

Manage Complaints To Enhance Loyalty

by **John Goodman**

Complaints, like death and taxes, are inevitable. Even market leaders encounter them. But each grievance represents a chance to correct a flawed process, educate a customer and strengthen loyalty.

Multiple studies already show companies with high quality customer service and effective complaint handling processes can charge a premium as well as increase loyalty. The case for investing in improvements is clear, or so it would seem.

Unless decision makers fully understand customer complaint behavior and can quantify the return on investment (ROI) of complaint handling,

they won't see the link between complaint handling and loyalty and profits, and it's unlikely they will ever allocate adequate resources for change.

This article will arm you with the necessary facts and high level calculations to establish complaint handling as a priority at your company and part of its ongoing strategy to improve loyalty and, ultimately, increase profits.

Understanding Customer Behavior

Technical Assistance Research Programs' (TARP's) first study for the White House Office of Consumer Affairs in the '70s revealed consumers with problems who did not complain were less loyal than those who did and had their issues resolved.¹

Subsequent studies for the last 20 years have continued to confirm TARP's initial findings that every problem presents an opportunity to enhance both loyalty and word of mouth.² A few research highlights follow:

About half of all consumers usually complain about serious problems to a frontline retail rep. In business-to-business environments, three-quarters of all customers usually complain to a frontline rep, as Figure 1 details for problems customers deem as serious.

For less serious problems, complaint rates drop significantly. If the frontline rep is an employee of a distributor or retailer, chances are the problem will never be reported to the manufacturer or cor-

In 50 Words Or Less

- **Every grievance offers a chance to correct a process, educate a customer and strengthen loyalty.**
- **Armed with facts, you can convince organizational leadership improved profits will come from allocating adequate resources to complaint handling.**
- **Follow four best practices, and begin to quantify the opportunity to increase loyalty.**

FIGURE 1 The Knowledge Transfer Race



1 to 5% complain to management or headquarters

45% complain to agent, branch or frontline representatives (75% for business-to-business transactions)

50% encounter a problem but don't complain (25% for business-to-business transactions)

porate office. Recently, however, TARP surveys have revealed a decline in complaint rates, even for serious problems, due to growing cynicism that complaining doesn't do any good. We call this behavior "trained helplessness," which adopts the mind-set it's futile to bother complaining because nobody will change the policy. Therefore, complaint rates appear to be declining in all sectors.

Tip of the Iceberg Phenomenon

Figure 1 illustrates the complaint situation most organizations face when customers encounter serious problems.

Complaint rates vary by type of problem. The costlier the problem, the higher the complaint rate (for example, 5 to 10% for minor problems; up to 50 to 75% for expensive or very serious issues).

Problems due to mistreatment, quality or incompetence evoke only 5 to 30% complaint rates to the frontline rep because customers believe it will do no good (for example, the company will not fire the employee) or because of fear of retribution (for example, the rep will remember the customer and treat him or her poorly again). This is ironic because mistreatment and incompetence often result in five times more damage to loyalty than do monetary concerns.

Customers reward companies that do the basics well. Proactively keeping the customer informed, offering the right products and providing consistent-

ly good service can actually create delight, with significant rises in top-box loyalty (the highest degree of loyalty, or "very satisfied" on a five-point scale from "very satisfied" to "very dissatisfied").

In a TARP survey of more than 10,000 customers in five industries, when customers were asked what delighted them, they mentioned these simple acts and indicated their loyalty. Loyalty was elevated by 20 to 30% by such delighters.

Word of mouth is a key source of customers. In interviews with the executives of five major financial service companies, they confirmed more than 40% of all new clients—and in two cases, more than 50%—of all new clients came as a result of personal referrals from existing customers.

According to Tim Claydon, VP of marketing for Jet Blue Airlines, the airline turning a profit in today's market, has received more than half of its new customers through word-of-mouth referrals.³

"Word of mouse"—customers venting through websites—is different, however. TARP has found that while negative word of mouth is usually at least twice as great as positive word of mouth, four times as many angry customers post negative comments on websites or bulletin boards as those who broadcast positive comments.

Aggressively Soliciting Complaints

In most sectors, TARP research indicates a customer who complains and is satisfied is 30% more

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loyal than a noncomplainant and 50% more loyal than a dissatisfied complainant. The challenge becomes how to solicit complaints.

You can't fix what you don't know is broken. Customers who choose not to complain preclude your company from winning back their loyalty. But by looking closer at their reasons for staying mum, you can begin to break down some barriers to communication and encourage them to openly express their concerns.

