Management for Professionals

Bernd Stauss
Wolfgang Seidel

Effective Complaint Management

The Business Case for Customer Satisfaction

Second Edition

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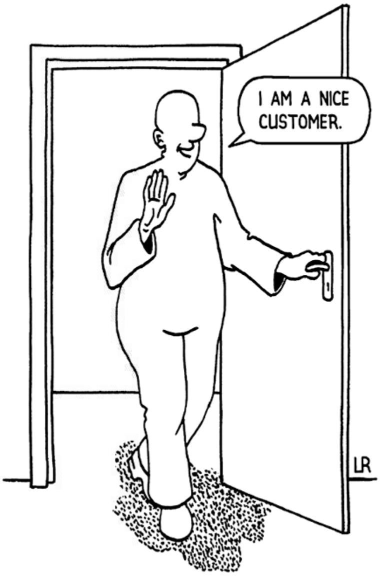
Preface



You all know me. I'm the one who never complains, no matter what kind of service I get.

I'll go into a bank and wait quietly while the tellers gossip and never bother to ask if anyone has attended to me. Sometimes someone that came after I did gets attended to before me, but I don't complain, I just wait.

And when an arrogant saleswoman gets upset in a shop because I only want to look around for a moment, I remain as polite as possible. I don't believe rudeness in return is the answer.

I never nag. I never criticize. And I wouldn't dream of making a scene in public. No, I'm the nice customer.

And I'll tell you who else I am. When I get pushed too far, I just take my business down the street to places where they' re smart enough to hire and train people who appreciate nice customers. And the world is filled with nice customers, just like me, who can put anyone out of business.

I laugh when I see you frantically spending your money on expensive advertising to get me back, when you could have kept me with a few kind words, a smile, and some good service.

Source: Anonymous

These nice customers are the majority. Even if they are annoyed, they don't make trouble; they stay polite and silent, but they just go away and are lost forever. In times of fierce global competition, companies can less and less afford this silent loss of customers. Therefore, they have to strive uncompromisingly for customer satisfaction. However, if customers are dissatisfied for some reason, companies have to encourage these customers to address their complaint directly to the company, and they have to install a professional complaint management system to permanently restore customer satisfaction.

Currently, many companies lack a sufficient understanding that complaints offer the greatest opportunity for achieving customer loyalty, for reducing failure costs, and for improving product and service quality. Although most top managers publicly commit themselves to the goal of customer satisfaction, many customers going to the company with a problem experience that this is just "lip service." They receive no, belated, or inappropriate answers. Moreover, the information contained in complaints is hardly ever used for quality improvements and product innovations. Dissatisfied customers who are now additionally disappointed by the company's reaction to their complaint will definitely change the provider and engage in negative word-of-mouth communication. On the other hand, it has been verified in many cases that complainants who were satisfied with the company's reaction to their complaint show an extraordinarily high level of satisfaction and loyalty. Therefore, investments made in complaint management are investments in customer retention and a precondition for enduring market success.

This book is designed for managers who want to make optimum use of the opportunities offered by complaints. It provides insights into the behavior of dissatisfied customers, clarifies which goals can be achieved with the help of a proactive complaint management system, and points out concretely how to fulfill the operational asks.

The consequences for the organizational framework and the human resource management of a proactive complaint management system will be presented, as well as opportunities to handle complaints with the help of software tools.

This book is based on a long-term cooperation, which allows for a permanent exchange of research findings and experiences from practice. On the one hand, complaint management has been a research focus of many years for Bernd Stauss. In a number of empirical studies and theoretical contributions, he has dealt with the complaint behavior of customers and all relevant aspects of complaint management in large-scale companies. On the other hand, the book benefits from many years of consulting practice of Wolfgang Seidel. His consulting firm servmark focuses on complaint management problems and gives advice to internationally operating, large-scale German companies such as Allianz Group, Deutsche Post World Net, and Volkswagen AG.

Due to this unique combination of competencies, the German version of this book has earned the position of a standard work, and we are very grateful that the English version of the book is now available in its second edition.

We would like to cordially invite you, the readers of our book, to a constant dialog. We very much appreciate all of your comments, suggestions, and—of course—complaints.

Ingolstadt, Germany — Bernd Stauss
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Issues Raised

- Why is complaint management of strategic corporate importance?
- What role does complaint management play in customer relationship management?
- What relations exist between customer relationship management, customer care and complaint management?
- How important is complaint management in quality management?

1.1 Complaints as a Challenge to the Firm

Everyone in business *hates complaints*. Employees who come into contact with customers dread situations in which they might be abused by angry customers. Employees from all levels of decision-making authority feel that they are being criticized unjustly. They are also annoyed because they have to put time into handling customers' problems that they had not planned for, so that their own schedules are then thrown into disarray. Members of top management find themselves more and more confronted with the fact that customer address their complaints directly to them and also expect a personal answer. Indeed, top management's time has already been allotted for handling strategic problems. Moreover, members of top management do not see it as part of their responsibilities to grapple with the detailed problems of unknown customers. As a rule, therefore, they tend merely to give instructions that a solution should be found. Complaints are then passed down through the hierarchy, although the primary goal of complaint processing is usually to fend off customer concerns as much as possible and/or to find someone to blame within the firm.

Accordingly, many firms still *make it difficult for their customers to register complaints with them*. Neither product packaging nor homepages or advertisements give any indication as to whom dissatisfied customers can turn. If the customers do manage to contact the firm successfully—for example, by phone—they are often unable to find anyone who will take responsibility. It is not uncommon for them to be transferred a number of times to new, unaccountable or incompetent employee counterparts, without getting any closer to solving their problem. Such experiences can result in negative consequences for customers. They make an internal decision to sever the business relationship and choose a competing product the next time they make a purchase. For the firm, then, future potential business is permanently lost. In especially serious cases, the customers turn their case over to their attorney or they turn to the media. Based on these actions, firms are then forced to react. Usually, though, it does not matter how this turns out: the *"opponent" customer* usually is not won back, and the costs of complaint processing and problem-solving for the firm are higher than they would have been had the firm reacted earlier.

The *barriers* erected by firms to deter dissatisfied customers from complaining frequently have an even more direct effect: customers shy away from the exasperation and effort that accompany the search for a responsible contact person and do not complain but instead switch immediately to the competition. Since firms often know nothing about this or only find out indirectly and with a comprehensible time delay, they often come to incorrect conclusions. They refer to *low rates of complaints* and to the high level of satisfaction that is reflected in the corresponding results from customer surveys. They thus falsely equate low rates of complaints with customer satisfaction and overlook the fact that in these customer satisfaction surveys, they only poll customers who have not yet switched at the time of the survey.

On the basis of this faulty assessment, firms often see no need for action; and even when they do perceive one, goal-oriented activities remain undone because many firms have not yet recognized that dealing with complaints is a *top-level management task*. There are even quite a few executives who prefer to ban the terms "complaint" or "complaint management" in order to avoid the negative connotations associated with them. However, this is a short-sighted view.

