

A PROFITABLE APPROACH TO MANAGING COMPLAINTS

WHITEPAPER

ABOUT

The point at which a customer complains is often the greatest test of the relationship between the customer and their service or product provider. So it is surprising that even today many companies fail to recognize the value complaints can deliver to their organization. This paper explores how companies should begin to look anew at the role and value of complaints and feedback to their organization and to consider complaints no longer as a costly inconvenience but as a key opportunity to develop more profitable and sustainable relationships with their customers.

The two strategic directives this paper addresses are:

- Companies must seize on every complaint they receive; and
- It is not enough simply to process the complaint—companies need to leverage every opportunity to create value from it.

For an organization that adopts this approach, there is a real opportunity for complaints and feedback management to become a competitive differentiator and a source of profit for the business.

EVOLVING A STRATEGIC APPROACH TO HANDLING COMPLAINTS

Customers today are a scarce resource and when common business wisdom suggests that it costs up to 10 times as much to attract a new customer as it does to retain an existing one, this provides the evidence—if it were needed—of the importance of customer loyalty. Competition, commoditization of product offerings and rising acquisition costs have highlighted the importance of customer retention, up-selling and cross-selling across many industry sectors. While the reported cost of acquiring a new customer varies from organization to organization — potentially ranging from the \$100's to \$1,000's per acquisition—there would be little disagreement on the overwhelmingly high costs and poor business logic of maintaining a strategy focused only on acquiring new customers.

“What many companies today fail to recognize is that customers are already giving them vital, free information on how they feel about them, their products and their services—it’s just that nobody seems to be listening.”

As a result, organizations are continually looking at ways to identify, nurture and encourage loyalty. Part of this process is understanding customers’ expectations and requirements to shape a customer- focused, loyalty driven business for the future. There are many and varied technologies and methodologies available to build customer insight and understand market sentiment but what many companies today fail to recognize is that customers are already giving them vital, free information on how they feel about them, their products and their services—it’s just that nobody seems to be listening.

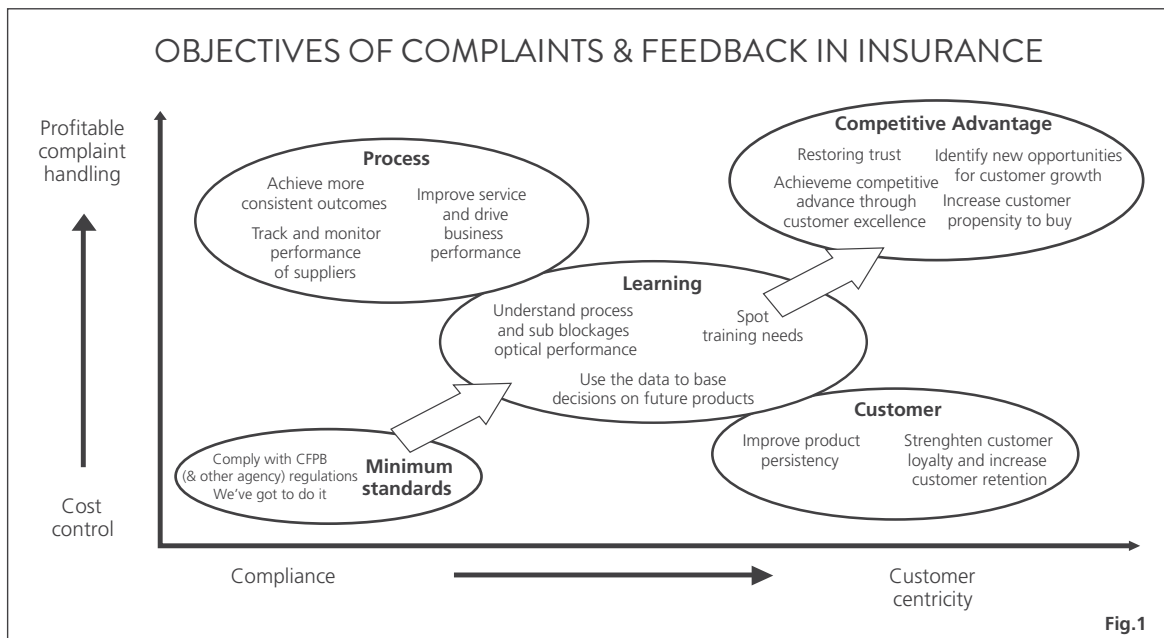
Customer complaints and other forms of customer-initiated feedback represent a more reliable, more accurate and faster way to get better quality data on customers’ attitudes and, in most cases, come from loyal customers—not disloyal ones, as is often thought. These complaining customers are offering the organization an opportunity to recover the failure, to make restitution and then to continue with a mutually valuable relationship. Often a simple apology is all that they are looking for.

