

# The Customer Complaints X-Ray

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*The key to customer retention and loyalty via customer complaints handling*

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## The Customer Complaints X-Ray

### Executive Summary

With the economic stagnation going on in Europe and USA and the sluggish organic growth opportunities in these markets, organisations started shifting their focus on retaining existing customers. Customer complaints management is a vital part of any customer retention programme as it allows companies to get information of what goes wrong in the experience, use the opportunity to retain the customer and even turn him into promoter.

We conducted a survey among 1015 respondents in UK and USA to investigate the complaints experience. One of the things we looked into was whether customers were satisfied or dissatisfied with the outcome and/ or the handling of their complaints. Complaints outcomes refers to the end of the complaints experience (i.e. what the customer gets). Complaints handling refers to the interaction and engagement of the complaints experience (i.e. how the customer gets treated). The results showed that people who were satisfied with the complaint handling defect less than those satisfied with the complaint outcome.

We then decided to go further and use advanced statistical modelling to quantify the link between the customer effort to resolve the complaint, the complaint handling and complaint outcome on one side and the customer behaviour organisations are looking to drive e.g. buy more and recommend the organisation. We found that complaint outcome had no statistical effect on recommendation, the resultant behaviour or the future complaint sensitivity, whilst complaint handling had a significant impact on whether people were likely to recommend that organisation and their relationship with that organisation. We also found that customer effort is key to successful complaints handling and churn prevention. The less customers have to chase the organisation with regards their complaints the more satisfied with the complaint handling they would be but also the more likely they would be to complain again. However this is not necessarily a bad thing as you could get timely feedback on the experience you provide.

The model that we developed could also be used to build an ROI case for complaints management.

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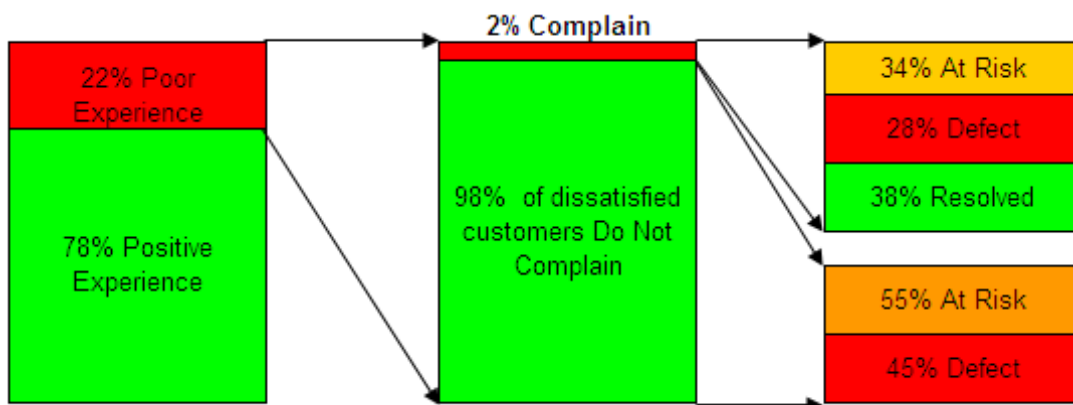
### Introduction

We live in the Recommendation Generation. In a world where companies are battling hard on the marketing field and spend millions to bombard consumers with marketing messages, we learn that only 2% of consumers trust advertising as a source of information when choosing a product or service<sup>1</sup>. Instead, almost half (49%) of the consumers see a recommendation from a friend, relative or a colleague as the most trustworthy source of information<sup>2</sup>. Moreover a referral from a loyal customer has a 92% retention rate versus 68% for a customer acquired from advertising<sup>3</sup>. All together about two thirds of consumers make their purchase decisions based on other consumers' guidance (e.g. recommendations, product test reviews, consumer opinions posted online etc).

This is all the more troublesome for companies that have a broken customer experience. Customers will become detractors spread the negative feedback. In fact, customers are able to do this efficiently and with devastating magnified effects via social media. While many businesses are focused on welcoming customers in the front door, many of their current customers are leaving through the back door because of the poor customer experience they receive. This back door action is magnified by social media. It is estimated that defecting customers will tell 8-10 people about their negative experience. One in 5 will tell 20 people<sup>4</sup>. The end effect is reduced spend and churn leading to decreased customer lifetime value.