The brief description of the often bad experiences that customers and companies have in the case of complaints demonstrates the *complex management tasks* that have to be solved. Internal communication and operating processes for complaint handling and problem-solving must be set up and monitored. Employees must be informed and trained on how to behave toward dissatisfied customers. The information contained in the complaints needs to be evaluated and included in decision-making processes. Individual and organizational competencies have to be defined, and the human resources, as well as the organizational and technological framework conditions must have an appropriate design to ensure that this responsibility is actually taken.

The list of important management tasks could easily be extended and specified in more detail. However, the relevance of complaint management does not stem from the complexity of the task, but from its *strategic importance in the context of a customer-oriented corporate policy.*

In a tightening buyer's market with an increasing level of international competition, almost all firms have increased their efforts to become more market-oriented and get greater access to their customers in recent years. These days, it is difficult to find top managers who do not declare their public support for customer satisfaction as the primary corporate goal. Proclamations like these remain merely *lip service*, however, as long as they have no effects on the experiences of dissatisfied customers. If firms are actually striving for customer satisfaction, then the minimal requirements for management include avoiding customer dissatisfaction as much as possible and, when it is already present, to put all their efforts into eliminating it. Customers cannot make their discontent any more clear to the firm than they can in complaints, and firms cannot express the fact that they are not interested in customer satisfaction any more clearly than by their disinterested or cool reactions to complaints. Or conversely: anyone who has recognized customer orientation as a prerequisite for the long-term survival of the firm and takes customer satisfaction seriously as a maxim will regard complaints not primarily as a problem to be warded off, but rather as an *opportunity*, and complaint management as the core of a customer-oriented corporate strategy.

1.2 The Strategic Relevance of Complaint Management

Complaint management involves a complex area of action. It includes the planning, conduct and monitoring of all measures taken by a company in connection with complaints. In strategic terms, complaint management is of outstanding importance in two respects. On the one hand, annoyed customers will be satisfied and kept loyal, so that positive effects for the company's economic success will be achieved. In this respect, complaint management includes a great *strategic potential for customer relationship management*. On the other hand, it is responsible for the collection and use of the information contained in complaints for the improvement of products and processes, resulting in a high *strategic potential for quality management*.

1.2.1 Complaint Management Within the Framework of Customer Relationship Management (CRM)

1.2.1.1 The Understanding of Customer Relationship Management

The term *customer relationship management* is associated with different conceptual ideas that can be roughly assigned to the two approaches "contact optimization" or "relationship development".

CRM as contact optimization represents an optimization focused on customer value and the integration of all customer-related processes in marketing, sales and service. It is based on the pooling and use of all customer data in one database as well as on the synchronization of all customer-related communication.

CRM as relationship development often uses the same technology; however, this is not the focus. Instead, the its main purpose is to build up a relationship that is considered important by customers. The aim is to establish a relationship of trust between provider and customer, leading to a commitment in the sense of an emotional bond and to loyal b*ehavior*. Trust and loyalty can, however, be neither forced nor bought; they must be won based on positive experiences. Only when customers actually learn via the various situations of the business relationship that the firm is behaving in a customer-oriented manner and thus has earned their trust can it be expected that the customers will hold on to the business relationship of their own. This understanding of relationship development forms the basis for the following discussion and characterizes the future use of the term "CRM".

A conscious turning away from the traditional perspective of conventional (transaction) marketing is also associated with placing the emphasis on the customer relationship. This conventional type of marketing was primarily focused on the acquisition of new customers and the execution of isolated individual transactions. The fundamental basis for the move toward *relationship orientation* is the knowledge that winning new customers is associated with extraordinarily high investments in mature markets with minimal growth rates and that the loss of customers weakens the firm itself on the one hand, and strengthens competitors on the other. For this reason, what is important is not simply to win the customers over in the pre-purchase phase, but rather to accompany them through all the purchase and use phases and to bind them for as long a time as possible by offering solutions to problems that are tuned to their various needs.

1.2.1.2 The Concept of the Customer Relationship Life Cycle

The conceptual basis for CRM is the *customer relationship life cycle* (Stauss 2011). This life cycle is a matter of an ideal typical depiction of the progression of a business relationship from the initiation through to the termination. It is assumed here that a business relationship—like a personal relationship—goes through different phases that are associated respectively with varied rates of growth in the intensity of the relationship and requires phase-specific customer relationship management tasks. Figure 1.1 shows a simple variant of such a progression. The intensity of the relationship is expressed via the value of the customer—for instance, through the individual customer's contribution to the profit margin.

The observation regarding the customer relationship life cycle brings to the fore the fact that *three groups of customers* can be differentiated with respect to the business relationship, each of which presents management with a completely different set of challenges. *Potential ("not yet") customers* are addressed by *acquisition management, current customers* make up the target group of *retention management*, and the activities of *regain management* are directed toward *lost ("not anymore") customers*.

The goal of *acquisition management* is to arouse interest in potential customers during the initiation phase and to induce leads to make an initial purchase. With the help of *retention management*, firms strive to bind the (attractive) customers that they already have in an ongoing and sustainable manner and to make sure that the respective business potential continues to grow (Baran and Galka 2017). *Regain management* is aimed at winning back attractive customers who have explicitly announced their intention to break off the business relationship or have actually terminated it (Stauss and Friege 1999; Bose and Bansal 2001; Griffin and Lowenstein 2001).

Complaint management deals with the current customers, namely those in the endangerment phase that is particularly highlighted in Fig. 1.1, during which there is a risk that customers will terminate the business relationship due to their dissatisfaction. Thus, complaint management is primarily intended to prevent the migration of dissatisfied customers, and represents the core of any customer retention management.

1.2.1.3 Retention Management as Core of CRM

In view of largely saturated markets, the goal of customer retention has become increasingly important over the years. Companies strive for sustainable growth of sales and profit by strengthening the relationship with existing customers and by extending the duration of the customer life cycle. Here, two fundamentally different