Customers who do complain about their dissatisfactions are also more likely to re-purchase. In fact, complaining customers can become a company’s most loyal customers. Industry research¹ shows that customers who complain and are satisfied are up to 8% more loyal than those who did not have a problem. They are more likely to tell their inner circle (family, close friends and work colleagues) how pleased they are that the company addressed their complaint, even if the problem was not resolved to their liking. If the problem is resolved satisfactorily, they will tell even more people than if they had received good service in the first place.

Given this propensity to re-purchase and to recommend to others in their social and peer groups, customer complaints are a leading indicator of customer sentiment and future economic activity. Based on research carried out on behalf of Aptean’s Respond product line, the chart in figure 1 seeks to understand organizations’ approaches to handling complaints.

Those that have evolved beyond a basic cost-control level appear to be making progress in one or more of the following areas: improvements in process efficiency; instilling organizational learning; and/or focusing on delivery to the customer. As these three areas merge into a consolidated strategic approach, we begin to see companies exploring how to gain competitive advantage as a service led organization by achieving excellence in complaints and feedback management and by utilizing complaints and feedback data to drive improvements in the business.

The remainder of this paper explores how an organization might achieve competitive advantage through managing complaints and how this provides a strong foundation for viewing customer complaints and feedback as a source of profit.



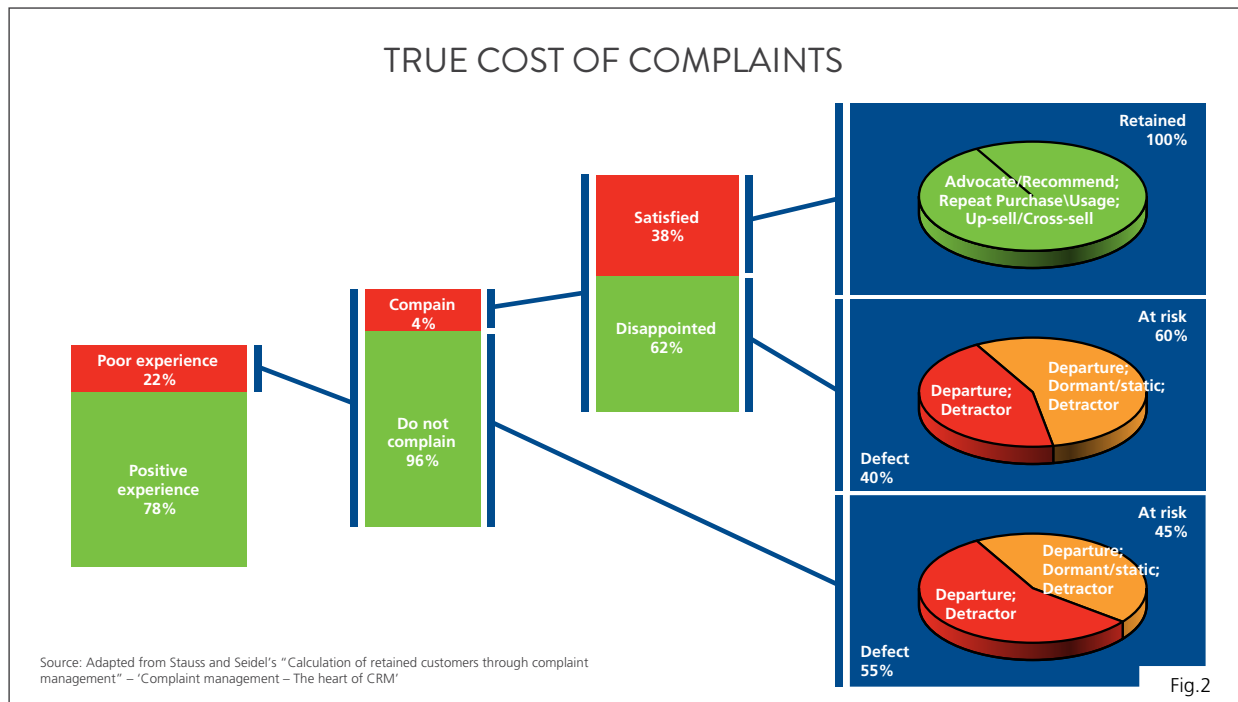
COMPANIES MUST SEIZE ON EVERY COMPLAINT THEY RECEIVE

In the past, there has been a tendency to assume that 'compensation culture' is the main motivator behind customers who complain to their service or product provider. But some companies are now beginning to recognize the value of encouraging all customers with a grievance to make a complaint. There are a number of reasons behind this:

- Many products sold today are taking longer to reach profitability and companies are having to work harder to retain their customers.
- As a result, there is a growing focus on improving the customer experience.
- Increasingly, organizations are recognizing the previously untapped potential of complaints as a means to identify systemic problems in their products and services.