Customers don't complain for four reasons:

1. It won't do any good.
2. It's not worth the trouble.
3. I don't know where to complain.
4. I am afraid of retribution (the employee or company will counterattack).

All four barriers can be reduced or eliminated via effective communication.

It won't do any good. The most prevalent and growing reason for not complaining is that it won't do any good. The belief is the company will not fix the problem or change the offending policy.

A clear message on the front of the bill or statement (not in the fine print on the back), inside the front cover of a catalog or in a store that says, "We can only solve problems we know about," will go a long way toward breaking down that barrier. This message must appear in front of the customer exactly when and where he or she will most likely encounter the problem.

It's not worth the trouble. This second reason can be countered by making the process easier. Provide multiple, easy to use channels for complaining.

I don't know where to complain. The third reason can be countered by placing the toll-free complaint number or website link or a contact button clearly next to the message, "we can only solve problems we know about" message.

I am afraid of retribution. The fourth reason is more difficult to address, but can be partially dealt with by stressing to employees that most complaints are due to a broken process rather than incompetent employees. Therefore, the complaint solicitation should ask the complainant for suggestions on how to improve processes.⁴

Payoff of Soliciting Complaints

The following are cost-benefit calculations for getting customers to complain and satisfying them.⁵ The assumptions are:

- A customer is worth at least \$30 in profit over a year's time.
- The cost of handling a complaint is about \$5.
- At least 75% of callers are satisfied.
- To quantify the payoff of soliciting and handling complaints, it's critical to know the rate of the prevalence of noncomplainants and their loyalty as well as the loyalty of those who complain and are not satisfied.

The calculation for moving a customer with a problem from noncomplainant to satisfied complainant follows:

- **Payoff due to improved loyalty.** Typically, moving a customer with a problem from noncomplainant to complainant to a satisfied caller raises loyalty by about 30%, meaning, conservatively, handling a customer at a cost of \$5 will give you a payoff of (.30 increase in loyalty) x (.75 satisfied) x \$30 value = \$6.75. After covering the \$5 cost of handling the complaint, you are left with \$1.75 profit and or an ROI of 35% (\$1.75/\$5 cost to handle).

Over the past two years, marketing executives have awakened to the fact that between 20 and 70% of all new customers are won by personal referrals—positive word of mouth.^{6,7} TARP's research also has consistently shown that personal service interactions have 20 times the positive impact as advertising in fostering word-of-mouth referrals.

- **Payoff due to enhanced word-of-mouth referrals:** If, conservatively, one out of 10 satisfied customers produces a word-of-mouth referral

TABLE 1 Example of Loyalty and Calls Per Issue by Type of Issue

Problem reports	Percentage of loyal (top two boxes)	Number of contacts
Billing issues	95	1.1
Shipment status	91	1.2
Product return	93	2.1
Shipping charges	88	2.1
Back order status	67	3.3
Call center overall average	91	1.9

Note: Item in bold is the greatest opportunity for improvement.

and one new customer worth \$30 is won for every 40 who hear good things,^{8,9} then satisfying 10 customers adds \$30 in word-of-mouth benefits, or \$3 for each customer satisfied (10 customers satisfied times four positive referrals per satisfied customer times one new customer for each 40 hearing positive referrals).

That adds an additional \$3 payoff for each customer satisfied, raising the ROI to 95% $(\$1.75 + \$3.00)/\$5.00$. The preceding calculation is a simple estimate of the impact of positive word of mouth produced by good service on loyalty and profits.

Improving Effectiveness

TARP finds most complaint handling systems completely satisfy between 30 and 70% of complaining customers. The rest are left dissatisfied or mollified, or only partially satisfied.

Someone who goes to the effort to complain but remains dissatisfied is usually 50% less loyal than someone who did not bother to complain. Therefore, dissatisfied complainants are an especially costly outcome of poor complaint-handling processes. Even customers who are mollified are often 30% less loyal.

A process improvement in complaint handling can move customers from dissatisfied to mollified or even satisfied without extra expense. To satisfy a complainant, a company must achieve two things:

1. Resolve the problem the first time.
2. Offer a clear, believable explanation for the problem.

One example of a process improvement is to give the frontline employee the authority to resolve a problem rather than to require escalation to a supervisor, especially if the supervisor almost always approves the action. TARP has seen many employees will say no rather than go to the trouble to escalate for approval.

In many cases, a clear, believable explanation as to why the policy or performance is reasonable will at least mollify the customer and, in some cases, satisfy him or her.