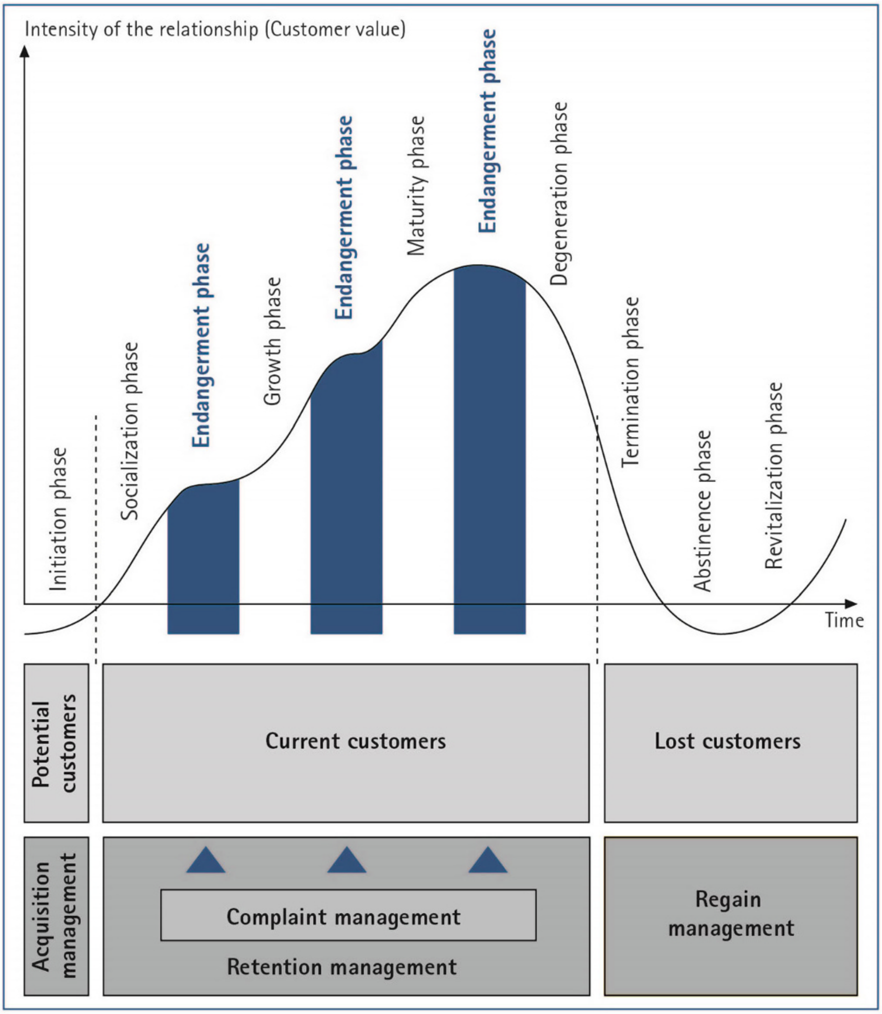

Fig. 1.1 Customer relationship life cycle (based on Stauss 2011, p. 434)

strategies can be chosen: growth due to the greatest possible increase of customer satisfaction (satisfaction maximizing strategy) or growth by avoiding and eliminating customer dissatisfaction (dissatisfaction minimizing strategy). In theory and practice, the satisfaction maximizing strategy is given great attention. In comparison, the importance of the dissatisfaction minimizing strategy, which is primarily pursued with the help of complaint management, is often underestimated. However, a closer look at the economic effects of both strategy options often shows that this prioritization is not justified. In many cases the dissatisfaction minimizing strategy proves to be the far more profitable option.

1.2.1.4 Satisfaction Maximizing Strategy: Usually Chosen, But Problematic

The central starting point of the satisfaction maximizing strategy is the exploitation of the sales potential of current customers by increasing their buying intensity and the initiation of additional purchases (cross-selling). This is achieved by satisfaction-enhancing measures—in particular by the granting of price advantages and other benefits in the context of loyalty programs or bonus and discount systems (Butscher 2016).

The satisfaction maximizing strategy is based on the assumption of a specific impact chain which is uncritically taken as real. According to this assumption, customer satisfaction leads to trust and commitment on the psychological level, which induces the customers to behave loyally, reflected by repurchases and recommendations. In this understanding, customer satisfaction leads to high customer loyalty and economic growth. It is self-evident that satisfied customers tend to behave more loyally than dissatisfied ones, but there is no guarantee that satisfaction always leads to customer loyalty. Managers who conclude from high satisfaction scores that their customers will be loyal in future are often deceiving themselves. Then they have fallen into one of the traps of the satisfaction maximizing strategy.

The Satisfaction Trap

The term "satisfaction trap" was coined by the American business author Frederick Reichheld (1996), when he observed that in the American automotive industry, companies such as General Motors could point to constantly rising satisfaction scores, while they lost market share and profits at the same time. The results of empirical studies in this industry show that 90% of the customers claim to be satisfied or very satisfied, but only 40% come back and buy again. This phenomenon has increased even more in recent years. Many companies are faced with the seemingly paradoxical situation that the usual satisfaction surveys indicate high customer satisfaction, while at the same time they suffer massive customer losses. There are several reasons for this. Even satisfied customers defect, for example, if their needs and circumstances change. Surveys of lost customers also show that the extent of customer churn due to dissatisfaction is usually much higher than could have been expected according to the results of the satisfaction survey (see *Spotlight 1.1*).

> **Spotlight 1.1**
>
> **Loss of Customers in Spite of High Customer Satisfaction and Repurchase Intention**
>
> Many companies suffer severe customer losses in spite of high levels of customer satisfaction or even repurchase intention. Here are two real-life examples from companies in the financial services industry: the annual customer satisfaction survey of an insurance company shows excellent global satisfaction scores—58% of the customers are convinced (completely

(continued)

Spotlight 1.1 (continued)
satisfied/very satisfied), another 38% are satisfied, only 4% are disappointed (less satisfied/dissatisfied). The customer satisfaction rate amounts to 96%; the repurchase intention rate is 91%. Nevertheless, the churn rate is 10%, meaning that one in 10 contracts was terminated. The total number of terminations amounts to approximately 300,000 policies with a premium volume of around 40 million €. This is equivalent to 1200 contract cancellations with a premium volume loss of 160,000 € per day!

A similar picture shows the analysis of customer satisfaction scores and the number of customer losses of a building society. The results of the satisfaction survey for the last financial year are as follows: 51% convinced customers, 45% satisfied and 4% disappointed customers (customer satisfaction rate 96%). In addition, 82% of the customers state they would be willing to repurchase the service. Despite this proof of high customer satisfaction and repurchase intention, the company has suffered huge customer losses. Approximately 100,000 customers have migrated over the last four fiscal years. This means about 400 lost customers per working day or a two-digit million Euro loss of EBIT (earnings before interest and taxes) over the period under review (see Fig. 1.2).

The examples are not individual cases. Therefore, high customer satisfaction scores cannot be regarded as meaningful indicators for customer loyalty. Many managers have reason to reconsider their efforts to increase satisfaction scores (satisfaction maximizing strategy), to focus instead on the actual customer losses, and primarily to avoid customer churn due to dissatisfaction (dissatisfaction minimizing strategy).
Source: servmark (2012)

When companies can no longer overlook the discrepancy between the results of satisfaction surveys and customer losses, they usually react in three ways. They modify the measurement, increase their efforts to maximize satisfaction and try to compensate for the loss of customers by the acquisition of new customers. In these ways they run the risk of falling into three other traps: the intention trap, the delight trap and the new acquisition trap.

The Intention Trap

Recognizing the low significance of high satisfaction scores for future customer loyalty, many companies have started to ask the customers not only about their satisfaction but also about their planned future behavior. Particularly, they collect data on the intention to remain a customer in future (*rebuy intention*) and/or their intention to recommend the product or company to others (*recommendation intention*). Special attention has been given to the Net Promoter Score (NPS) concept, which uses the likelihood to recommend as a single indicator (Reichheld 2006, 2011). However, even these measurement approaches cannot be regarded as reliable predictors of customers' future loyalty behavior (Keiningham et al. 2007).

