



# MULTIPLIER CUSTOMERS

COLLABORATIVE FOR CUBES™ HELPS  
TARGET PROFITABLE NEW CLIENTS



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All customers are not the same. Some generate only one-time business. Others can help grow a firm organically through repurchasing, recommending the business to peers, inviting bids on new business, and offering positive word-of mouth.

Customers who engage in these behaviors are “multiplier customers”: they help firms multiply their business growth.

Multiplier customers who offer peer recommendations and repeat business are especially critical for industrial business-to-business (B2B) companies that offer specialized products and solutions to meet complex customer needs and for whom the cost of customer acquisition can be high. Without multiplier customers, B2B companies see increased customer acquisition costs, may have lower sales per customer, and fail to deliver the desired financial results.

Multiplier customers essentially serve as additional salespeople for their suppliers by inducing trust and confidence among other prospective buyers. They provide information about the health of a company’s customer base. At the 100,000-foot level, multiplier customers enable the CEO to measure the health the company’s core asset, its customer base.

So how can a B2B company build a solid base of multiplier customers? As shown in a recent analysis by the Collaborative for Customer-Based Execution & Strategy (Collaborative for CUBES™), it starts with a focus on overall customer satisfaction.



## Satisfied, Profitable Customers

Why should a B2B firm focus on multiplier customers? Because they are inherently more satisfied than the average customer, multiplier customers are more likely to engage in behaviors that lead to three benefits for a firm.

First, multiplier customers lower the cost of acquiring new customers through peer recommendations and positive word of mouth. When dealing with complex goods and services, as is the case for industrial B2B companies, positive word of mouth and recommendations can provide credible and useful information to other potential customers. Relative to advertising and collateral, word of mouth and recommendations are powerful signals because they summarize the entire experience of an existing customer for potential customers.

Second, multiplier customers help avoid the “value trap,” a condition often encountered by B2B companies in which they feel pressure to improve product performance by adding more and better features. This increases their costs, but because of clients’ pricing leverage, they are unable to pass on the costs and margins erode.

Due to their higher overall satisfaction, multiplier customers are less price sensitive and are more likely to engage in future business with a firm. A higher level of satisfaction provides the psychological comfort to re-engage with the supplier because the customer’s needs are well met. As such, companies do not have to provide multiplier customers with increasing numbers of features, which raise costs, or steep price discounts, which erode margins, to retain them. This obviates the value trap.

Third, multiplier customers are less likely to switch to a competitor should the other supplier lower its price or provide more features. Multiplier customers are reluctant to break relationships and more likely to give current suppliers a chance to match competitors’ offerings, trust the existing vendors’ offerings, and sign share of wallet contracts. However, this occurs only within the zone of tolerance — the competitors’ offer cannot be intolerably better.

### The Customer Satisfaction Effect

Satisfied customers benefit firms in a variety of ways. Customers who are more satisfied are more likely to:

- Recommend and refer a company to their peers.
- Repurchase a company’s product or service.
- Increase quantities purchased.
- Engage in positive word of mouth activity.
- Be committed to a brand.

Customers who are more satisfied are less likely to:

- Complain to outside entities, such as regulators.
- Switch to lower-priced competitors.



Despite this straightforward intuition, identifying multiplier customers has not been easy for B2B companies. The Collaborative for CUBES™ project is designed to help address this issue.

## Collaborative for CUBES™: Collaborative for Customer-Based Execution & Strategy

The Collaborative for CUBES™ is intended to develop a B2B customer-based perspective that enables executives to design and execute strategy. The goals of the project are to:

- Understand the extent to which overall customer-satisfaction — a key customer metric — is associated with executive-relevant outcomes like pricing-power, customer loyalty, willingness to recommend, and financial performance.
- Identify key strategic areas (e.g., bidding, safety, pricing) that can be leveraged to improve overall satisfaction.
- Determine specific execution levers to improve performance in key strategic areas.
- Provide a framework for executives to use a customer-based approach to crafting and executing strategy.

Collaborative for CUBES uses a multi-step approach to answer the key question: How, if at all, is overall customer satisfaction associated with non-financial and financial outcomes in a B2B context?

### Step 1: Literature Review

A rich body of academic papers shows customer satisfaction can affect many company outcomes. However, the vast majority of papers address only B2C interactions. When academics have examined B2B interactions, they have examined single companies. And while it is easier to work with such case studies, it does not provide the level of descriptive confidence needed to understand the dynamics of the larger B2B marketplace.

Existing studies are also narrow in scope. Most examine a limited set of outcomes, focusing only on customer loyalty metrics and not aligning them with financial results.



## Step 2: Data Collection

In November 2016, a national panel of more than 4,900 B2B managers participated in the baseline Collaborative for CUBES survey. The researchers measured overall customer satisfaction using a seven-point Likert scale. The scale is balanced with three categories indicating dissatisfaction, one showing indifference between satisfaction and dissatisfaction, and three categories indicating satisfaction. Each category has a numeric value and verbal descriptor.

If the supplier rated by the respondent represented a publicly traded company, researchers matched the supplier name to financial information. This is the source of all sales, revenue, and margin data used in the study, and such objective sales metrics made the results far more robust than subjective or self-reported sales measures.

## Step 3: Econometric Estimation

The Collaborative for CUBES™ team merged the overall customer satisfaction survey with the financial data. The results are based on an econometric model that statistically isolates the unique association of overall customer satisfaction with each metric. The econometric model controls for the confounding effect of non-focal factors associated with the B2B firm (e.g., liquidity), industry (e.g., industry concentration), and respondent. This procedure provides a representative picture of the association of overall customer satisfaction with the different outcomes.