One particular area known to be key in either driving more defection or in transforming defectors into promoters is the complaints experience. Customer Complaints Management thus is a vital part of any customer retention program.

A few years back before the advent of social media, a defection model<sup>5</sup> showed that there is a much bigger business opportunity with retaining dissatisfied customers who do not make formal complaints than retaining those customers who do.



<sup>1</sup> Satmetrix, Poor Customer Experiences Trigger Switching Epidemic, June 2010

<sup>2</sup> Same

<sup>3</sup> Bill Bleuel, PhD, Professor of Decision Sciences, Graziadio Business Report

<sup>4</sup> Same

<sup>5</sup> Sources: Cherry Tree Research, Bain & Co., McKinsey, Harvard Business Review

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Since that time, social media has meant that customers whose dissatisfaction used to be invisible to the company are now visible in many cases. Businesses thus have the opportunity of transforming these now identified detractors into promoters. Although businesses seem to have gotten the message, their focus has been on complaints resolution to a large degree. The assumption has been that first contact resolution is a noble goal to aim for because it is what will help transform those detractors into promoters. A general Google search will quickly point this out. For example, the 2011 Insurance and Savings Ombudsman 2011 Annual Report is entitled “*The key to complaints handling is... early resolution.*” The report “Complaint Handling: principles of good complaint handling”<sup>6</sup> states the following:

*Experience shows that consumers who complain about products and services continue to frequent the businesses and buy the products they complain about if they believe the complaint was resolved fairly.*

*Research into complaint behaviour reveals that only a fraction of dissatisfied consumers complain to business's and, thereby, give the company an opportunity to correct the problem. There is evidence that some consumers do not complain because they are sceptical about business's willingness or ability to resolve disputes fairly. Consumers simply withdraw their patronage and criticize the company or the product to others.*

The argument is plausible and we agree but we also know that that the way the complaint is handled is equally important. In fact, from a customer experience point of view the way things are done is often as if not more important than the what is done. Businesses spend a great deal of resource on complaints handling and so it makes sense to definitively answer the question which is more important in the complaints management experiencing driving business value: the resolution (i.e., the outcome for the customer) or the management (i.e., the handling of the customer).

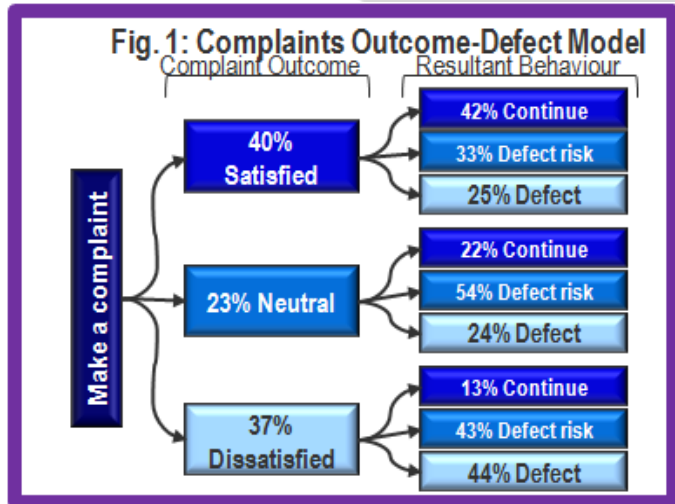
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<sup>6</sup> Source: ProAction Development CIC, a ‘not-for-profit’ Community Interest Company