In many cases, customers encounter policies or product performance different from what they expected. When the customer complains, the crux of the complaint is, "Why did this happen?" and "I want you to fix or change it."

Frontline employees are often given limited

training, which comprises, "Here is the policy; implement it without exception." The employee cannot explain the rationale for the policy or product performance, which is the root of the customer's complaint.

The key to identifying broken complaint processes or poorly constructed explanations of policy and performance is analysis of your complaint handling process by type of issue complained about.

TARP interviewed more than 200 complaint handling process managers, and fewer than 30% indicated they analyzed contact or complaint handling satisfaction by type of issue being addressed.

Table 1 shows the loyalty and number of contacts per issue for a catalog company's complaint handling process and reveals the greatest opportunity for improvement.

Often the process fix is simply to provide more frontline empowerment (accompanied by better training) and improved response rules that allow the rep to better explain and educate the customer so the situation is viewed as acceptable.

The following calculation demonstrates the payoff of moving complaining customers from dissatisfied to satisfied by spending an additional \$5 on talk time and goodwill compensation. The assumptions are the same as for the previous case: The customer is worth \$30, and the base cost to handle the complaint is \$5.

Moving a dissatisfied customer to satisfied usually produces a 50% increase in loyalty. For the earlier situation, the calculation of impact is $(.50) \times \$30 = \15 , for a 50% ROI $(\$5/\$10 \text{ cost to handle})$. With word of mouth added, the ROI rises to 80%.

Payoff of Prevention

The most cost effective way to improve the complaint handling process is to prevent the problem from ever occurring rather than prevent the complaint, because it's better to hear the complaint than have the customer leave.

The loyalty of customers who have had a problem tends to be 20% lower than those indicating they have not had any problems. This 20% reduction includes both noncomplainants and those who have used the complaint handling system. To prevent problems, you must first understand the cause of customer problems.

TARP surveys find most companies believe if

they have a dissatisfied customer, an employee caused the dissatisfaction by doing something wrong. But TARP's analysis of complaint case data has found almost all employees come to work to do a good job, and no more than 20% of dissatisfaction is caused by employees doing something wrong or having a bad attitude. Most problems (40 to 60%) are due to defective processes, and the rest are due to customer error or misunderstanding the nature of the product or service purchased.

Implementing Changes

Changes in process or products can eliminate the problem without hurting profitability. One auto finance company builds the cost of wear and tear charges into the auto lease, thereby eliminating the unpleasant charge of \$1,000 or more at the end of the lease.

TARP has observed many instances of proactive customer education to reduce customer-caused problems. In one flooring company, the selling dealer would spend a minute walking the purchaser through a single page of floor care instructions. The customers who received educational informa-

tion had half as many problems (23% vs. 41%).

A health insurer's three-minute proactive welcome call addressed three potential claims issues, reduced problems and raised satisfaction and retention by 15%.

A computer company, upon receipt of customer e-mail at registration, used a return e-mail welcome message to caution against common mistakes and reduced specific problems by 30%.

An Actionable Customer Voice

If you are a manager of quality or customer experience, for each complaint you hear, there are usually between 10 and 100 of a similar nature either unarticulated or handled by other touch points or organizations.

By extrapolating what you receive to the marketplace as a whole, you can provide management with an estimate of the overall revenue impact of the issues flagged by the complaints.

Complaint data viewed in a vacuum is hard to interpret, but when linked to other data describing the customer experience, it becomes powerful.^{8,9}

Beyond Complaint Handling To Delighting Customers

The same process that handles complaints has the potential to delight customers, further enhancing loyalty. TARP analyzed five recent surveys from clients in investing, banking and insurance in which customers were asked, "Have you received any service that delighted you or was extraordinary? If so, please describe your experience." Of the approximately 5,000 responses, almost 15% cited an event.

Table 2 shows the results of these five surveys. One surprising finding was that actions taking the most effort by the staff, such as handholding during a tragedy or expediting complex transactions, did not result in the greatest lifts in loyalty. An ongoing relationship with an individual—usually a specific staff person was named—also provided only a moderate lift.

Another surprise was a friendly 90-second interaction created an emotional connection that cemented the relationship with the customer. A large catalog company told representatives to have a short conversation about something other than the transaction to connect with repeat buyers and increase loyalty.

