WHITEPAPER

A Profitable Approach to Managing Complaints

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**Introduction**

The greatest test of the relationship between the customer and their service or product provider often takes the shape of a complaint, which is why it’s so surprising that many companies still fail to recognize the value complaints can deliver to their organization.

This whitepaper addresses how companies should explore the role and value of complaints and feedback within their organization and how complaints can be turned from a costly inconvenience into a key opportunity to develop more profitable and sustainable customer relationships.

This whitepaper highlights two strategic directives:

- Companies must seize on every complaint they receive.
- Companies need to leverage every opportunity to create value from the complaint; it’s not enough to simply process it.

For organizations that adopt these approaches, there is a real opportunity for complaints management to become a competitive differentiator and a source of profit for the business.

**Evolving a Strategic Approach to Handling Complaints**

It is 5-25 times more costly to attract a new customer than it is to retain an existing one.\(^1\) 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 cost of acquiring a new customer varies from organization to organization, there would be little disagreement on the overwhelmingly high cost and poor business logic of maintaining a strategy focused only on acquiring new customers.

As a result, organizations should continually look for ways to identify, nurture and encourage customer loyalty. In order to shape a customer-focused, loyalty driven business for the future, this retention process must strive to understand customers’ expectations and requirements. There are many varied technologies and methodologies available to build customer insight and understanding of 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 quality data on customers’ attitudes. In most cases, these complaints come from loyal customers—not disloyal ones, as is often the thought. These 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’re looking for.

Customers who do complain about their dissatisfaction are also more likely to re-purchase if they feel their complaint is heard and managed. Businesses should take that kind of loyalty seriously; essentially, if they’re complaining, they care. Industry research shows that customers who complain and are satisfied are up to 8% more loyal than those who did not have a problem.\(^2\) They are more likely to tell their families, friends and colleagues about how pleased they are that the company addressed their complaint, even if the issue was resolved to their dissatisfaction. If their problem was resolved satisfactorily, they’re prone to tell more people than if they had simply received good service in the first place.

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1 [https://hbr.org/2014/10/the-value-of-keeping-the-right-customers](https://hbr.org/2014/10/the-value-of-keeping-the-right-customers)

Given this propensity to repurchase and to recommend others in their social groups, customer complaints are a leading indicator of customer sentiment and future economic activity. Based on research conducted by the Aptean Respond team, Figure 1 highlights the various ways organizations handle complaints.

**Figure 1 - Objectives of Complaints and Feedback in Insurance**

- **Process**
  - Achieve more consistent outcomes
  - Track and monitor performance of suppliers
  - Improve service and drive business performance

- **Competitive Advantage**
  - Restoring trust
  - Increase customer propensity to buy
  - Achieve competitive advance through customer excellence
  - Identify opportunities for customer growth

- **Learning**
  - Understand process and sub blockage optimal performance
  - Spot training needs
  - Use the data to base decisions on future products

- **Minimum Standards**
  - Comply with CFPB (and other agency) regulations

- **Customer**
  - Improve product persistency
  - Strengthen customer loyalty and increase customer retention

Those businesses 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 organizations strive to make improvements in process efficiency, organizational learning and customer-focused delivery, we begin to see companies gaining competitive advantage as a service-led organization by achieving excellence in complaints management and by utilizing complaints data to drive improvements in the business.
Understanding the Financial Impact of Complaints Management

In the past, there has been a tendency to assume that ‘compensation culture’ is the main motivator for 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 couple 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, leading to 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.

Listening to customer complaints and then acting upon them not only helps with customer retention and satisfaction, it also presents an opportunity for growth within the business itself. While these principles are easy to understand, many businesses and individual executives want to understand the financial impact of an unaddressed complaint before investing further in complaints management.

Although it can be challenging to put quantitative measures on qualitative aspects of feelings and disposition, it is possible to a certain degree. Figure 2, conceived by Stauss and Seidel and adapted by the Aptean Respond product group, traces populations of customers who have a negative experience with an organization and the financial implications of whether they complain or not.

To illustrate how this works, let’s apply the model in Figure 2 to a company with 2,500,000 customers that has a turnover of $500 million per year. This gives an average revenue of $200 per customer per year.
In this example, you can see that 22% of the organization’s customers have had a poor experience. As mentioned previously, studies have shown that on average, less than 4% of dissatisfied customers will actually complain. For our example company, this would result in about 22,000 complaints. At an average $200 customer revenue per year, those 22,000 complaints equate to approximately $4.4 million in revenue. It would be valuable and financially responsible for you to listen to and take care of those complaining customers.