**The Collaborative for CUBES project examines a broad set of outcomes, including:**

- **Customer loyalty metrics:** Whether a company will use a supplier for the next job, invite a bid, recommend the supplier, and pass along positive or negative word-of-mouth.
- **Top-line financial performance:** Sales and revenue.
- **Bottom-line financial performance:** Gross margins and earnings before interest, taxes, depreciation, and amortization (EBITDA).
- **Stock-market metrics:** Return on assets and Tobin's Q ( $q$  ratio, asset market value divided by asset replacement cost).



## Identifying Multiplier Customers

How do B2B companies convert existing customers into multiplier customers? Results from the Collaborative for CUBES™ research project indicate firms can grow a base of such customers by focusing on overall satisfaction.

In the Collaborative for CUBES™ study, customers rate a specific supplier on overall satisfaction and whether they will be “extremely likely” to:

- Use this supplier for their next project/job.
- Recommend this supplier to a colleague/friend.
- Say positive things about this supplier if someone asks.
- Invite this supplier to provide a quote/bid if the opportunity arises.

A customer was defined as a multiplier customer if they are “extremely likely” to engage in all four of these behaviors. Indeed, a multiplier customer offers the highest possible chance of all four behaviors. Next, the Collaborative for CUBES™ team statistically estimated the likelihood of generating multiplier customers at each level of overall customer satisfaction.

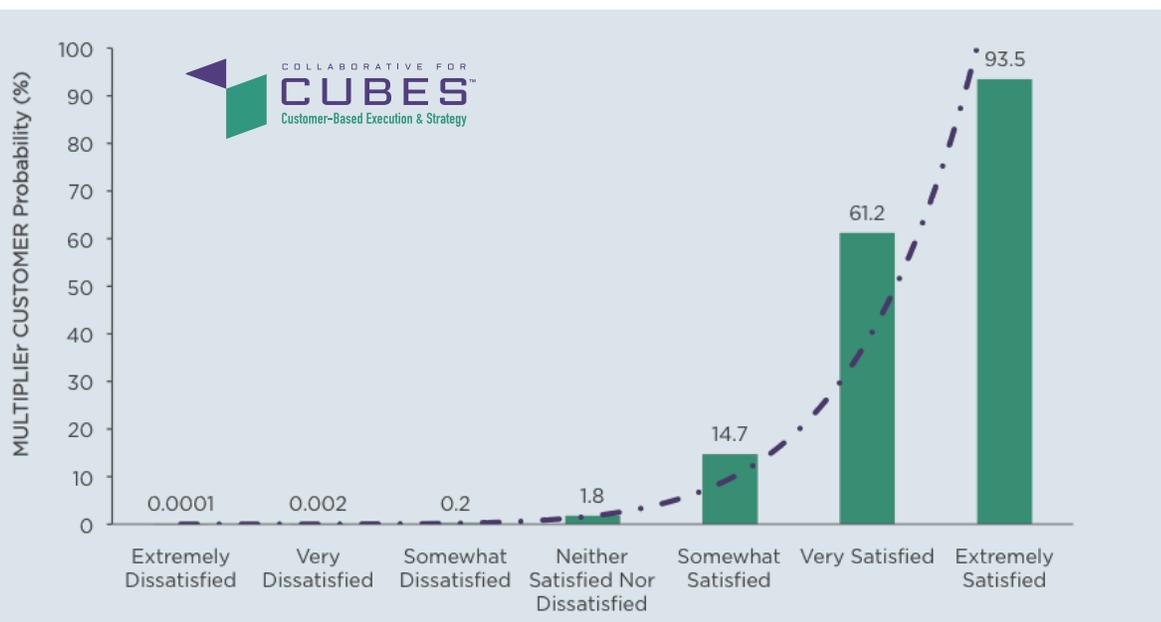
Using this methodology, the Collaborative for CUBES™ study provides a quantitative metric to assess customer quality. A firm can answer the key question: As overall customer satisfaction increases, what is the probability of generating a multiplier customer?



### Figure 1. Probability of Generating a Multiplier Customer

The results summarized in Figure 1 show the probability of generating a multiplier customer at different levels of overall customer satisfaction. Specifically they demonstrate:

- The probability of generating a multiplier customer is almost zero when a firm’s customers are in the dissatisfied range or indifferent (“neither satisfied nor dissatisfied”). Customers who are dissatisfied or indifferent do not generate multiplier customers.
- In the satisfied range, the probability of generating a multiplier customer rises, but non-linearly. “Somewhat satisfied” customers have a 14.7% chance of being multipliers, “very satisfied” customers have a 61.2% chance of being a multiplier, and extremely satisfied customers jump to a 94.5% chance.



If businesses want to improve the quality of their customer base and cultivate a larger share of multiplier customers, they must focus on making buyers “very” or “extremely” satisfied. Extremely satisfied customers have an almost 1-to-1 conversion probability of becoming multiplier customers.

Multiplier customers not only reduce customer acquisition costs, but they also drive down price elasticity and competitive switching. Both these effects can help a company to increase sales while expanding margins.



## What's Next?

A central concern for every B2B firm is improving the quality of its client base, and the Collaborative for CUBES™ provides an easy way to measure customer quality. Businesses can quantify the percentage of their customer-base that qualifies as a multiplier, the likelihood of generating multiplier customers, and the potential impact on sales and margins by examining overall customer satisfaction. At the 100,000-foot level, this reduces guesswork and aids the CEO in managing one of the most crucial assets of a company — its customer base.

The Collaborative for CUBES™ has shown overall customer satisfaction is associated with increased sales, margins, and customer quality. What effect might satisfaction have on pricing power? The Collaborative for CUBES™ team intends to address this question in a future Insights Series brief.

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### FURTHER READING

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