TABLE 2 Impact of Delightful Experience On Top-Box Loyalty

Delightful experience	Average lift in loyalty* (top box)
Service beyond expectation (heroics)	12%
Assistance during life event (heroics)	14%
No unpleasant surprises	22%
Friendly 90-second staff interaction	25%
Personal relationship over months	26%
Tell me of new product or service I can really use	30%
Consistently good service	32%
Proactively provide information on how to avoid problems or get more out of your product	32%

Note: Items in bold were the most cost effective delight experiences.

*This represents the percentage increase in loyalty (top-box score) between the general customer base and customers reporting a delight experience.

Two of the actions that provided the greatest lift were proactively providing information and notifying the customer of new opportunities. In many contexts, these contacts would be viewed as sales activities, but when carefully targeted, they are very much appreciated by the customer and viewed as an element of good or excellent service.

The most frequent delighters, which provided moderate to high lifts in loyalty, were those easiest to execute—for example, no unpleasant surprises, consistently good service and personal relationship. None of these require any extra effort or training for employees.

Educate Executives

Many executives preach complaints are good because customers are giving you the opportunity to retain their loyalty. However, few are willing to aggressively solicit complaints or invest to increase the rate of complainant satisfaction.

In most cases, you will have to familiarize upper management, especially the CFO, with the five benefits of an effective complaint handling process:

1. Soliciting and satisfying a complaint usually results in a 50% increase in loyalty vs. the unarticulated complaint.
2. Moving a complainant from dissatisfied to completely satisfied raises loyalty 30 to 50% and produces significant word of mouth—the source of 20% to 75% of all new customers.
3. Many problems leading to complaints can be prevented via proactive customer education. In addition, process changes can prevent unpleasant surprises and empower frontline staff with a rationale to share with complainants. This is important because often half or more of the customers will never tell you about problems, but unarticulated problems preclude any opportunity to delight the customer.¹⁰
4. An effective voice of the customer (VOC) process can identify problem prevention opportunities that can reduce your overall service expense by 10 to 15%, which, in turn, pays for the VOC process many times over.
5. Loyalty can be further enhanced by identifying inexpensive delighters, which can be implemented during the complaint and general customer service process.

Once these five facts are accepted, your organization will be poised to implement the following four best practices and begin to quantify the increase in loyalty they yield:

- Aggressively solicit complaints via multiple channels, ensuring the message is in front of the customer exactly when he or she is most likely to have a question or problem.
- Improve the effectiveness of your complaint-handling process to ensure almost all complaints are satisfied in a profitable manner when the value of the customer is taken into account.
- Prevent problems and complaints by proactively telling customers how to avoid unpleasant surprises and problems. Proactive information delights customers. Furthermore, it reduces problems and allows the proper setting of customer expectations.¹¹
- Identify the inexpensive actions that delight customers. Inventory and integrate the compliments, statements of delight received on surveys and other sources in your VOC system.¹² Evaluate the relative cost and impact of each action to determine which should be systematically implemented.

Handling complaints may not be the most fun activity contact centers engage in, but next to sales, they are the easiest to translate into improved loyalty, revenue implications and financial payoff.

When qualifying complaints, you need to measure not only the loyalty of satisfied callers but the:

- Prevalence of noncomplainants and their loyalty;
- Loyalty of those who call and are not satisfied.

These two data points allow you to quantify the actual revenue impact you are making from the status quo.

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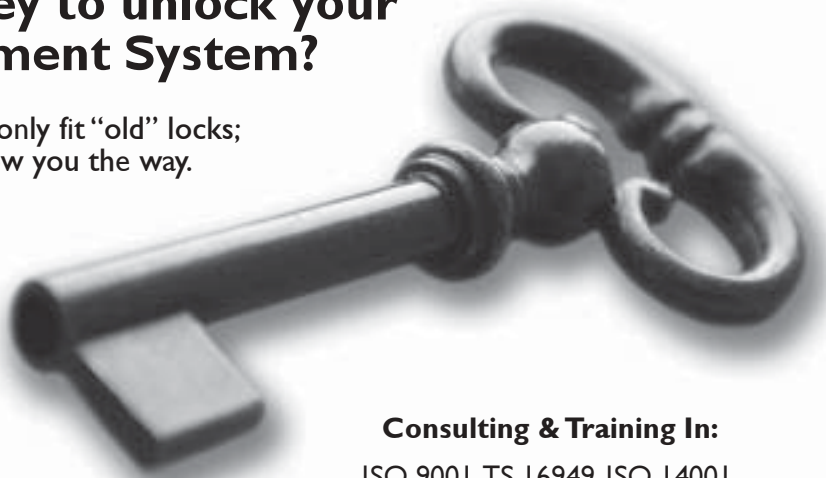
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