EFFECT OF CUSTOMER SATISFACTION ON COMPANY PERFORMANCE

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Abstract


The subject of this article is customer satisfaction and its impact on company performance through satisfaction with its products, including a comparison with the competition. Research was conducted in search of factors which affect customer satisfaction on the one hand and the performance of the company on the other hand. We constructed a model explaining what specific factors (affecting customer satisfaction) have an impact on the performance of a company. This model can help management to better run the business and achieve higher performance. The article is based on research that focused on companies in the food industry in Czech Republic and on their customers. First, we found the financial performance of surveyed companies (based on indicators ROA, ROE and assets turnover) and on this basis they have been divided on companies efficient and inefficient. Furthermore factors were identified (based on previous research of authors) that have an impact on customer satisfaction (among these factors include product quality, customer requirements for product, comparison with competitive products, etc.). With the use of non-parametric statistical methods, logistic regression and discriminant analysis was analyzed, what factors affecting customer satisfaction also affect business performance.

Keywords: customer satisfaction, product quality, company performance

INTRODUCTION

This article deals with the relationship between customer satisfaction and business performance. It is based on the claim that customer satisfaction is formed and influenced by various factors, which in turn affect company performance. From the perspective of the company and its management it is essential that the business can (directly or indirectly) affect (at least some) factors of customer satisfaction. It is, therefore, vital for the enterprise management to identify the factors of customer satisfaction and, when possible, to influence them so that the performance of the company may increase. The research, on which this article is based, is focused just on those customer satisfaction factors that may (directly or indirectly) affect the management of the company.

The subject of this article is then customer satisfaction and its impact on company performance through satisfaction with its products, including a comparison with the competition. This article aims to find the factors of customer satisfaction which have an impact on company performance. The operational objective of the article is to put these factors into context with performance so that managers may, by deliberately influencing these factors, affect customer satisfaction and consequently the performance of their company.

A model was, therefore, designed within the scope of research, where customer satisfaction consisted of three groups of interrelated factors that affect company performance. These include factors characterizing customer shopping behaviour (e.g. frequency of purchase, length of use, satisfaction with the product, etc.), product quality (e.g. price, technical features of the product, etc.) and comparing the product of a relevant business with the competition (e.g. tradition, quality, customer relations, etc.).
The research was conducted on a sample of food enterprises in the Czech Republic as the products of these enterprises are widely available in retail chains, and it is, therefore, not a problem to obtain respondents among customers of these businesses. In order to ensure maximum homogeneity of the sample of respondents (customers of surveyed companies) the research was eventually narrowed to students. This group of customers is to a certain extent somewhat specific; however, it makes up a significant percentage of customers in the context of the Czech population.

THEORETICAL FRAMEWORK

Quality (of a product) and customer satisfaction are the key factors of a company performance, which has been confirmed by many studies (Matzler et al., 2004). Customer satisfaction is generally defined as a feeling or judgment by customers towards products or services after they have used them (Jamal and Naser, 2003). Customer satisfaction can mean very different things among the answerer. It may include such factors as delivery time, price, conformity, professionalism, or it is generally just a response to customer requests (Kuronen, Takala, 2013).

Customer satisfaction can thus be understood as the result of a subjective process – the customer compares his ideas with perceived reality (Anderson et al., 1994). Such a definition of customer satisfaction is consistent with the transaction-specific concept, which evaluates specific buying opportunities after the completion of the selection (and possible purchase) of a product (Anderson et al., 1994). Selnes similarly defines customer satisfaction as the post-choice evaluative judgment of a specific transaction (Selnes, 1993).

When examining customer satisfaction, the authors aimed their research at the current state of customer satisfaction as well as Al-Hawari and Ward (Al-Hawari, Ward, 2006). This definition was used because the research is aimed at determining customer satisfaction with a particular product (the subject of the research is then not the determination of customer satisfaction with the purchase as a whole, nor demographic, situational or other characteristics that lead to the customer's decision to buy the product).

