The Impact of Customer Satisfaction on Analysts’ Earnings Forecast

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\textbf{ABSTRACT}

This study investigates whether the accuracy of analyst forecasts is affected by customer satisfaction. Using a sample of 1,005 U.S firm year observations, we find that properties of forecast quality, namely consensus accuracy, forecast dispersion, forecast range, is positively associated with customer satisfaction. We further find that analysts’ cash flow forecast properties are also affected by customer satisfaction in a similar way. Overall, our study suggests that information intermediaries, such as financial analysts, do take into account customer satisfaction in their forecasting activities. As analysts’ forecast accuracy affects investment risk, we contribute to the literature by providing evidence that customer satisfaction is value relevant to investors. We corroborate our conclusion by showing that the negative association between analysts’ earnings forecasts and cost of debt is stronger for firms with higher customer satisfaction.

\textbf{Keywords:} Customer satisfaction, analysts’ earnings forecast, analysts’ cash flow forecast, forecast accuracy, forecast dispersion, forecast range

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