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Effect of Customer Satisfaction on Organizational Profitability, Using an Organization in the Food and Beverage Industry

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Abstract

This study examines the effect of customer satisfaction on organizational profitability of a reputable food and beverage industry in Nigeria. More so, to determine the relationship between customer satisfaction and organizational profitability. Primary and secondary data were used for this study. The primary data was collected with the aid of questionnaires while the secondary data was collected from the selected organization periodicals and journals. The data collected was analyzed using descriptive and inferential statistical tools. The descriptive tools include tables and percentages while the inferential tools include regression analysis and analysis of variance (ANOVA). The findings from the study show the R^2 values of 0.612 which revealed that customer satisfaction independently explain 61.2% of the variation in organizational profitability. The f-statistics of 12.307 of the organization revealed that the model is statistically significant at 0.05 significant level. The study concludes that the satisfaction of customers leads to more profitability. More so, there is a positive relationship between customer satisfaction and organizational profitability.

Keywords: Customer satisfaction, business organization, profitability and target market

1. Introduction

The setting up of business organization must target a specific target market that tends to be the target audience/market. Understanding the specific needs of the target market will not only aid in the production of goods and services but also in meeting their needs at a profit. However, the degree at which customers derived satisfaction from the consumption of products reflects the degree of profitability of the company. Customer satisfaction is an important concern for management due to concentrated competition especially in the service industry (Bodet, 2008). It is therefore necessary for every organization to focus on the degree at which they satisfy their customers. An organization that fails to satisfy its customers will gradually move to an organizational grave.

The satisfaction of customers will give way for profitability, resulting from high sales. Customer satisfaction is a necessary foundation for organizations to retain their existing customers (Morgan et al, 1994). It is therefore vital that organizations that create satisfaction do not only create room for the existing customer but also increases customers' base.

The focus of organizations on the target market in order to give out the expected and necessary satisfaction made it vital to say that customer satisfaction is a valuable tool that must be given to customers by organizations if organizations must achieve their core business objective which is profitability. It is therefore necessary to say that there is significant relationship between customer satisfaction and organizational profitability.

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The issue of customer satisfaction goes beyond the theoretical perspective. It is practical in nature if the desired objective of profitability is to be achieved. However, aside from the achievement of desired profit, customer satisfaction also gives room for customer loyalty, retaining existing customers, increase in sales, expansion, growth and large customer base.

The significance of customer satisfaction paves way for organizations to constantly watch, monitor and improve the 4Ps of marketing which are Products, Price, Place and Promotion. This made it necessary for organizations to take cross functional decisions on the marketing activities needed to achieve the stated objectives, which also incorporate profitability.

The application of strategies to product in terms of the qualities, sizes, packages, features, brands etc lead to improvement in customer satisfaction. It is therefore germane in the face of globalised competitive environment for organizations to be dynamic in improving strategic marketing management of the marketing activities in order to constantly increase the rate of profitability.

2. Literature Review

The issue of customer satisfaction has been viewed by different scholars based on their perceived perspectives. Yi (1991) opined that customer satisfaction is a collective outcome of perception, evaluation and psychological reaction to the consumption experience with a product or service. Lui and Yen, (2010) viewed customer satisfaction as how customers can get more benefits than their cost. In comparison with other traditional performance measures, customer satisfaction is probably less sensitive to seasonal fluctuations, changes in cost, or changes in accounting principles and practices (Kotler, 2006).

Satisfaction of customer is used for indicating future possible revenue (Hauser, Simester and Wernerfelt, 1994). Customer satisfaction is the necessary foundation for a company to retain existing customers (Guo, Xiao and Tang, 2009). The customers who are unsatisfied with the received service would not be expected to have long run relationships with the company (Lin and Wu, 2011).

Roger (1996) was of the opinion that an estimate of the effects of increased customer satisfaction on profitability (assuming hypothesized causality) suggests that attainable increases in satisfaction could drastically improve profitability. To Roger, increase in customer satisfaction will lead to increase in profitability.

Customer satisfaction is increasingly seen as an important objective for many businesses, the extent to which it is taken seriously varied (Matthew and Christne (2000). They were of the opinion that there is a significant relationship between customer satisfaction and profitability. That is, the higher the level of customer satisfaction, the higher the degree of profitability for the organization. Eugene and Claes(1997) were of the opinion that many firm that are frustrated in their efforts to improve quality and customer satisfaction are beginning to question the link between customer satisfaction and economic returns. They agreed on the nature and strength of the link. To them, expectation, quality and price affect customer satisfaction, and customer satisfaction in turn affect profitability. Finally, they suggested that the marketing expectation of the quality of a firms output positively affects customer overall satisfaction with the firm, more so, customer satisfaction positively affects profitability of a firm.