To a certain extent, there was a narrowing of the issue of customer satisfaction, as the marketing policy of the company (the way of using marketing tools, including pricing strategies), which affects customer satisfaction and consequently company profit was not addressed (Zeithaml, 2000). The authors then seemingly did not proceed in accordance with satisfaction – profit chain (satisfaction → share of wallet → revenue → profit) (Coil et al., 2007 cf. Anderson, Mittal, 2000), but concentrated on the product and its impact on customer satisfaction and consequently the profit of the company. Given that the quality of the product depends on customer satisfaction (see below), it can be assumed that higher customer satisfaction means higher product quality and higher willingness to purchase the product (share of wallet). The above-mentioned satisfaction – profit chain can thus be supplemented with product quality; its place being between satisfaction and share of wallet.

With respect to the time horizon, the authors understand the relationship of product quality and customer satisfaction in the long term, i.e. should a satisfied customer positively affect the profitability of the company (through the purchase of a quality product), this customer must be acquired and (in the long run) also retained. This is consistent with the findings of Anderson and Mittal (Anderson, Mittal, 2000) and Cool (Cool et al., 2007).

The term “quality” is often interpreted differently by different authors, for example, Parasuraman (Parasuraman et al., 1985) defines quality as zero defect production, whereas Crosby (Crosby, 1979) understands quality as conformance to the requirements of the customer. From the customer's perspective it is then possible to understand quality as quality perceived on the basis of the consumer's judgment about a product's overall excellence or superiority (Zeithaml, 1988). In this context, Fornell notes that if the first determinant of overall customer satisfaction is perceived quality, then the second determinant of overall customer satisfaction is perceived value (Fornell et al., 1996).

This finding suggests that quality can be associated with customer satisfaction, or rather that the quality level is determined by the level of customer satisfaction. At the same time, however, this level of customer satisfaction (and product quality) also reflects the value that the customer (subjectively) assigns to the product. The price, which the customer is willing to pay for a product, can then be deduced from this value. However, with respect to the above definition, it must hold true that higher satisfaction of the customer's needs and his higher gratification does not automatically mean that the customer perceives the higher quality of the product. To this notion can be added that higher product quality also means a higher value of the product and the higher the price the customer attributes to the product. However, it is not at all certain whether the customer will be willing to pay this (higher) price for the (better) product.

Company performance can be seen in the context of the production capacity of the company, i.e. as an output from the manufacturing process going on in the company. This approach directly incites the use of accounting data for direct and simple performance evaluation, by the means of company performance appraisal in relevant prices of specified products. The most widely used company performance indicators include profitability, namely return on sales – ROS, return on assets – ROA, return on equity – ROE (Richard, 2009). It is also possible to use asset turnover – ATO for
performance evaluation, as did, for example, Gu or Habib (Gu et al., 2006; Habib, 2006).

Measuring company performance based on accounting data is problematic because the accounting data does not (more or less) fully reflect the actual (market) performance of the company. Therefore, we are offered the possibility of using the market price of shares, or indicators based on this price in measuring company performance. For the measurement of performance Tobin’s coefficient (q) can then be used (Anderson et al., 2004). However, in the Czech Republic, the use of indicators of capital market is problematic because there are only 15 firms traded on the main market of the Prague Stock Exchange (PSE) (i.e. across all sectors, these companies make up 98.5% of the total volume of transactions in 2013, for more information see Yearbooks 2013, 2014). However, there are tens of thousands of liability companies (according to the Albertina database there was a total of 25,273 companies up to 10. 7. 2014, of which 463 were food industry enterprises). Moreover, the market value of other legal forms of enterprises (such as limited liability companies) can be difficult to measure because these companies do not issue any shares. Their market value can only be determined using business valuation methods that are relatively demanding in terms of internal information. Therefore, the above-mentioned standard ratio indicators were eventually put in use for performance evaluation.

MATERIAL AND METHODS

Research was conducted in the form of two questionnaires (in which data was ascertained). The first questionnaire was divided into several areas, where for the purposes of this paper the area devoted to product quality (three questions), customer’s character of shopping behavior (six questions) and competitiveness (thirteen questions), was used. These sections contained rating scale questions. This questionnaire was filled from customers of surveyed companies.