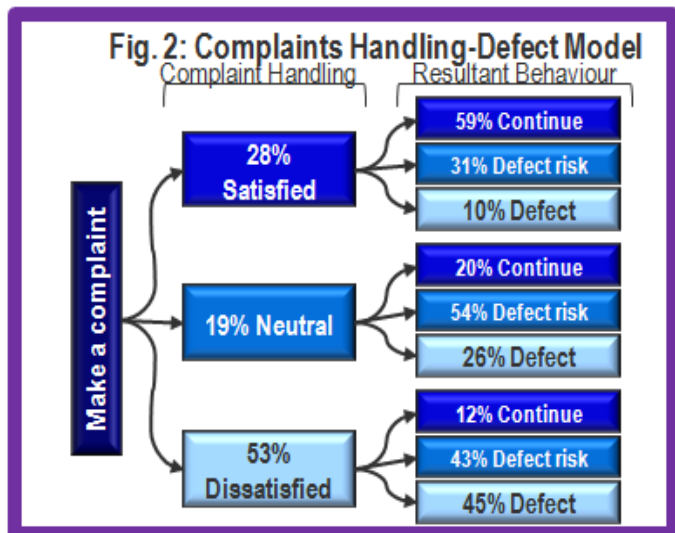
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### Our research findings: the X-ray

We conducted a survey among 1015 respondents in UK and USA to investigate the complaints experience. We found that of the people that are satisfied with the outcome of their complaint (i.e. have they got what they asked for e.g. their money back, a discount, or an apology etc.) 42% don't change negatively their relationship with the organization they complained to (i.e. buy more or the same) but 25% still defect (*Fig. 1*). On the other side 45% from those that are dissatisfied with the complaints outcome have defected, another 43% are at risk and only 13% have not changed their relationship with the organization.



When we compare these results with those of the people that are satisfied with the handling (i.e. the process to get their issues reviewed, the tone and method of communication with the organization, the number of interactions etc.) we see the numbers are even bigger e.g. 59% of the people satisfied with the handling have not changed in a negative way their relationship with the organization and only 10% have defected (compared to 42% and 25% respectively for those satisfied with the outcome). When we look at the dissatisfied with the complaint handling customers we see 45% have defected and another 43% are at risk while just 12% have kept unchanged their relationship with the company (*Fig. 2*).



We thought these results were quite interesting and decided to investigate the issue further using structural equation modelling (SEM), a cutting edge statistical technique. The advantages of the SEM analysis over traditional research are that it looks at causation, not just correlation and we can use it to quantify the effects on the value outcomes we are interested in (e.g. relationship with the organization, Satisfaction etc.) if we were to change some aspects of the experience. In other words it has predictive power.

When we build the SEM model we started off by taking into consideration that to submit a complaint and to chase the organisation with regards its resolution require different amount

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of **customer effort** and that may influence people's perception of:

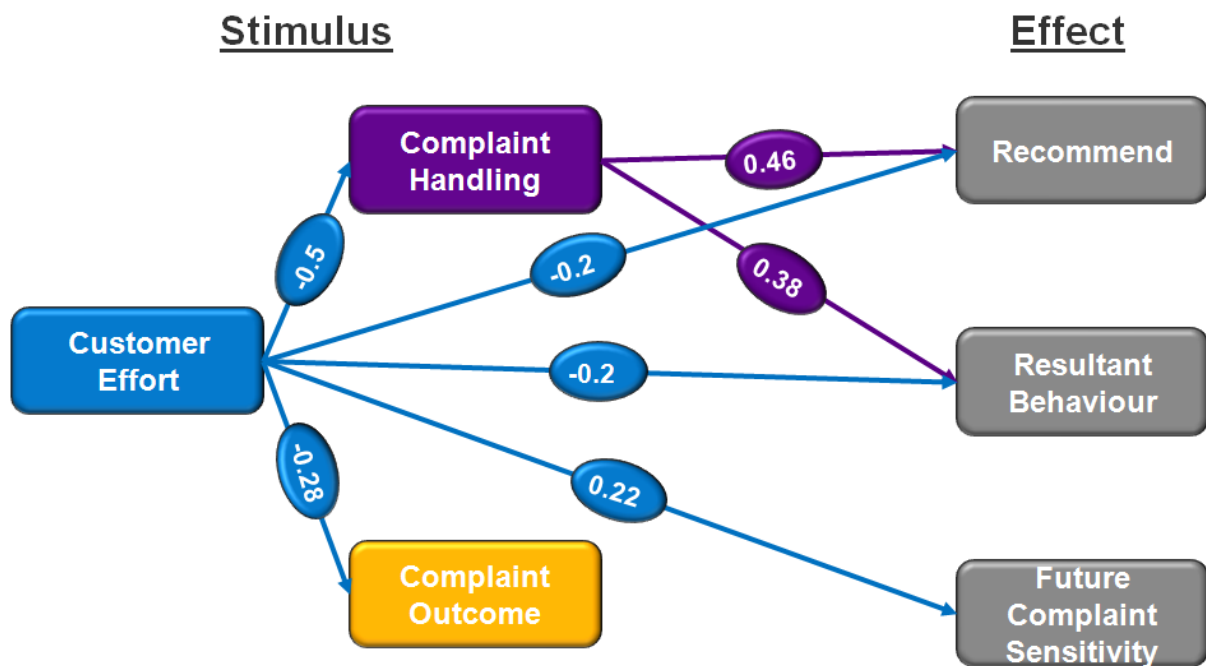
- How the complaint was handled (Complaint Handling)
- Is the complaint outcome satisfactory (Complaint Outcome)