Yeung, et al(2002) were of the opinion that delivering customer satisfaction is at the heart of modern marketing theory. More so, they believed that there is a growing research evidence of the beneficial effects of customer satisfaction in terms of both behavioral outcomes such as loyalty, and performance outcome such as profits. Organizations are constantly looking for ways of increasing their customers base through the satisfaction of customers with their products or services. Among various methods to measure a firm competitiveness and marketing performance, customer satisfaction is the most universally accepted measurement.(Morgan,et al 2005). Many firms attempt to measure customer satisfaction in order to evaluate whether they meet their customers needs better than their competitors.(Fornel, 1992).

3. Methodology

Data Collection: This involves the use of primary and secondary sources of data. The primary source involves the use of questionnaire while the secondary data incorporates the use of journals, periodicals and the internet.

Research Design: This paper employs the use of survey research design that allows for the use of questionnaire in eliciting information from the targeted respondents.

Sample: A sample size of 100 management staff of the reputable food and beverage industry was drawn in Lagos State.

Data Analysis: This involves the use of descriptive and inferential statistics. The descriptive statistics incorporate the use of tables and percentages while the inferential statistics give room for the use of regression analysis.

Research Instrument: This paper employs questionnaire as an instrument for data collection. The questionnaire was divided into two sections. Section A measures the demographic characteristics of the respondents. These include educational qualification, status, department, sex, age, marital status and length of service, while section B looks at the contextual variables that help in understanding the relationship between customer satisfaction and organizational profitability. 100 questionnaires were distributed to management staff of the organization but 77 questionnaires were properly filled and returned.

Hypothesis of the Study:

Ho:There is no significant relationship between customer satisfaction and profitability

Hi: There is a significant relationship between customer satisfaction and profitability

Demographic Profile of Management Staff of the selected organization:

The demographic profile in terms of educational qualification, status, and length of service are shown below:

Table 1a: Distribution by Educational Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	B.Sc/HND	44	57.1	57.1	57.1
	M.Sc/MBA	13	16.9	16.9	74.0
	ND/NCE	20	26.0	26.0	100.0
	Total	77	100.0	100.0	

Source: Researcher's Field Survey, 2013

Table 1a shows that majority of the members of management staff have first degree which shows 57.1%, those with higher degree (M.Sc/M.Ba) constitute 16.9% while those with ND/NCE make up 26.0%. This implies that the organization has a good set of management staff that is educated.

The table1b shows that assistant mangers constitute 20.8%, Full Manager 26.0%, General Manager 7.8%, Manager 7.8%, Senior Manager 11.7% while Supervisor make up 26.0%. This implies that the organization has men/women of great status and responsibilities, capable of driving the vision of the organization.

Table 1b: Distribution by Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ASSISTANT MANAGER	16	20.8	20.8	20.8
	FULL MANAGER	20	26.0	26.0	46.8
	GENERAL MANAGER	6	7.8	7.8	54.5
	MANAGER	6	7.8	7.8	62.3
	SENIOR MANAGER	9	11.7	11.7	74.0
	SUPERVISOR	20	26.0	26.0	100.0
	Total	77	100.0	100.0	

Source: Researcher's Field Survey, 2013

The table above shows that assistant mangers constitute 20.8%, Full Manager 26.0%, General Manager 7.8%, Manager 7.8%, Senior Manager 11.7% while Supervisor make up 26.0%. This implies that the organization has men/women of great status and responsibilities, capable of driving the vision of the organization.

Table 1c: Distribution by Department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ADMINISTRATION	13	16.9	16.9	16.9
	ENGINNERING	20	26.0	26.0	42.9
	FINANCE	14	18.2	18.2	61.0
	MARKETING	21	27.3	27.3	88.3
	PERSONNEL	7	9.1	9.1	97.4
	PRODUCTION	2	2.6	2.6	100.0
	Total	77	100.0	100.0	

Source: Researcher's Field Survey, 2013

Table 1d: Distribution by Sex

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	FEMALE	19	24.7	24.7	24.7
	MALE	58	75.3	75.3	100.0
	Total	77	100.0	100.0	

Source: Researcher's Field Survey, 2013

The table above shows that administration has 16.9%, engineering has 26.0%, finance has 18.2%, marketing has 27.3%, personnel has 9.1% while production has 2.6%. This implies that all the departments are managed by qualified staff.

The table above shows that female constitutes 24.7% while male has 75.3%. This implies that the organization has more male staff than female staff.

Table 1e: Distribution by Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	31-40 YEARS	22	28.6	28.6	28.6
	41-50 YEARS	49	63.6	63.6	92.2
	ABOVE 50 YEARS	6	7.8	7.8	100.0
	Total	77	100.0	100.0	

Source: Researcher's Field Survey, 2013

This table shows that members of management staff that fall into the age bracket of 31 – 40yrs are 28.6%, those that fall between 41 – 50 63.6% while from 50 and above are 6%. This implies that the organization has matured, agile and effective workforce.

Table 1f: Distribution by Marital Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	MARRIED	77	100.0	100.0	100.0

Source: Researcher's Field Survey, 2013

The table above shows that all the members of management staff of the organization are married. This shows that they are men and women of integrity and responsibility.