The second questionnaire was filled from respondents of surveyed enterprises. This questionnaire was additionally supplemented with selected quantitative data from the balance sheet and profit and loss account (for 2012), so as to determine the basic ratios of profitability (namely ROE and ROA), activity (namely ATO), liquidity (including long-liquidity – L3) and indebtedness (namely own-funds ratio). The design of these indicators also emanates from methods used by the authors in previous research, and which are furthermore in accordance with the design used by the Ministry of Industry and Trade of the Czech Republic (Suchánek, Špalek, 2007).

The sample of enterprises examined comprised 86 companies in the food industry sector, which were questioned during the autumn of 2013. Economic data were gathered for the year 2012. The sample of customers examined comprised 5592 persons (students), which were questioned during the autumn of 2013.

First, on the basis of economic indicators, companies were divided into ‘performing’ and ‘non-performing’ ones. Enterprises with two out of the three indicators (ROA, ROE, ATO) above the median, after discarding a priori poor enterprises (Equity < 0), are those the study regarded as performing. The remaining enterprises were regarded by the study as non-performing.

The factors of the customers’ satisfaction characteristics were then ascertained for both samples of enterprises, and differences were looked for between both of the samples. The results were evaluated based on Mann-Whitney tests. To predict whether the company will be efficient or inefficient (based on the examined customer satisfaction factors) discriminant analysis and logistic regression were used. Because the results of both methods led to similar conclusions, only the results obtained by logistic regression are mentioned in the article. The significance of all tests was assessed with regard to the level of significance α = 0.05.

RESULTS

In the first part dedicated to enterprise performances, the researched enterprises are divided into two groups – the productive and non-productive companies on the basis of ROE, ROA, and ATO (variable activity in Tabs. I and II). To give a clearer picture of both groups of enterprises and to give emphasis on the differences between them also the values of liquidity (L3) and indebtedness (the ratio of own capital to the whole capital – variable equity in Tabs. I and II) are presented. In the second part dedicated to customer satisfaction the factors are presented with an influence on the performance of the enterprises examined (statistically significant).

The Performance of Companies

In this section are set out the results of the evaluation of the performance of the examined enterprises with respect to individual performance indicators. The characteristics of the performing enterprises are given in Tab. I, while the characteristics of the non-performing enterprises are given in Tab. II. The results clearly show that there were 38 performing enterprises and 48 non-performing one.

In light of the classification method, it was no surprise that the performing enterprises in the selection have on average much higher ROE indicators, whereas the indicator for ROA and L3 liquidity is only slightly higher. The ATO indicator (assets) is on average for performing enterprises even a little lower. Also, the indebtedness indicator is considerably lower for performing enterprises than it is for non-performing ones. It is clear that the essential difference between the performing and non-performing enterprises in
the investigated sample were the indicators for ROE and indebtedness, whilst at the same time it is clear that non-performing businesses are unable to adequately make use of (sufficiently increase the value of) external resources or generate sufficient net profit. This obviously does not depend on the turnover speed of the invested resources, which is comparable (and compared with the sector – the average asset turnover is 2.07 – even above average), but rather on the ability to make effective use of resources. Added value in this sector is after all relatively low, so less effective economic management pushes enterprises into the non-performing category. It will be interesting to observe whether the quality of the product (or its innovation) will have an effect on this status.

Individual Factors of Customer Satisfaction

In this part are presented results of the investigation of the individual factors that have influence on the performance from the customer’s point of view. The overall results are mentioned in Tab. III. Displayed p-values are related to two-sided tests, whereas research hypothesis were one-sided. Thus the relevant p-values were re-calculated.

I: Economic characteristics of performing enterprises

<table>
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Source: authors

II: Economic characteristics of non-performing enterprises

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Source: authors
The first statistically important factor that is significantly connected with the performance of the company is customer satisfaction (variable SATISFACTION). In particular the research proved that the customer satisfaction with the provided product is higher with the productive companies than with the non-productive companies.

The second statistically important factor that is significantly connected with the performance of the company is experience with the product (variable FIRST_EXP) that the customers have in the sense of the period for which the customers have known the products. The investigation proved that the customers have more experience with the products of the productive companies, i.e. that they have know them (and have been buying them) longer.

The third factor that from the customer point of view is connected significantly with enterprise performance is the frequency of the purchase (variable BUY_FREQ). It was proven there that the frequency of the purchase is higher with the productive enterprises.