... and it will also affect the valuable outcomes that organizations seek to increase (value indicators):

- Likelihood to recommend the organization (Recommend)
- Relationship with the organization (i.e. from not a client anymore to use more) (Resultant Behaviour)
- Likelihood to complain again (Future Complaint Sensitivity).

We then took into consideration that the extent to which customers are satisfied with the handling of their complaint as well as the extent to which they are satisfied with the complaint outcome will also have an effect on the above mentioned three value indicators.

The results are groundbreaking:



- There is **no connection** between customer satisfaction with the complaint **outcome** and the resultant behaviour, likelihood to recommend or to complain again. This is a significant finding for us because it turns upside down the way many companies see the resolutions of the complaints they receive
- Customer satisfaction with the complaint **handling** however has a **strong effect** on the resultant behaviour (0.38) and the likelihood to recommend (0.46). A 0.38 movement on a 5 point scale could mean the difference between “will leave upon first chance” and “using them less than before” or between “using them same as before” and “using them more than before”
- Customer satisfaction with the complaint handling does not have a connection with future complaint sensitivity

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- The extent to which the customer had to chase the organisation (**Customer Effort**) has an effect on all the variables in the model. The **more efforts** it costs the customers to chase their complaints resolution:
  - the **less** satisfied with the **handling** customers will be (an effect of -0.5 for a 1 point movement on a 5 point scale)
  - the **less** satisfied with the **outcome** customers will be (an effect of -0.28)
  - the **less** likely to **recommend** customers will be (an effect of -0.2)
  - the **less** likely to continue being clients or use more services customers will be (**Resultant Behaviour**) (an effect of -0.2)
  - the **more** likely they are to **complain** in the future (Future Complain Sensitivity) (an effect of 0.22)

While many companies behave as if simply giving customers the complaint outcome they seek (e.g., refund the customers' money back or give customers a discount on their next purchase) that the complaint has been resolved. **WRONG!**

**Customers are more concerned with the way the organisation handles customer complaints than they are with petty resolutions even if these are quick**

Organisations have to see the process of submitting complaints and waiting to hear back from the organisation as an experience that already disappointed customers (or even angry ones) choose to go through. If that experience is bad or nothing special, this will confirm the customer's bad impression of the organization and he may well look to switch. If that experience is a good one, this can change the customer's initial impression and she might spend even more with the organization as is the case with 13% of the people who are highly satisfied with the way their complaint was handled.

It is also worth noting that customers' efforts to chase their complaints had effects on all variables and was the only one that had an effect on the future complaint sensitivity (likelihood to complain again). Customer efforts in this instance could mean:

- having to contact the organization a number of times (or be transferred) to get the complaint resolved
- having to repeat information
- having to switch from one service channel to another (being asked to send documents over the post after calling the company or contacting them by e-mail; having to switch from the web to the phone etc)

**The more that people have to chase their complaints the more likely they are to complain again.**

Other researchers have also found a connection between customer effort and the level relationship with the organisation. In the Harvard Business Review article "Stop Trying to



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Delight Your Customers<sup>7</sup>, the authors found that the customer effort score outperforms both Net Promoter Score and customer satisfaction measures when it comes to measuring the likelihood to purchase again.