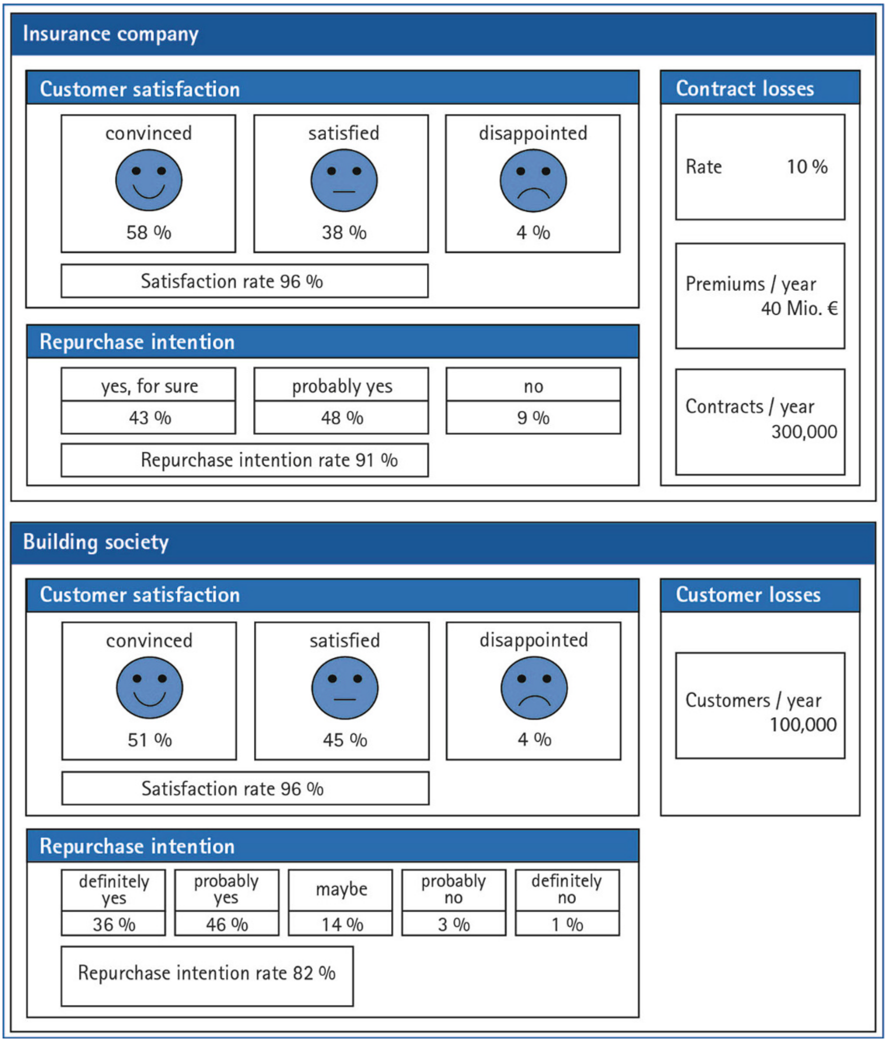

Fig. 1.2 Customer satisfaction—repurchase intention—customer losses

Statements of today about behavior intentions should not be equated with the actual behavior tomorrow. The customers' likelihood to recommend says little about whether they will still be customers in future.

The Delight Trap

Empirical studies show that the desired high binding effect occurs only when customers are extremely satisfied. Only completely satisfied customers remain loyal and act as "apostles" (Heskett et al. 1994, p. 166). Accordingly, companies must not only satisfy their customers but *delight* them (Keiningham and Vavra 2001; Chiturri et al. 2008). However, if companies accept this request uncritically, they may fall into another economic trap. By no means all products and services are suitable for putting customers in the highly emotional state of delight. It is also necessary to consider that *basic quality attributes* have a much higher behavioral effect than *delight attributes*. For customers, the reliable and effective fulfillment of the core tasks is far more important than a surprising additional benefit. Accordingly, satisfaction with delight attributes cannot compensate for dissatisfaction with basic attributes or prevent migration.

From an economic point of view, it must also be noted that measures to delight customers not only involve considerable costs, but also increase the *aspiration level of customers* again and again. A satisfaction maximizing strategy focused on the delight goal requires the permanent exceeding of the expectations of increasingly demanding customers. But this is only justified if the measures generate additional revenue due to increased customer loyalty which exceeds the increased costs. The investments to increase the satisfaction of already satisfied customers must also be more profitable than potential investments to prevent the migration of dissatisfied customers. In their study on 'Return on Quality', for example, Rust et al. (1995, p. 66) found that delighted customers articulated a high rebuy intention; but "the biggest benefits are derived from converting customers from dissatisfied to satisfied, which is probably accomplished by solving or avoiding problems".

The New Acquisition Trap

If companies continue to massively lose customers despite the application of loyalty measurement and delight activities, they normally reinforce their efforts to *acquire new customers* in order to at least retain their customer base. Accordingly, they increase their advertising and marketing budgets and customers are lured away from competitors by expensive special benefits (Ratcliff 2014). However, in many cases this approach proves to be a strategic failure because the acquisition of new customers is associated with high costs, and the expensively acquired new customers often migrate before they became profitable. Moreover, since the advantages are only granted to new customers, this is de facto the abandonment of the customer retention strategy: current and previously satisfied customers are disadvantaged, become dissatisfied and are pushed to migrate in order to gain the new customer benefits from another company. Only a few companies have a realistic idea of the extent to which this kind of new customer acquisition promotes the migration of existing customers.

The description of the satisfaction, intent, delight and new acquisition trap does not in any way imply that efforts to increase customer satisfaction, loyalty, positive word-of-mouth communication or new customer acquisition are problematic per se. The primary aim is to recognize and consider the risks, but above all to change the ranking of the strategic options: *priority shouldn't be granted* to the satisfaction maximizing strategy but *to the dissatisfaction minimizing strategy*.

1.2.1.5 Dissatisfaction Minimizing Strategy: Often Neglected, But Primary

The second strategic option of customer retention management follows a different path. *Prevention and dealing with customer dissatisfaction* has priority here; the effort to make already satisfied customers even happier is secondary. A number of arguments support this option.

