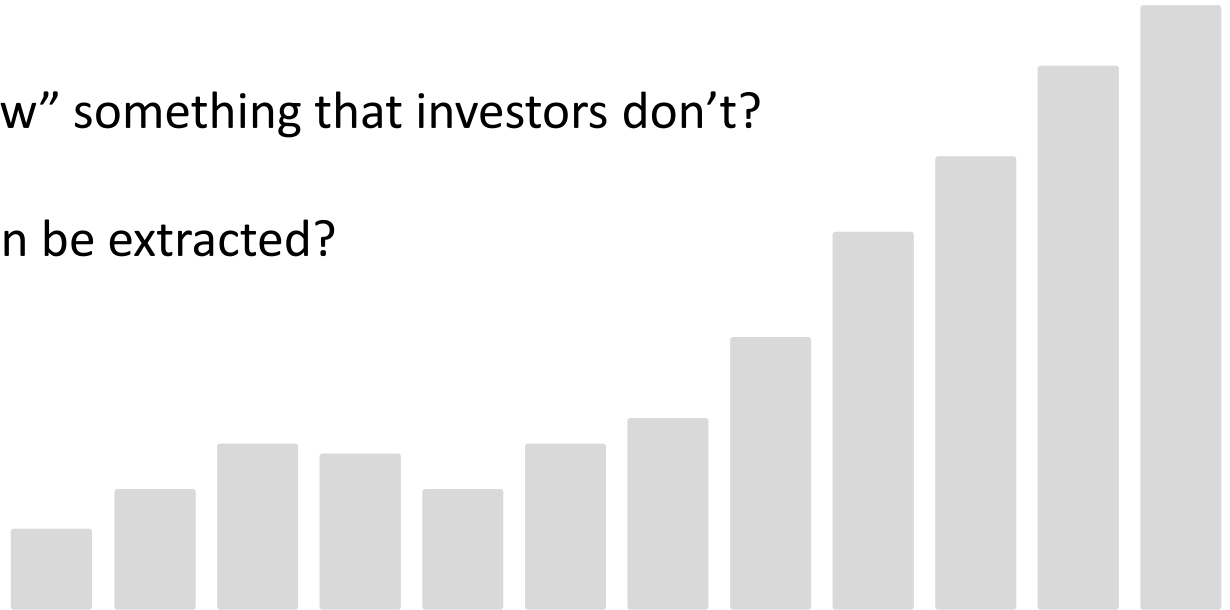
By Claes Fornell

Customer Loyalty Conference
Hotel Rival, Stockholm, September 28, 2017

Can You Beat the (Stock) Market?

Only if you know something that other investors don't.

- Do customers “know” something that investors don't?
- Can this information be extracted?