So the principles are simple to appreciate and it feels right to handle dissatisfied customers well. But many companies and individual executives want to understand the financial impact. It is clearly difficult to put quantitative measures on qualitative aspects of feelings and disposition, but it can be done—at least to a certain degree. Figure 2 depicts a model, originally conceived by Stauss and Seidel and adapted by the Aptean Respond product group, which traces populations of customers who have a negative experience with an organization and the financial implications of whether they complain or not.

If we use the example of a company with 2,500,000 customers and a turnover of \$500 million per annum, this gives an average revenue per customer per annum of \$200. Based on the model in figure 2, if 22% of the organization's customers are likely to have cause to complain due to a poor experience, then only 4% of these customers will actually complain—resulting in an expected number of 22,000 complaints. At an average \$200 customer revenue per year, those 22,000 complaints equate to approximately \$4.4m in revenue. A 40% defection rate in customers who were disappointed with the way their complaint was handled would then result in \$1.1m probable lost revenue per year. In relative terms, these are not big amounts.



But this is only the tip of the iceberg.

96% of people who have had a poor experience do not complain—they remain the silent majority. 55% of these non-complainers (totaling 290,000 customers) will simply defect to competitors, equating to lost revenue of \$58 million. A further 238,000 customers (representing just over \$47.5 million revenue) are at risk of being lost or of reducing their spending with the organization. These are the figures which are the most concerning as they represent a population of customers who are not communicating with the organization and over whom the company has little influence.

This lost/at risk income is enough to seriously damage profitability. The greatest opportunity for an organization to retain this income is to make its complaints process readily accessible to any customer who is dissatisfied or has suffered a poor experience. The implication here is clear: organizations cannot afford to ignore dissatisfied customers as there is a real risk they will walk away from the company. However, the ramifications do not stop here as customers who have a poor experience with an organization will tell an average of 10 people¹—in essence, for every dissatisfied customer, there are a further 10 people who now distrust the company and are unlikely to consider becoming a customer. So encouraging customers to speak up, making the complaints process transparent and accessible and treating complaints seriously are key steps in driving up customer retention and, ultimately, profitability.

ECONOMICS OF THE 'LOST CUSTOMER' EXPERIENCE

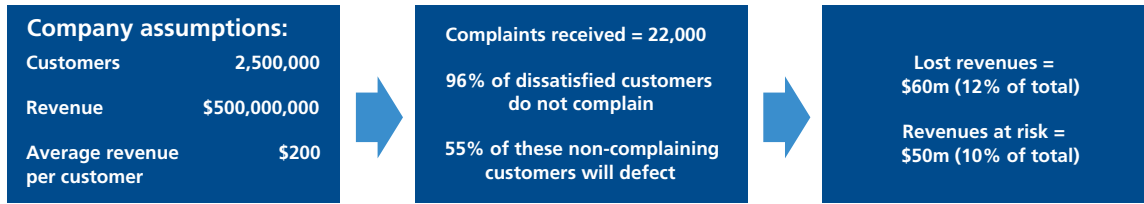


Fig.3

It is not enough simply to process the complaint—companies need to leverage every opportunity to create value from it.

In the past, the majority of companies have tended to view complaints handling as a drain on the company's resources and profit. Processes have therefore been geared to clearing the complaint with the minimum of effort.

Little attention has been given to understanding whether the customer was happy with the way their complaint was handled and how this could impact the future of the relationship.

"A company with 50,000 customers that is poor at service and customer retention will have to find one new customer every 20 minutes of every day of every year simply to stand still!"

These organizations take a 'minimum standards' approach—in other words, they do just enough to process the complaint, produce a decision and provide a level of service that takes little or no account of the future of the relationship. If the customer senses that their complaint has been ignored or too readily dismissed, their frustration turns to a grievance against the organization based upon the perception that the company has no regard for the interests of its customers. As a result, the customer's propensity to re-purchase is at risk or, worst case, the customer will take their business elsewhere.

Today, smart companies are increasingly focused on improving the consistency and effectiveness of their complaints and feedback management processes in order to deliver standards of service and outcomes that demonstrate a commitment to their customers. However, there still remains significant room for improvement and only recently have organizations begun to understand the implications and value of complaints for other parts of their business and for other customers too.