We were able to quantify this relationship. We found that if the customer effort score is reduced by 1 point on a scale where 5 is “had to do everything to chase it” and 1 is “the business followed it proactively”:

- Likelihood to recommendation increases by 20%
- the level of stated relationship<sup>8</sup> increases by 20%
- the likelihood to complain again decreases by 20%

When it comes to customer experience one of the most difficult challenges managers face is to build a business case with a return on investment to persuade the senior management to invest in improving the customer experience. These findings can be used to build that case. You can turn these effects into percentage points and calculate how much an improvement in the customer effort score or complaint handling will be worth for your organization.

For example, let’s say customers at a business say they have to chase the organization to get to a resolution of their complaints and rate their effort on with 4 out of 5 on average (where 5 is “I had to do everything to chase the complaint”). Now let’s say the business believes it can reduce the average customer effort rating to 3 (a reduction of one point). The predicted effects are as follows:

- An increase of the average complaint handling score of 0.5, which in turn will increase your average recommendation score by 0.23 on a 5 point scale ( $0.5 \times 0.46 = 0.23$ ).
- An increase in the average recommendation score with 0.2. When we also add the increase that comes from the increase in the complaint handling score (see first bullet point) the total increase of the recommendation score adds to 0.43 points on a 5 point scale. This means you are turning passives into promoters and detractors into passives, which in terms will result in more new customers and growth.
- A direct increase on the resultant behaviour of 0.2. When we add the indirect effect that comes from the complaint handling ( $0.5 \times 0.38 = 0.19$ ) the total increase of the resultant behaviour on average comes to 0.39 on a 5 point scale. Turn this into a percentage improvement from your current rating and you will know the reduction in your churn rate of the people complaining and improvement in business generated from customers that have complained.
- A decrease of the future complaint sensitivity by 0.22. If you turn this into a percentage points from your current average score you will get the percentage of reduction of complaints. From here you can calculate how much cost savings you can make.

<sup>7</sup> Harvard Business Review July-August 2010

<sup>8</sup> where 1 is “not a client anymore” and 5 is “will use them more”

## Top tips for profitable complaints management

### 1. Build the ROI case for customer complaints

Start by simply calculating the fees generated from clients who stayed with the organisation when their complaints were handled well. Then move on and project the increase in retention rate using our model. Provide also for the increase of goodwill as the likelihood to be recommended increases

### 2. Make it easy for customers to complain

A very small percentage of dissatisfied customers will actually complain formally. This makes it difficult for managers to realise and address the problem on time and failure to do so could be very costly in the event of a complaint going viral in the social media. In fact, social media has already made it easy to complain. The business now needs to catch up in learning how to listen and respond appropriately.

### 3. Make the complaints resolution process as effortless for customers as possible

Our findings offer proof that the more customers have to chase the organisation with regards their complaints the less satisfied they will be with the complaint handling; the less likely they would be to recommend you and to continue doing business with you. The key here is to start off by recognising that most people have a valid reason to complain but they haven't given up on your organisation yet and are giving you a second chance to put things right. Therefore make empathetic customer engagement a primary objective of resolution (first call or otherwise).

### 4. Empower the front line people

The cost of handling the complaint escalates with every day that it passes and with every next level that it escalates to. Think of the monetary cost of a senior manager's time that will be devoted to resolving a complaint if it gets escalated or the cost of involving third parties such as layers, mediation bodies for complaints resolutions etc. Give employees the authority to resolve complaints but remember that successful resolution doesn't mean giving customers what they want!

### 5. Arm your employees to address the emotional side of the customer complaint

Our findings show that the complaint outcome has no statistically significant link to the behaviour organisations want to drive. The focus therefore needs to shift on the handling side of the complaints.

Train employees in a "complaints unsatisfactory outcome" experience so that they deliver empathetically in those inevitable situations when the customer will not get the redress they seek. Useful techniques here include having employees (1) write stories from the customer's point of view and (2) participate in emotional journey mapping of the complaints experience.