Extracting Information

The ACSI Equations

$$E[\eta | \eta, \xi] = \mathbf{B}\eta + \mathbf{\Gamma}\xi$$

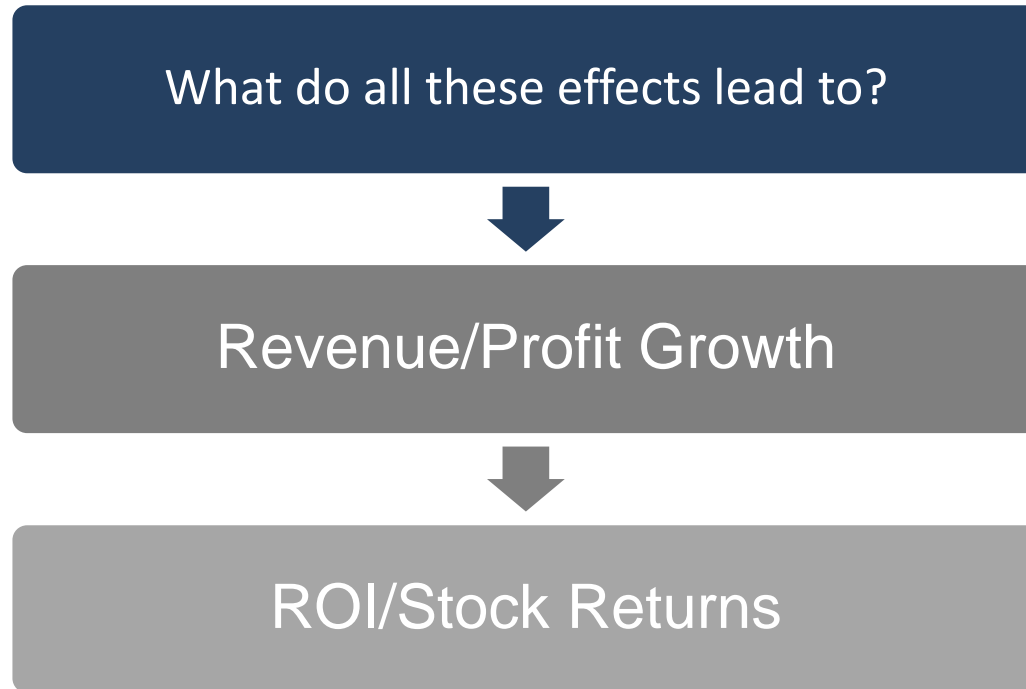
where $\eta' = (\eta_1, \eta_2, \dots, \eta_m)$ and $\xi' = (\xi_1, \xi_2, \dots, \xi_n)$ are vectors of unobserved endogenous and exogenous variables, respectively; \mathbf{B} ($m \times m$) is a matrix of coefficient parameters for η ; and $\mathbf{\Gamma}$ ($m \times n$) is a matrix of coefficient parameters for ξ . The PLS estimation implies that $E[\eta\zeta'] = \mathbf{0}$, $E[\xi\zeta'] = \mathbf{0}$, and $E[\zeta] = \mathbf{0}$, where $\zeta = \eta - E[\eta | \eta, \xi]$.

Satisfied Customers: Economic Effects

- Repeat business
- Lower price elasticity
- Higher reservation prices
- More cross-selling
- Greater marketing efficiency
- Fewer customer complaints
- Lower cost of warranties
- Lower field service costs
- Higher employee satisfaction
- Lower employee turnover
- More positive social media/word of mouth



So ... I said to him ...



A Myth?

HIGH RISK / HIGH RETURN

How to Reduce Risk?

- INTRINSICALLY
- INFORMATION



Satisfied Customers Are Less Risky

- Stability of cash flow
- High levels of cash flow
- Pricing power



Intrinsic
risk reduction

Beating the Market

What is the market (S&P 500)?

A weighted average (w) of market capitalization for 500 companies

w = stock price x no. of outstanding shares

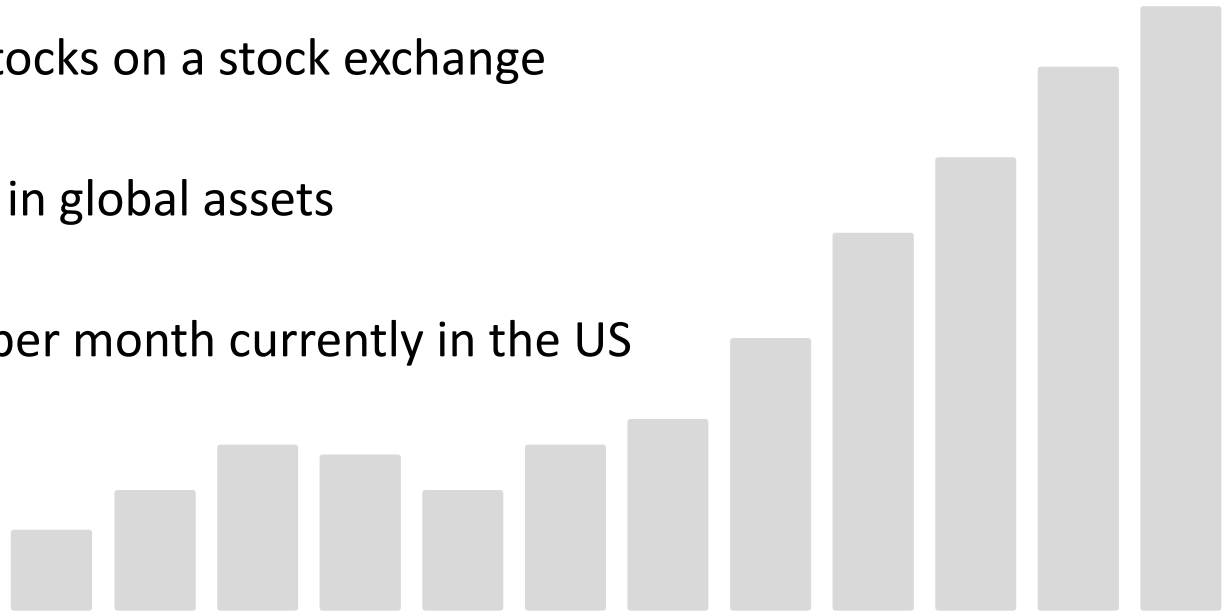
What Happens If We Use Another w ?

w by customer satisfaction?