At this point, the main focus of a complaint management strategy shifts from process efficiency towards learning from the complaint through root cause analysis and applying that learning across the organization. The value of complaints data lies in its ability to drive effective root cause analysis by identifying causes of dissatisfaction and delivering insight into customers' attitudes and behavioral trends. This information enables an organization to: understand issues from the customers' perspective; directly monitor product and service performance; and drive improvements to the business by identifying the key product or service barriers to increased customer satisfaction and loyalty.

DRIVING IMPROVEMENTS TO THE BUSINESS

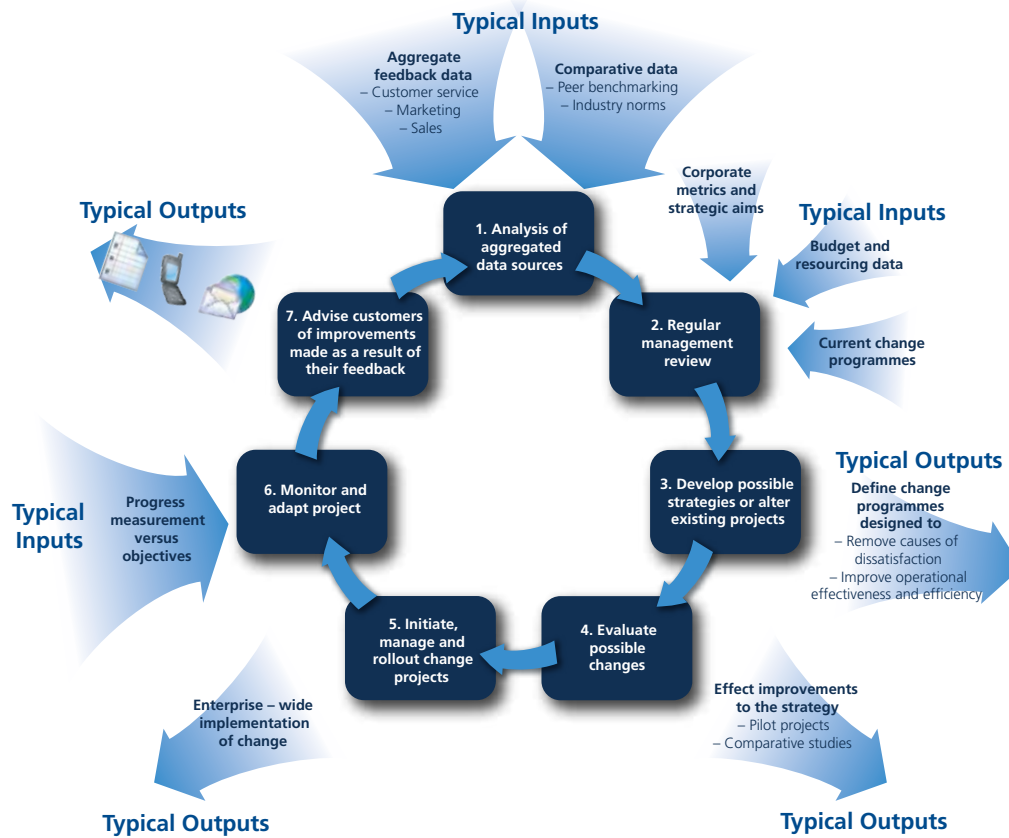


Fig.4

Adopting an approach to managing complaints which recognizes the potential for delivering value to the business can be extremely worthwhile—both for the customer and the organization. As demonstrated in figure 4, eradicating the causes of dissatisfaction and driving business improvement is a continuous loop of:

- Gathering customer feedback data and providing the evidence to the 'voice of the customer'/ customer advocacy function
- Developing and implementing 'change' strategies and evaluating, monitoring and adapting through the project lifecycle
- Keeping the customer informed of the improvements implemented—reaffirming the organization's commitment to a customer-focused business

This approach to driving change through complaint and feedback management represents a true source of competitive advantage:

- Reducing customer churn;
- Improving customer retention;
- Strengthening customer loyalty;
- Increasing customer value; and
- Ultimately impacting the company's bottom line

Furthermore, in terms of competitive differentiation, it is difficult for others to imitate because it relies on an investment in cultural change as well as business and process improvements.

CONCLUSION

Many companies have evolved from a minimum standards approach to managing customer complaints and feedback but few—if any—have yet reached the stage of achieving real competitive advantage.

To do this, companies need to apply the following steps:

- Optimize the accessibility of their complaints and feedback processes;
- Invest in a robust and enterprise-proven complaints and feedback management solution to ensure all complaints are captured and managed effectively and efficiently;
- Listen to their customers' experiences of making a complaint;
- Perform root cause analysis of complaints and feedback data in order to identify process and service improvements and prioritize business change initiatives; and
- Truly place the customer at the heart of their business

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