The fourth factor that is significantly related to enterprise performance is quality (in the sense of the technical make) of the product (variable QUALITY). The research proved that customers evaluated better the quality with the productive enterprises. This way we can conclude that from the customer's point of view the productivity in the productive companies was higher. That is valid also in comparison with the competition i.e. that the quality of the products of the productive enterprises is, in comparison with the competition, higher.

The fifth factor that is significantly related with enterprise performance is the price, related to the quality of the product. The research proved that the price of the products (related to their quality) from the productive companies was evaluated as lower by the customers. On this basis we assume that the customers would be willing to pay for the quality product at an even higher price than the one the product is being offered for. On the other hand, it means that for the less quality product they will be willing to offer also a significantly lower price. By that it is confirmed that students and also (generally speaking) the customers from the Czech Republic are very sensitive about the price, which also corresponds with the findings of Porter (Porter, 2008).

When determining the price of the enterprise product in comparison with the competition (variable CPRICE), however, the results are exactly the opposite, i.e. the price of the products by productive companies is considered higher by the customers. Taking into consideration that it concerns the productive companies we can assume that the customers are nevertheless buying the product that is of higher quality but more expensive. From this we can assume that the customers (students) in the Czech Republic are willing to pay a higher price for higher quality (in the case of the food products).

The seventh important factor that is significantly related to enterprise performance is the comparison of the quality of the enterprise product with the competition (variable CQUALITY). The research proved that the customers evaluate product quality in the productive companies as higher in comparison with the competition.

The eighth important factor, significantly connected with enterprise performance is tradition, compared to competition (variable CTRADITION). This factor is related to the second mentioned factor which is experience (how long customers have known the product). The research proved that the productive companies are connected with larger tradition (in the sense of the duration of the success rate during the activity on the market where larger tradition means longer and more successful presence on the market) than the non-productive companies. This means that for the enterprise to be (financially) productive it has to enter (very quickly) the awareness of the customer, it has to convince the customer about its quality and make the customer repeat-purchase so that the customer connects the enterprise with tradition, in other words so that the customer labels it as being traditional.

The ninth factor that is significantly connected with enterprise performance is flexibility (variable CFLEXIBILITY). The research proved that customers consider flexibility higher in the case of productive companies (compared to the competition).

The tenth factor significantly connected with enterprise performance is the approach to the customer, compared to the competitive companies (variable CACCESS). The research proved that the approach of the productive companies is, in comparison with the competition, better than in the non-productive companies. Considering the fact that it concerns the final customer who however does not buy the product of the researched companies directly but through mediators (retail trades), the question arises whether this factor does not evaluate rather the quality of the distributive net of the enterprise. However, on the other hand, it is clear that the customer connects the purchase of the product with the producer whether distributed directly or indirectly, i.e. paradoxically (in the case of the indirect seller) with the low possibility of the producer to influence the quality of the approach to the customer (who is the employee of another company).

With this is related also the eleventh factor which is the extent of the offered services (variable CSSCALE). The research proved that the customers consider the extent of the offered services of the productive companies higher (in comparison with the competition) than of the non-productive companies. Again the question arises whether the services (the extent of the services) of the retail trades are not evaluated in terms of the distribution of the product to the final consumer.
Also the twelfth factor, which is the availability of the store in comparison with the competition (variable CAVAILABILITY) comes out significantly better in the productive companies. Here it can be stated with high certainty that the manner of distribution is evaluated and it seems that the productive enterprises have their distribution better organized, in other words they use better mediators than non-productive enterprises.

The thirteenth factor significantly connected with enterprise performance is the repeated purchase of the product (variable REPEAT). The research proved that customers of productive companies repeat their purchase of the product (they buy the product again) more often than customers of non-productive companies. This finding corresponds with the third factor (the frequency of purchase) because the willingness to buy the product again is related to the higher frequency of purchases.

Comprehensive Model of Customer Satisfaction

Based on the results of previous parts of the research focused on individual factors of customer satisfaction on company performance, twelve factors were identified that have an influence on this performance. Using logistic regression it was further investigated whether a comprehensive model could be established (and what it would look like), which would be able to explain the combined effect of these factors on the efficiency or inefficiency of the business.