Table 1g: Distribution by Length of Service

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ABOVE 10 YEARS	55	71.4	71.4	71.4
	BETWEEN 5 AND 10	22	28.6	28.6	100.0
	Total	77	100.0	100.0	

Source: Researcher's Field Survey, 2013

The table above shows that members of management staff that have spent between 5 – 10yrs are 28.6% while those that have spent above 10yrs are 71.4%. This implies that the organization has men and women of vast experience that can move the organization to a greater height.

Table 2: Frequency distribution of responses of management staff of the selected organization

S. No.	QUESTIONS	SD	D	U	A	SA
1.	Your organization produces varieties of products in meeting customers' satisfaction.				35(45.5%)	42(54.6%)
2,	The brand name influences organizational sales				36(46.8%)	41(53.2%)
3.	Your products meet customers' requirements				30(39.0%)	47(61.0%)
4.	Customers complain about the quality of your products	20(26.0%)	37(48.0%)	20(26.0%)		
5.	The packaging is effective.				25(32.5%)	52(67.5%)
6.	Your organization has customer service centre				67(87.0%)	10(13.0%)
7	The pricing decisions allow				35(45.5%)	42(54.5%)

	for discounts that encourages satisfaction					
8.	Prices of the products are appropriate to promote profitability.				40(51.9%)	37(48.1%)
9.	The pricing decisions allow for payment period				35(45.5%)	42(54.5%)
10.	The pricing strategy gives room for large customer base.				45(58.4%)	32(41.6%)
11	Can you recommend your organizations products to others?				52(67.5%)	25(32.5%)
12	Do you believe that customer satisfaction leads to profitability?				42(54.5%)	35(45.5%)
13	The organization customer satisfaction level is satisfied				42(54.5%)	35(45.5%)
14	Correlations do exist between customer satisfaction and profitability				35(45.5%)	42(54.5%)

Source: Researcher's Field Survey, 2013

Table 2 gives the summary responses of general questions put to management staff of the selected organization._There were five options of strongly disagree, disagree, undecided agree, and strongly agree from which the members of management staff were to choose for each question. To most of the questions, agree and strongly agree received the highest percentages. This indicates that the members of management staff were in agreement (strongly agree or agree) to 24 general questions put to them. However, in question four, majority of the members of staff disagree or strongly disagree with the fact that customers complain about the quality of their products, In other words, they hold the opinion that customer satisfaction leads to profitability.

4. Interpretation and Discussion of Result

The respective regression result as dispayed in table 3(a) of appendix 1 relates to the effect of customer satisfaction on organizational profitability. The value of the R^2 (0.741) reveals that the explanatory variables (customer satisfaction) jointly explains 74.1% of the variation in the dependent variable. Both the value of standard error and the t-statistics show that the parameters are statistically significant at 5% level of significance. The value of the adjusted R^2 also indicates that the model has a good fit. The F-statistic of 16.939 also shows that the model as a whole is statically significant at 5% level of significance.

5. Conclusion & Recommendations

From the findings of the study, it can be concluded that customer satisfaction as a whole has jointly contributed immensely to the profitability of the organization. Moreso, it can be concluded that there is a significant relationship between customer satisfaction and organizational profitability. In this case, the null hypothesis is hereby rejected, thereby accepting the alternative hypothesis which states that there is a significant relationship between customer satisfaction and organizational profitability.

In line with this study, it is hereby recommended that organizations should embrace marketing concept that allows for being more effective than competitors in creating, delivering and communicating superior customer value to its chosen target market. Organizations should constantly review their products variables such as packaging, varieties, features, brand name and quality in order to constantly satisfy their customers. Organizations should watch and monitor strategic moves of competitors in order to remain competitive in the global settings. Aside from watching and monitoring the actions and reactions of environmental actors and forces, it is evitable for organizations to strategically monitor the marketing mix variables.

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APPENDIX 1

Table 3(a): Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.794[a]	.612	.609	.505	1.052

Source: Author's Computation, 2013
a. Predictors: (Constant), CUSTOMER SATISFACTION
b. Dependent Variable: PROFITABILITY

The value of R^2 (0.612) indicates that customer satisfaction independently explain 61.2% of the variation in profitability.

Table 3(b): ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.078	1	.078	12.307	.001[b]
	Residual	19.142	75	.255		
	Total	19.221	76			

Source: Author's Computation, 2013
a. Dependent Variable: PROFITABILITY
b. Predictors: (Constant), CUSTOMER SATISFACTION

The f-statistics of 12.307 shows that the model is statistically significant. It shows that there is a significant relationship between customer satisfaction and profitability

Table 3(c): Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.882	1.081		3.590	.001
	Customer Satisfaction	.449	.269	.464	5.554	.001

Source: Author's Computation, 2013
a. Dependent Variable: PROFITABILITY

The t-statistics shows that there is a significant positive relationship between customer satisfaction and profitability.