That's what the ACSI ETF does.

ETFs

- Tracks indices, bonds, baskets of assets, etc
- Trade like common stocks on a stock exchange
- More than \$4 trillion in global assets
- Inflow of \$50 billion per month currently in the US

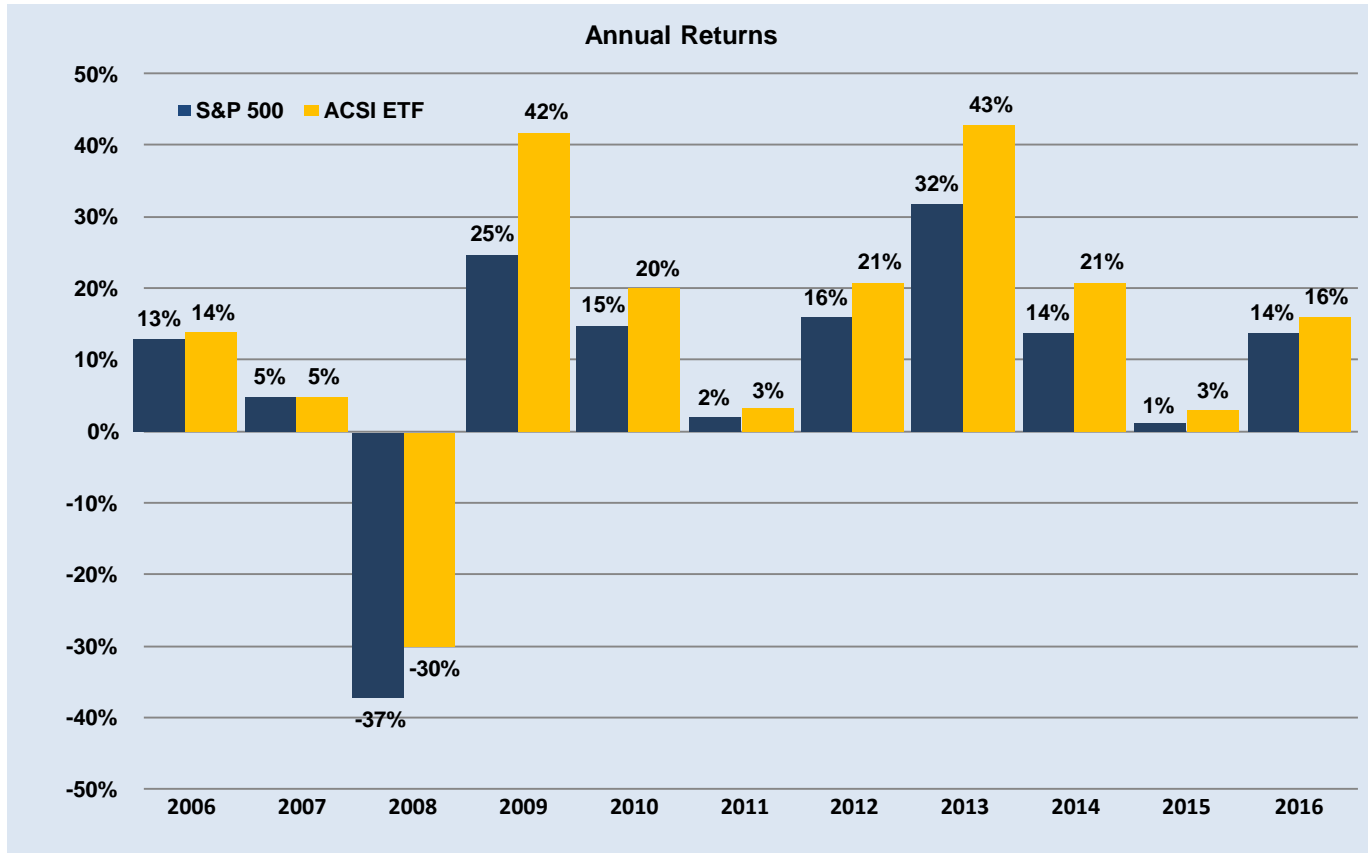


Benefits of ETFs

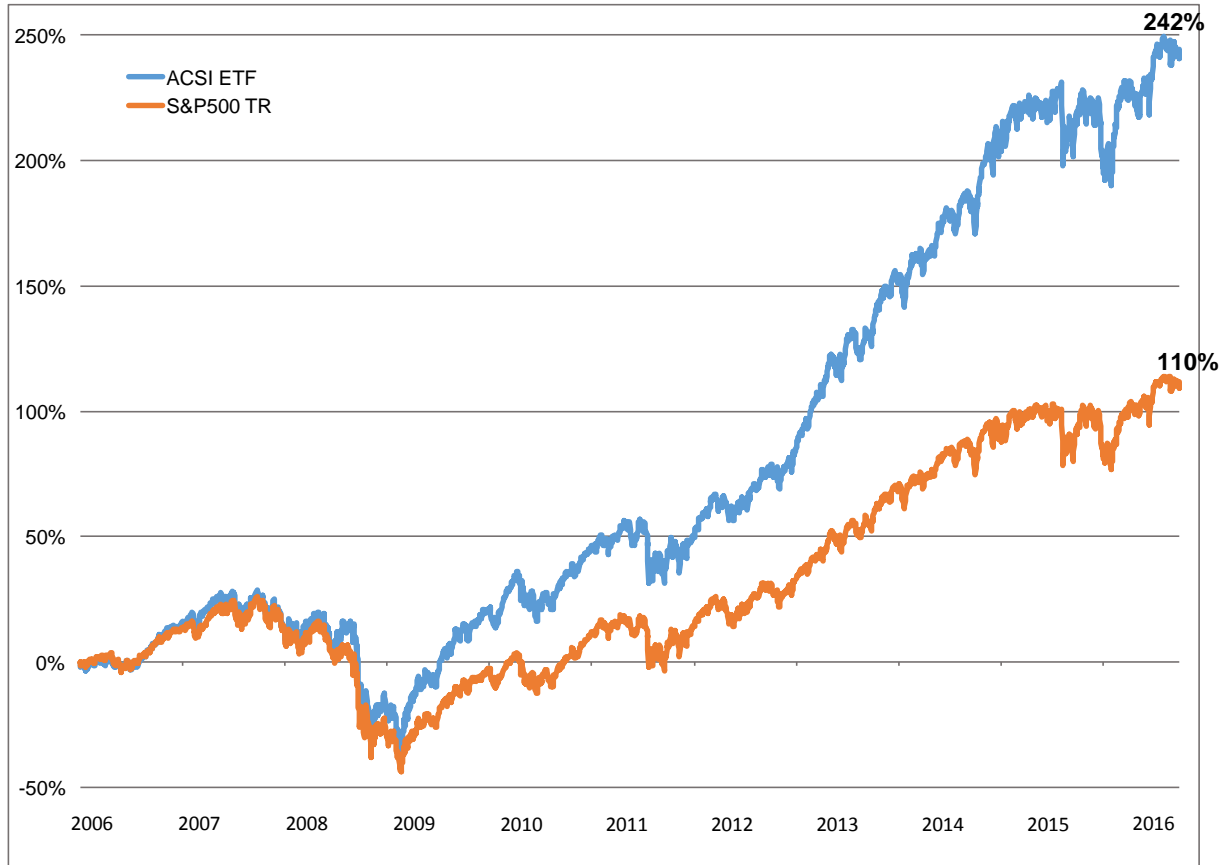
- Liquidity
- Transparency
- Low cost (average 0.30%)
- Tax efficiency
- Intraday pricing