Presented in this part are the results of the investigation of the factors that have (when combined) an influence on performance from the customer's point of view. The overall results are presented in Tab. IV.

Of the twelve analyzed variables (customer satisfaction factors) five factors were shown to be statistically significant (using both discriminant analysis and logistic regression): experience with the product (variable FIRST_EXP), frequency of purchase (variable BUY_FREQ), product quality (in terms of design and craftsmanship), (variable QUALITY), price of the product compared to competition (variable CPRICE), and tradition, compared to competition (variable CTRADITION).

The final logistic regression model has considered “performing” companies as success, where the vector of explanatory variables is as follows:

\[ x = \{\text{FIRST\_EXP}, \text{BUY\_FREQ}, \text{QUALITY}, \text{CPRICE}, \text{CTRADITION}\}. \]

All of these variables were statistically significant at level \( \alpha = 5\% \) and the p-value of the likelihood ratio test was almost zero. This model with five explanatory variables is, therefore, significant. The resulting model has the following form:

\[
\log \left( \frac{p(x)}{1 - p(x)} \right) = -0.85 + 0.024 \times \text{FIRST\_EXP} + 0.06 \times \text{BUY\_FREQ} + 0.053 \times \text{QUALITY} - 0.09 \times \text{CPRICE} + 0.06 \times \text{CTRADITION}.
\]

From the “Odds ratio” column in Tab. IV, it is apparent that the chance of success, i.e. the chance that the company will be performing is greater than 1 in all variables except CPRICE. Increasing the value of this variable reduces the chance that the company will be performing. Value increase for other variables leads, on the other hand, to a higher chance that the company will be performing. If, for example, the value of CTRADITION is increased by one unit, the chance of the company to be more efficient (more performing) increases by 6.5% (with values of the other model variables unchanged).

This interpretation of the model corresponds to the assumptions set out in the introduction (and identified in the literature). The more experience the customer has with the product, the more often he buys it. The better (in a technical aspect, i.e. content and design) the product is (compared to competitors), and the longer it is on the market (longer tradition), the higher the company performance is. Conversely, the higher the price is (compared to competitors), the lower the performance of the company is.

On the other hand, it is necessary to admit that the model correctly assessed only 58% of cases. Thus, although the interpretation of the model

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<tr>
<td>Modeled probability that Performing = performing</td>
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<td>Odds Ratio</td>
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Source: authors
corresponds to the assumptions and expectations, the ability of the correct classification is not large. Because the model can correctly classify up to 89% non-performing businesses, but only 19% performing businesses, it appears that it better recognizes non-performing businesses.

DISCUSSION

About half (54.5%) of the investigated factors affecting customer satisfaction in the three mentioned areas had a significant impact on business performance. Although the direction of the effect of these factors was in line with expectations, the strength of this effect, as a comprehensive model has shown, was low.

It is not too surprising that the performance of a company is affected by the price of the product and its technical design, as these factors are, together with customer satisfaction, an essential part of product quality. The company (its management) can directly affect this quality. In order to achieve this, the company needs to acquire correct data about customer needs, as better information leads to a better product (technical design and price better meeting customer needs) which leads to higher customer satisfaction. More satisfied customers then buy the product again (this is rather important in the case of foodstuffs, which are purchased frequently and regularly), thus ensuring not only current but also future company performance.

In terms of customer buying behaviour, it is interesting that the company’s performance is also affected by the duration of use of the product, respectively how long a customer uses the product and the frequency of purchase. The duration of product use may be associated with a certain moderation of a customer who refuses to abandon a product which he knows and with which he is satisfied. Companies would thus have to focus their efforts not only on customer acquisition, but also on maintaining existing customers.

In the case of purchase frequency, where it was found that higher frequency of purchase leads to greater company efficiency, it can be assumed that the customer is subject to a certain routine, i.e. that the customer does not think too much about the purchased product. From this assumption, we can deduce that the length of use and the frequency of purchase of the product are related, and their impact on performance is higher especially in the case of repeat purchases (often needed goods). The enterprise cannot substantially influence these factors since they are given by the product and the product consumption character. On the other hand, the enterprise can (by the use of marketing tools) seek the most frequent purchase of its product (and convince the customer of the superiority of the product at the same time).