Now, let’s say that of the 4% of customers that complained, 38% are satisfied with the way their complaint was handled, making them likely to advocate for the brand, repeat purchase, and upsell to their friends and family. But the other 62% of the complaining customers are disappointed with how their complaint was managed and addressed.

Now, imagine that of this group of disappointed customers, 40% are lost as customers, while the remaining 60% are at risk for leaving. Financially, the defectors would result in about $1.1 million lost revenue per year.

In relative terms, this loss may not be devastating. But this is only the tip of the iceberg.

Remember that 96% of people who have had a poor experience do not complain—they remain the silent majority.

Imagine that of the unhappy customers who do not complain, 55% (290,000 customers) leave and 45% (238,000 customers) are at risk for leaving. This would equate to $58 million lost revenue per year, with the potential of $47.5 million being lost, depending on what those at-risk customers decide to do. These figures 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. Encourage feedback from your customers, and engage with them in a meaningful way. Organizations simply cannot afford to ignore dissatisfied customers anymore.

The ramifications do not stop only at a loss of business. Customers who have a poor experience with an organization will tell between 10-20 people. Meaning, for every dissatisfied customer, there are another 10-20 people who now distrust the company and are unlikely to consider becoming a customer.

Encouraging customers to speak up; making the complaints process transparent, accessible and seamless; and treating complaints seriously are key steps in driving up customer retention and, ultimately, your business’s profitability.

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

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3  https://www.inc.com/andrew-thomas/the-hidden-ratio-that-could-make-or-break-your-company.html
In the past, the majority of companies have viewed complaints management as a drain on the company’s resources and profits. Processes, therefore, have been more focused on clearing the complaint quickly and easily rather than taking the necessary amount of time to manage the customer’s dissatisfaction and come up with a realistic solution. Recent research suggests that while 80% of businesses believe they provide superior service to their customers, only 8% experience superior service.\(^4\)

Forward-thinking companies, however, are increasingly focused on improving the consistency and effectiveness of their complaints and feedback management processes. They have made it part of their mission to deliver standards of service and outcomes that demonstrate a commitment to their customers.

Beyond addressing the needs of and eventually satisfying the customer, a good complaint management strategy should also place a strong emphasis on root cause analysis. Companies need to move beyond simply apologizing; if an issue occurs again and again, they need to be able to identify the underlying cause and apply that understanding across the organization.

The value of complaints data lies in its ability to drive effective root cause analysis by identifying the 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.

**Figure 4 - Driving Improvement to the Business**

1. **Analysis of aggregated data sources**
   - Typical Inputs
     - Aggregate feedback data across departments
     - Comparative data, including peer benchmarking and industry norms

2. **Regular management review**
   - Typical Inputs
     - Corporate metrics and strategic aims
     - Budget and resourcing data
     - Current change programs

3. **Develop possible strategies or alter existing projects**
   - Typical Outputs
     - Define change programs across departments, including customer service, sales and marketing
     - Comparative data, including peer benchmarking and industry norms

4. **Evaluate possible changes**
   - Typical Outputs
     - Effect improvements to the strategy
     - Pilot projects
     - Comparative studies

5. **Initiate, manage and rollout change projects**
   - Typical Outputs
     - Enterprise-wide implementation of change

6. **Monitor and adapt project**
   - Typical Inputs
     - Progress measurement versus objectives

7. **Advise customers of improvements made as a result of their feedback**
   - Typical Outputs
     - Email, phone calls, surveys, etc

Driving Improvements to the Business

Adopting an approach that both manages complaints and recognizes the potential for delivering value to the business can be extremely worthwhile—both for the customer and for 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’.
- 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 turnover.
- Improving customer retention.
- Strengthening customer loyalty.
- Increasing customer value.
- Elevating the company’s bottom line.

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 most have yet to fully leverage their complaint management strategy as a competitive advantage. Companies can harness this potential by:

- Optimizing the accessibility of their complaints and feedback processes.
- Investing in a robust and enterprise-proven complaints management solution to ensure all complaints are captured and handled effectively and efficiently.
- Listening to their customers’ experiences of making a complaint.
- Performing root cause analysis of complaints and feedback data in order to identify process and service improvements and prioritize business change initiatives.
- Truly placing the customer at the heart of their business.
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.

**Want to learn about how Aptean Respond can help improve your customer complaint management?**

**Reach out to us today.**

**About Respond**

Aptean Respond is an enterprise complaint management platform that supports every role in your customer experience team—from frontline staff and managers to team leaders and executives. Through configurable workflows and user-friendly dashboards, Respond empowers your team to improve customer interactions, accelerate complaint resolution and capture actionable insights to provide an outstanding customer experience.