For many companies, the increasing *churn*—the loss of customers to another company—is one of the most serious management problems (Shewan 2017). In industries with contractual business relationships, churn rates—the proportion of customers who leave during a given time period—range from 20% to more than 60% (Neslin et al. 2006; Hughes 2007). In this situation, for companies it is of less interest what their remaining customers are satisfied with, but *why customers migrate* and to what extent these losses are avoidable. Therefore, it is necessary to precisely record and analyze the customers' dissatisfaction. Dissatisfaction is one of the main reasons customers abandon their loyalty to the company and are susceptible to offers from competitors:

- High levels of dissatisfaction do not arise because of the absence of additional benefits, but because of *deficiencies of the core service*, the non-fulfillment of basic needs. In these cases a risk of customer losses exists. Thus, it is essential to discover the quality defects perceived by customers and to eliminate them.
- Customer dissatisfaction caused by product or service deficiencies increases massively if companies do not react to the customers' complaint or answer inappropriately. The resulting *'double' dissatisfaction* often leads to immediate customer migration.
- The dissatisfaction minimizing strategy has a defensive orientation, because it aims to avoid customer churn. Nevertheless, it can be described as a growth strategy. It secures the *'lost growth'* due to customer losses, which would otherwise have to be compensated for by new customers (see *Spotlight 1.2*).
- Moreover, minimizing dissatisfaction often proves to be *the most profitable option* for retention management. For example, Reichheld and Sasser (1990) found in their empirical studies that reducing defections by 5% boosted profits by 25–85%. In this respect, it seems economically rational to give the number one priority to the minimizing dissatisfaction strategy: to prevent dissatisfaction by careful quality assurance and to reduce dissatisfaction by professional complaint management.

Spotlight 1.2

Avoidable Customer Losses Due to Dissatisfaction

Customer losses must be investigated systematically with regard to their causes and their preventability. Basically, five types of lost customers can be distinguished from each other (Stauss and Friege 1999; Seidel 2010):

(continued)

Spotlight 1.2 (continued)

- *Intentionally pushed-away customers:* this segment comprises customers with whom it is not profitable for companies to continue the relationship because they render a negative profit contribution.
- *Driven-away customers:* these customers are lost because the company's performance does not meet the customers' expectations or the company ignores their requirements.
- *Pulled-away customers:* competitors pull the customer to their side by offering a better product, service or price.
- *Bought-away customers:* this customer group does not primarily switch to a competitor because of a superior offer but because of 'bribes' such as exclusive benefits for new customers.
- *Moved-away customers:* they drift away as a result of changing needs due to the customers' age, their position in the family life cycle, or a new life style.

The loss of intentionally pushed-away customers and moved-away customers is unavoidable. Bought-away customers are usually not profitable, because they take any chance to defect. But driven-away customers and pulled-away customers represent the potential of generally *avoidable customer losses*.

A valid survey of customers who cancelled their insurance contracts shows the magnitude of the various types of lost customers and the extent of avoidable customer losses (servmark 2010). About 10% of these customers were intentionally pushed-away, mainly due to debt problems. Approximately 15% of the terminations were carried out by moved-away customers who did not own the insured object any longer. Thus 25% of customer losses seem to have been inevitable.

The vast *majority* of—65% of the churn—are classified as *avoidable*: 37% of the lost customers belonged to the pulled-away segment, while 28% were driven-away customers. Taking a closer look only at the driven-away customers, the extent of the avoidable economic loss is evident: approximately 82,000 contracts (a premium volume of around 11.8 million €) were cancelled by this group.

The growth potential of avoidable customer losses is illustrated in the growth balance (Fig. 1.3):

- The company achieved a *gross growth* of 7.2%.
- However, the contract losses (*lost growth*) amounted to 8.6% this year, of which 3.8% can be classified as inevitable, 4.8% as avoidable.
- As a result, the portfolio of contracts declined by approximately 1.4% (*negative net growth*).

Without avoidable lost growth, the company would not only have avoided a negative net growth but achieved a positive net growth.

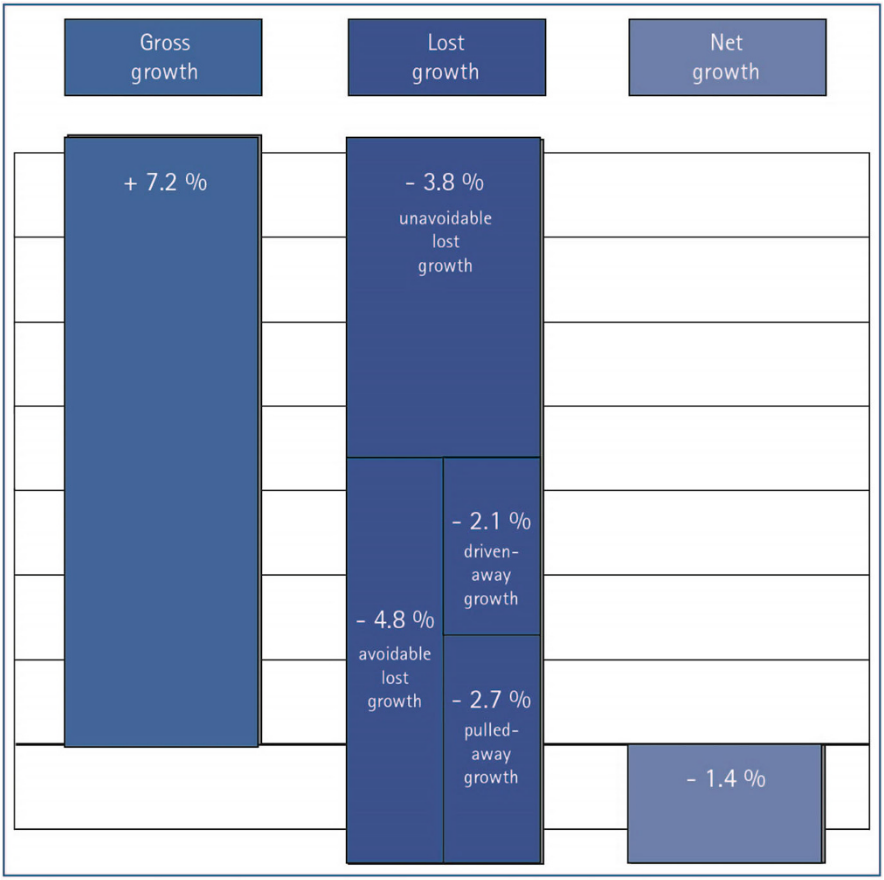

Fig. 1.3 Growth balance

Complaint management is important to avoid lost growth. However, two conditions must be met. Firstly, the annoyed customers must articulate their dissatisfaction in a complaint to the company. Secondly, complaint management must succeed in turning customers' dissatisfaction into satisfaction. Both conditions are often not met. For example, only 7% of the customers who cancelled their contracts with the insurance company concerned had complained about their experienced problem before migrating. And only 2% of the complainants were 'completely satisfied' or 'very satisfied', while 29% indicated they were "satisfied" with the complaint handling. In contrast, more than two-thirds (68%) of them were disappointed (servmark 2010). These results underscore the need to ask annoyed customers to articulate a complaint, and they show very clearly how strongly an unsatisfactory complaint response can trigger churn.