Because no company or product is on the market alone, it is not surprising that customers compare products of different companies to each other (of course they also compare the various products of the same company). It is expected that customers will compare the price and technical design of products. Based on the above results, again, it is not surprising that customers compare the tradition of a product (company), all of these being factors the company (management) can affect. At the same time, it can be concluded that the company should also obtain information about their competitors and basically should perform similar comparisons that the customer does. Thus, it will not just better separate itself from the competition, but also better reach the customers, acquire them, and keep them (by offering them a higher quality product).

Interestingly, in addition to the above factors, there are factors that are modifiable by the management only indirectly or more precisely, factors which are defined by the nature of the transaction (product sale). These are the approach to the customer; services offered, and the availability of the product (in the sense of the location where the customer shops). It follows that for company performance not only the quality and nature of the product are important, but also the quality of the store, which is given by the three aforementioned factors. This means that the company and its management must carefully consider the distribution method; higher company performance is associated with better vendor services, better availability and better approach to customers. Therefore, it is expected that a more appropriate method of distribution will probably use retail companies with a dense branch network in the form of supermarkets rather than discount stores.

In terms of the customer satisfaction impact on the company performance model, it is interesting that factors comparing competition recede into the background. Price and tradition only are important for company performance (compared to the competition). This confirms the phenomenon of price as an important factor of customer satisfaction influencing performance (it is also the most significant variable). The model shows that price has a negative impact on performance suggesting sensitivity to price (in terms of price increase). It can be assumed that the customers, (students) in this case prefer a product with a lower price and are not willing to pay more for the product (for better quality).

Factors of tradition and duration of product use are closely related and confirm the influence of factors of purchase characteristics (along with the frequency of purchase) on company performance. The results thus support the above claims about these factors, including recommendations for the management of the company.

It is interesting that performance in the model is influenced not only by the technical design of the product and not by customer satisfaction. This result indirectly supports the claim of preference rates; the customer is apparently willing to accept a product that is indeed on the some technical level, but he is
not quite satisfied with it (i.e. there exists a better but more expensive product). Such buying behaviour (i.e. buying it because it is cheap, not because it is of good quality) is typical for students, and it could probably be also applied to goods (food) of frequent consumption.

In this context, it is interesting that in the short term aspect, customer shopping behaviour or tradition (in terms of business) cannot be changed in comparison with the competition; therefore performance basically depends (based on the factors we examined) only on quality and price. Because customer shopping behaviour does not depend only on the product, but also on other factors (e.g. customer's income), it is logical (in terms of the evidencing model value), that additional factors will have to be included in the model. However, this will only be possible in the scope of further research.

CONCLUSION

Of the twenty-two factors that were examined in relation to customer satisfaction, twelve proved to be statistically significant with regard to the efficiency or inefficiency of the company. Of these twelve, three factors relate directly to the customer (customer satisfaction, experience with the product, frequency of the purchase), the product quality (quality of the product in the sense of the technical design) and comparisons of the company product with the competition – from the customer's perspective, in eight categories (price, quality, tradition, flexibility, customer approach, the extent of offered services, accessibility of the store, repeated product purchase).

The above factors do not affect the company's performance individually. In terms of company management, it is thus very difficult to focus on these various factors. It is not clear what will be the final effect on the customer when the mutual relations between the factors (which may be not only complementary but also competitive), or the strength of their effect on customer are not known.

Because of this, the model of customer satisfaction influence was built with factors that affect the performance of the company individually. These factors, whose combined effect on the financial performance the model described, only five proved to be statistically significant (two in the customer area, one in the product quality area, and two in the area of a matching competition product comparison). Although the model is statistically significant and the five factors (experience with the product, frequency of purchase, quality of the product in the sense of the technical design, price and the tradition compared to the competing companies) have an impact on performance, the explanatory ability of the model is low, i.e. the influence of these factors on company performance is small.

It is clear that in the area of customer satisfaction, there are other factors that have an impact on company performance. It would thus be appropriate to expand research further with situational or demographic factors, possibly examine customers' satisfaction with the overall purchase. Because students represent a specific group of customers (e.g. young people, low income) it would be appropriate to compare the results with another group of customers.

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