ACSI ETF vs S&P 500



ACSI ETF vs S&P 500 TR



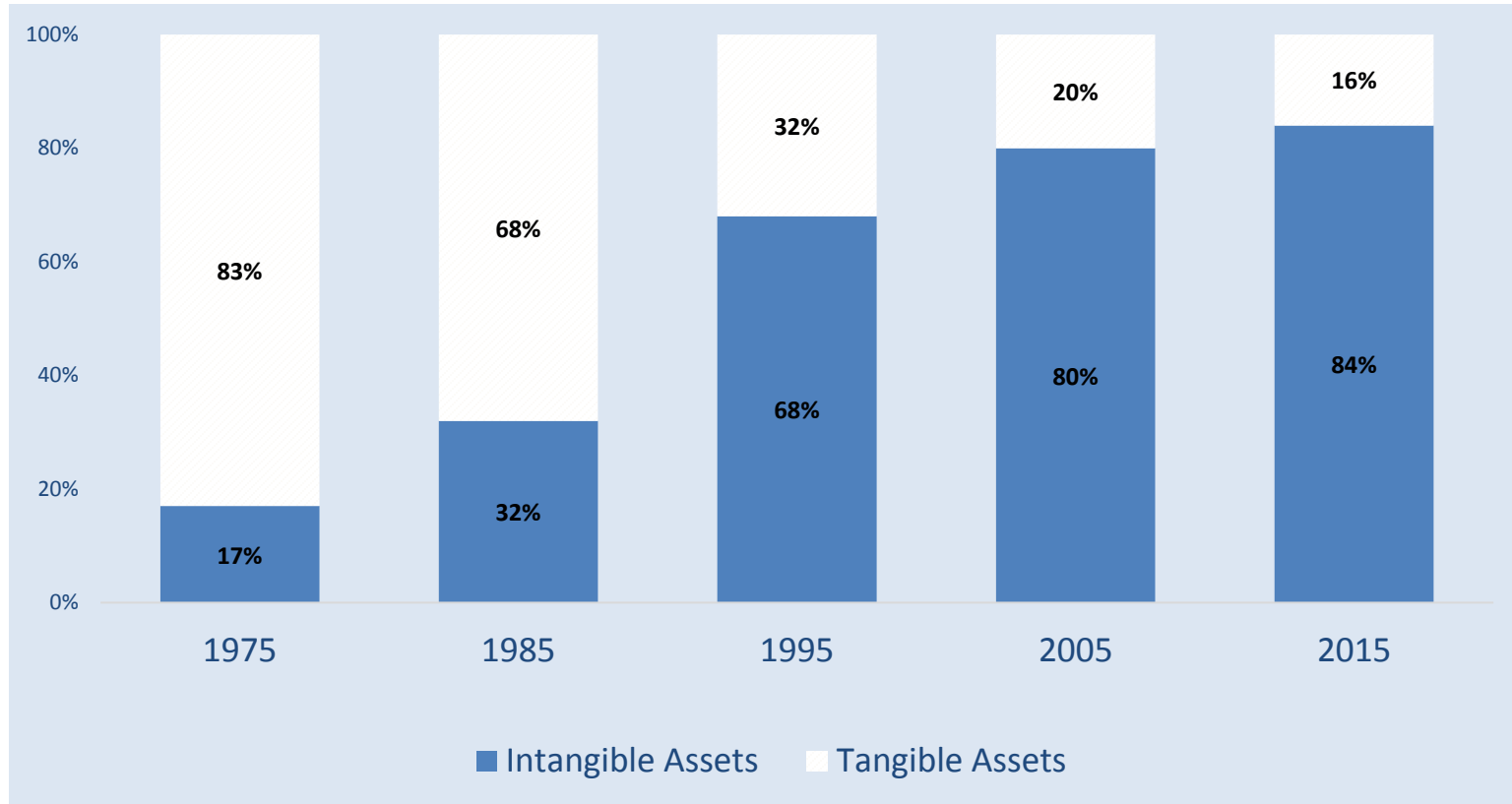
The Skeptics

- High Return/Low Risk Really?
- Customer Satisfaction as a stock investment strategy Really?

What's The Process?

- In general, investors don't pay attention to customer satisfaction.
- Strong (weak) customer satisfaction is predictive of earnings surprises.
- The abnormal returns are (largely) channeled via earnings surprises.

Components of S&P 500 Market Value



The Obviousness of It All

➔ A healthy company has satisfied customers.

➔ A healthy economy has satisfied consumers.



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