1.2.1.6 Complaint Management: Minimizing Dissatisfaction—Preventing Customer Migration—Retaining Customers

Complaint management is the key starting point to reducing dissatisfaction, because it provides the two decisive answers to the central question of an efficient customer retention strategy: "*What must be done to maximize customer loyalty in the sense of the prevention of customer losses?*":

- Complaining customers are very dissatisfied customers. They represent directly *endangered sales and contribution margin potentials*. In this respect, they are also the primary target group of any customer retention strategy. Complainants find themselves in a problem situation and are in urgent need of a solution. If companies offer this solution, they show that not only the customers, but they, too, have entered into a relationship and take responsibility. This is an excellent basis for gaining the customers' trust and commitment and thus creating the precondition that complainants will continue to be customers, despite the perceived problem. This customer loyalty effect of complaint management is achieved by activities that are part of the direct complaint management process (see Chap. 4).
- Complaints contain *concrete information on quality deficiencies* that are perceived by customers as serious. This information can immediately be used for quality improvements, which ensures that those problems that currently cause dissatisfaction and customer losses will not occur in the future. The package of measures that has to be applied for this purpose will be characterized in Chap. 4 as an indirect complaint management process.

Therefore, if companies primarily want to avoid the loss of customers, *complaint management has the key role*.

Figure 1.4 gives on overview of the two strategy options 'maximizing satisfaction' and 'minimizing dissatisfaction' and shows the necessary change of perspective.

1.2.1.7 Complaint Management and Customer Care

In many firms, complaint management tasks are taken over by departments that are then designated "Customer Care". For this reason, it is frequently unclear whether these terms have the same meaning. Similar confusion arises with respect to the relationship between customer care and customer relationship management, as these departments usually do their work using CRM software and follow its understanding of relationship management. In order to ensure clarity in this confusion of terms, first at all a distinction must be made between the fields of activity on the one hand and the organizational units on the other hand.

Fields of Activity in CRM, Customer Care and Complaint Management

In terms of the *breadth of the field of activity*, customer relationship management, customer care and complaint management can be differentiated by the type and extent of the respective tasks that must be accomplished.

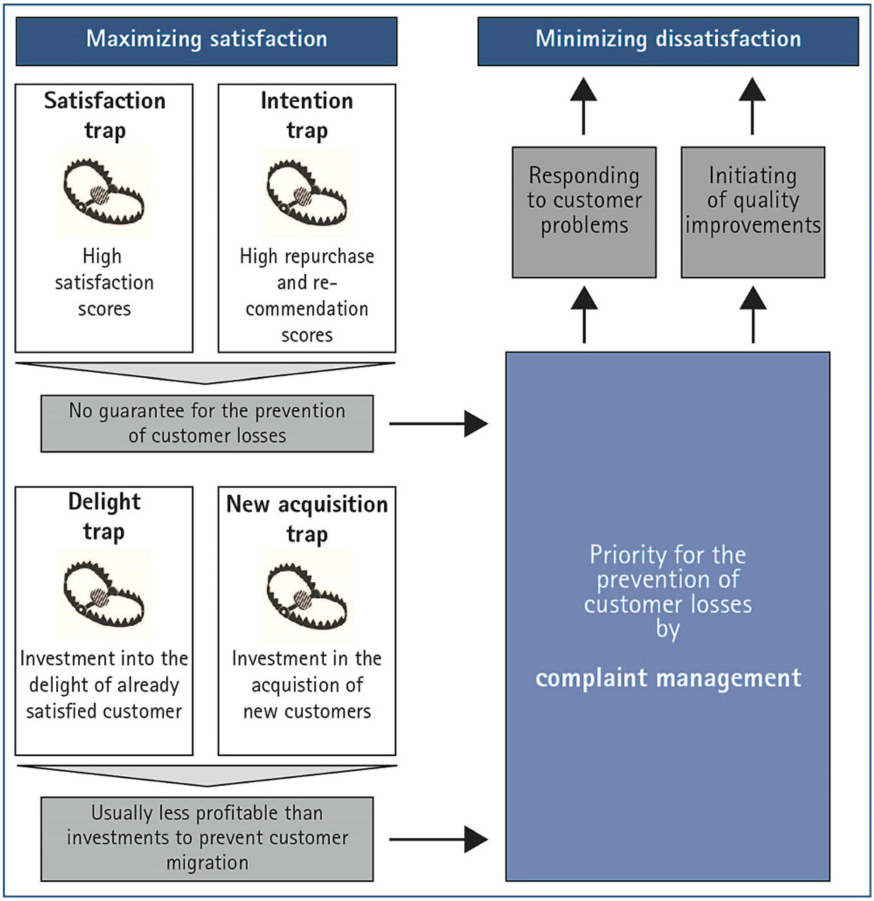

Fig. 1.4 Strategy options maximizing satisfaction versus minimizing dissatisfaction

Customer relationship management is the totality of corporate measures for the systematic initiation, development, maintenance and safeguarding, and even the termination and re-initiation of customer relationships, if necessary. Customer *retention management* stands at the center of the spectrum of activity.

Complaint management is a part of retention management. The target groups of its activities are those customers who have come to the firm with a complaint because they are dissatisfied.

Complaint management thus communicates solely with the group of customers who have a complaint. The central core is *inbound communication*. The active contacting of customers by the firm – *outbound communication*—takes place only insofar as it is useful in satisfying the complainant. This applies, for example, to telephone inquiries and to intermediate and final replies, as well as to follow-up actions and contacts.

Thus, it becomes clear that complaint management is not responsible for all forms of customer-initiated communication. Customers do not come to the firm only with complaints, but also with other articulations, including primarily orders, terminations, notices of amendment, praise, requests, ideas and suggestions for improvement. *Orders*, understood as a declaration of intentions to complete a sales contract, and *terminations*, understood as a declaration of intention to terminate a contractual relationship, constitute legally binding and purchase-relevant declarations on the part of the customer. In a *notice of amendment*, customers inform the firm of changes in their personal circumstances that are relevant to the business relationship. As far as *praise* is concerned, customers express their satisfaction with the firm's products, services and course of action, all of their own accord. In addition, it regularly happens that they ask for information that is important to them when they make *enquiries* or approach the firm with *ideas* for specific possibilities for improvement. *Junk contacts* that do not enable the organization to make a useful answer must be differentiated from these other forms of dialog. This type of contact includes statements that do not contain a recognizable concern or that do contain provocations, slander or threats. A response is largely unnecessary, or these statements constitute cases for the legal department. Table 1.1 gives an overview of the various forms of customer-initiated communication.

Table 1.1 Customer-initiated forms of communication (customer concerns)

- **Orders** or purchases are customer statements in which they make legally-binding declarations of their intentions to complete a sales contract.
- In **terminations** they express the fact that they would like to suspend the delivery of certain benefits or terminate a current contract.
- With a **notice of amendment** the customers inform the firm as to changes in their personal circumstances (marital status, address, bank account information).
- **Praise** is an expression of the customers' satisfaction with or enthusiasm for the firm's products, services and processes, as well as the behavior of its employees, all of their own accord.
- **Complaints** are articulations of customer dissatisfaction.
- In **enquiries** the customers ask for information although their information needs can be related to quite different issues. Substantial contents of enquiries are for example:
  - General information about the firm and important corporate decisions (enterprise size, total assets, merger decisions, etc.)
  - Specific information about the range of products and services (assortment of goods, product attributes, availability, price, usage instructions, financial or health effects of consumptions, etc.)
  - Information about business transactions (volume of transaction, financing modalities, date of delivery)
  - Information about customer status (category of discount, obtained value in frequent-user-programs)
- With **ideas and suggestions for improvement**, customers provide the firm with specific indications as to how to improve their products, services and processes, without associating their expressions of dissatisfaction with the present state of the firm.
- Customer articulations that do not enable the organization to make a useful answer (provocations, slander, etc.) are designated as **molestations.**

The *planned handling of all these customer concerns* constitutes the functional area of *customer care* that includes complaint management as a central element. What customer care and complaint management have in common is the *inbound perspective.* Dominant is here a concentration on communication initiated by the customer and the condition that they seek to achieve customer commitment, not through the marketing of products and services, but through the resolution of concerns that are brought forward by customers. Customer care does, however, have a more extensive spectrum of tasks than does complaint management, by virtue of its inclusion of all forms of articulations.

With respect to customer relationship management, customer care is particular section. In addition to the primarily inbound-oriented activities of customer care, CRM encompasses *all the outbound measures initiated by the firm* that are necessary for the consolidation, strengthening, stabilizing, safeguarding or—in extreme cases—for the dissolution of the business relationship. Here once again, the focus is not on sales-oriented but rather on firm-oriented actions that aid in the building and further development of individual customer relationships. Such actions guarantee that specific attention is paid to the customers, that they are specifically informed and that their voice will be heard. Figure 1.5 summarizes these connections.

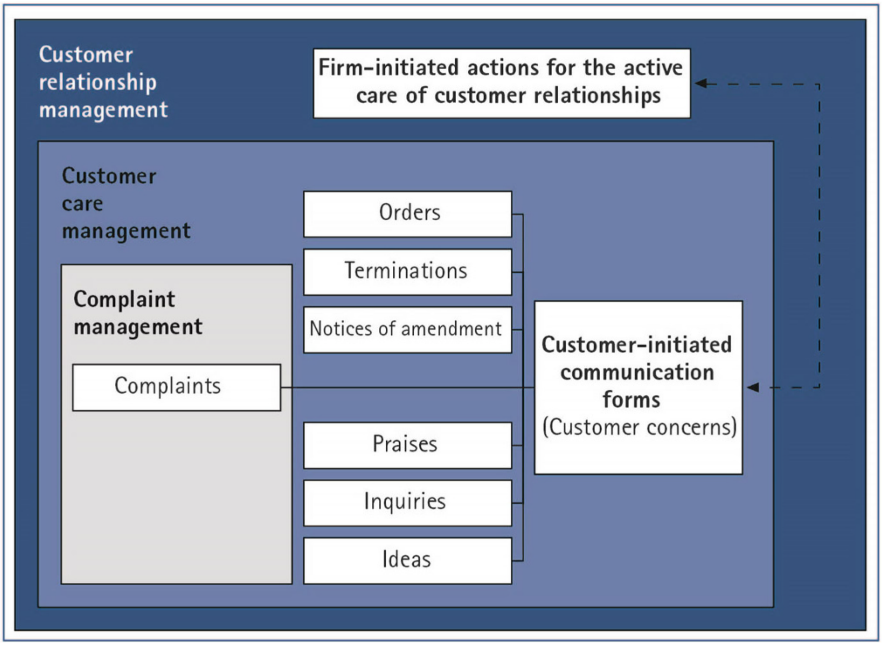

Fig. 1.5 CRM—customer care management—complaint management

Organizational Solution for CRM, Customer Care and Complaint Management
The question of how the tasks of CRM, customer care and complaint management should be *organizationally* assigned is completely independent of the terminological differentiations. For example, it might be very useful to combine all complaint-related tasks in a specific complaint management department or to bundle the entire customer-initiated communication in a customer care unit (see Sect. 15.2). It is also possible that operational units—such as a customer interaction center—will not only be responsible for the primarily inbound-related activities of customer care, but will also undertake outbound activities within the scope of marketing and sales measures.

1.2.2 The Role of Complaint Management in Quality Management

Complaint management aids in the stabilization of endangered customer relationships and is consequently a fundamental element of the type of relationship management that is oriented toward external customers. But this in no way means that stabilization represents the only goal of complaint management. The analysis of complaints is an important basis for continual quality improvement initiatives, meaning that complaint management is also a *fundamental starting point for quality management* (Brown et al. 1996; Linder et al. 2014; Bulsara and Thakkar 2016). In this respect, it seems only natural, that complaint management is an integral component of all the relevant quality management concepts.

1.2.2.1 Complaint Management Within the Framework of ISO 9001

A *customer-oriented understanding* is characteristic of the ISO 9001 "Quality Management–Requirements". As is stated in the introduction, this standard promotes the "development, implementation and improvement of the effectiveness of a quality management system, to enhance customer satisfaction by meeting customer requirements" (ISO 2015, p. vii).

This will be achieved by a process approach on the basis of the co-called PDCA (Plan-Do-Check-Act) cycle (see Fig. 1.6), which underlines the customer focus. The requirements of the customers are the primary starting point of the planning process, and the products and services as output of the value-added process are evaluated by the customer. Their satisfaction is the key measure of the organization's performance.

Complaint management holds a *place of central importance*, both in the determination of customer requirements and in the measurement of customer satisfaction. With regard to the requirements, it is necessary to identify information about customer expectations and their articulated wishes for corrections and new features, and to include this in the product planning process. In reference to the evaluation of products and services, complaints provide unambiguous evidence of the fact that customer expectations were not fulfilled. Since complaints also contain concrete descriptions of problems and suggestions for solutions, they often furnish much more valuable clues for the formulation of improvement possibilities than do the

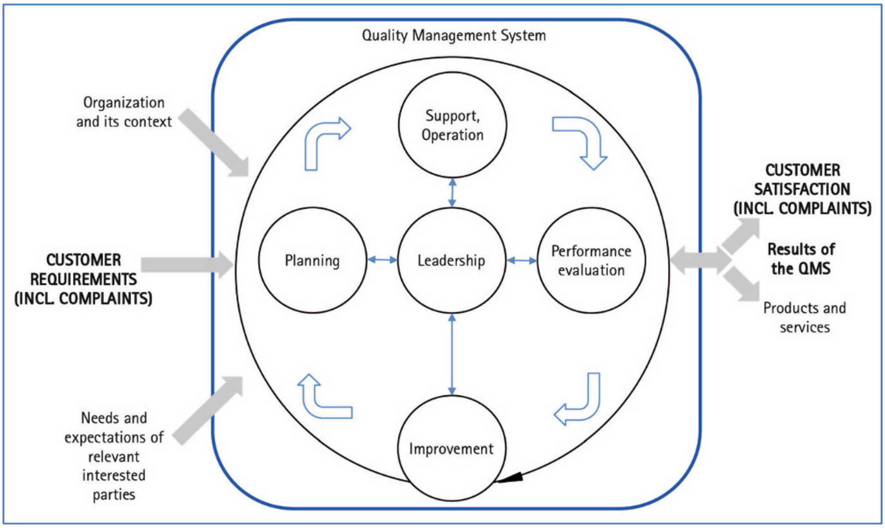

Fig. 1.6 Process approach of the ISO 9001 quality management system (Source: based on ISO 2015, p. 19; Reference to complaints added)

results of customer satisfaction surveys, which are mostly presented as relatively abstract average scaled values.

The further *explanations within the norm* substantiate the ideas of customer orientation and underscore the importance of complaints and complaint management. For example, with respect to customer communication it is required to obtain "customer feedback relating to products and services including complaints" (ISO 2015, p. 10). And when a nonconformity occurs "including any arising from complaints" the organization shall review and analyze the problem, determine the causes and implement corrective actions (ISO 2015, p. 19).

1.2.2.2 Complaint Management According to the Standard ISO 10002:2014

Since the year 2005 there has been an international standard for complaint management entitled "Quality management—Customer satisfaction—Guidelines for complaints handling in organizations" (ISO 2014). It is a separate standard that supports the objective of the international standards 9001 ("Quality Management Systems—Requirements") and 9004 ("Managing for the sustained success of an organization—A quality management approach" (ISO 2014, 02). It represents "guidance on the design and implementation of an effective and efficient complaints-handling process for all types of commercial or non-commercial activities" (ISO 2014, 01), without the intention to provide a specific certification of the complaint management. The process described in the standard promotes customer satisfaction and loyalty and improves a company's competitiveness by:

- providing a complainant with access to a responsive complaint-handling process
- enhancing the company's ability to resolve complaints in a consistent, systematic, and responsive manner
- helping to identify and eliminate causes of complaints
- supporting the personnel in improving their customer-oriented skills and
- providing a basis of continual review and analysis of the complaint-handling process (ISO 2014, 0.1).

The ISO 10002-2014 comprises eight sections, in which fundamental terms are defined, guiding principles are formulated, requirements on the organizational framework are specified and relevant tasks concerning complaint-handling, the use of complaint information and the continual improvement of the complaint management system are described. This is complemented by an informative annex, including concrete hints and recommendations by presenting, for example, special forms that may help complainants to provide the relevant information or aid the company to follow up on a complaint.

This standard provides a useful introduction to the topic. This is particularly helpful for small businesses with a limited number of customers and for all those who are dealing with this issue for the first time. However, the presentation is usually very brief and formulated on a general level with low requirements for the quality of the execution of tasks. In addition, several important aspects are ignored. Thus, the ISO 10002:2014 can be interpreted only as a minimum standard, and is not sufficient for companies striving for an excellent complaint management system.

1.2.2.3 Complaint Management Within the Business Excellence Frameworks

Much earlier even than the quality management system that complies with the ISO 9001 norms, the *Total Quality Management concept* emphasized the customer as the orientation factor of a quality-driven company. The fundamental goal of Total Quality Management (TQM) consists of bringing the firm into line with the expectations of customers and thereby increasing its competitiveness, so that an especially high degree of customer satisfaction and commitment is achieved as a result of superior quality.

TQM Awards such as the Baldrige Award or its European counterpart, the EFQM model, have for years been viewed as the most consistent conceptual realizations of the Total Quality Management approach. This view continues to be applicable, even though the notion of quality in these concepts has been widely replaced by "Business Excellence" in the meantime.

The *Baldrige Excellence Framework* demonstrates that quality is not an isolated phenomenon, but rather can only be implemented within the framework of a corporate-wide concept that encompasses all functions and areas. The seven criteria for performance excellence make this clear (see Fig. 1.7): "Leadership", "Strategy" and "Customers" represent the leadership triad and stress the responsibility of senior

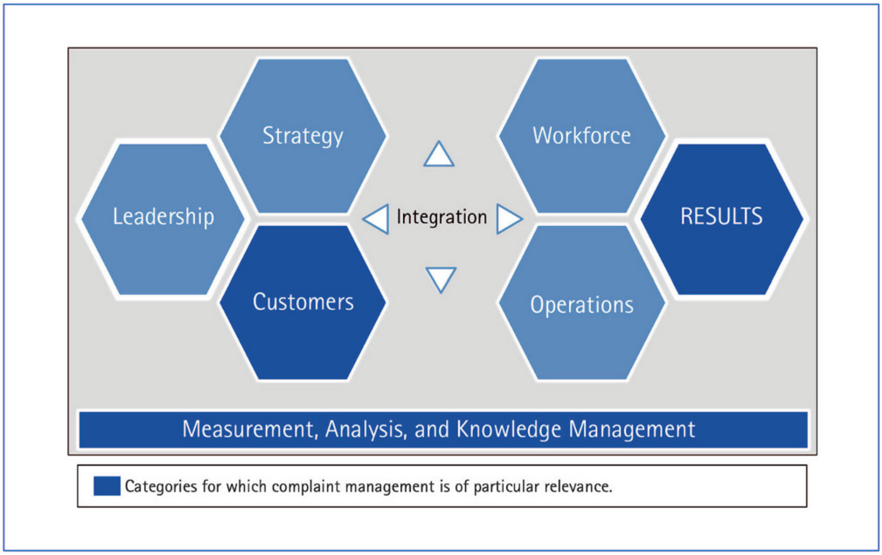

Fig. 1.7 Relevance of complaint management in the performance system of the Baldrige Excellence Framework (NIST 2017b, p. 1)

leaders for the company's direction and success. "Workforce", "Operations" and "Results" represent the results triad, demonstrating that employees and key processes accomplish the work of the organization that yields the business results. "Measurement, Analysis and Knowledge Management" serve as the information foundation for the performance management system. The word 'integration' in the center demonstrates that all elements of the model are interrelated (NIST 2017b, p. 1).

The *importance of complaint management* in the context of the Baldrige Model is high. Complaints are already addressed in the core values, because reducing complaints is viewed as an important part of customer-focused excellence. Added to this is the statement that "success in recovering from defects, service errors, and mistakes is crucial for retaining customers and engaging them for the long term" (NIST 2017b, p. 41).

The careful handling of customer complaints is of special importance for the criteria "Consumers", "Measurement, Analysis, and Knowledge Management", and "Results". In the section "Voice of the Customers" of the "*Customers"* category, companies have to describe how they listen to customers and determine their satisfaction and dissatisfaction. Here, complaint data that affect customers' purchasing decisions is explicitly mentioned. In the section "Customer Engagement" the companies are asked, inter alia, how they manage complaints, and the Baldrige Commentary explains the objective: "Complaint aggregation, analysis, and root cause determination should lead to effective elimination of the causes of complaints and to the setting of priorities for process and product improvements" (NIST 2017a). Under the criterion "*Measurement, Analysis, and Knowledge Management*" it is