

HOW COMPLAINTS HANDLING DELIVERS CUSTOMER RETENTION BENEFITS

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Introduction

Management guru Peter Drucker once famously claimed that the sole purpose of a business is “to create a customer”. Creating customers (whether growing the customer base or merely replacing lost ones) has a cost, as marketing expenditures prove. Research has found that a small increase in customer retention generates an increase in customer net-present-value (NPV). A retention increase of just 5% has been shown to generate up to 95% NPV increase across a wide range of business environments. That potential has made retention a primary goal in many companies who now regard keeping their existing customers as equally important, and sometimes even more so, than creating new ones.

There has emerged a general consensus that focusing on customer retention can yield several benefits:

- As customer tenure lengthens, the volumes they purchase grow and the referrals they make increase.
- Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other.
- Because fewer customers churn, customer replacement costs fall.
- Finally, retained customers may pay higher prices than newly-acquired ones and, mostly, do not receive discounted offers made to attract new customers.

All of these conditions combine to increase the net present value of retained customers.

Complaints-handling processes

We decided to investigate the impact of documented complaints-handling processes on customer retention. There were primary and secondary reasons for our interest.

There are indications that well-implemented complaints-handling processes can have a positive effect on customer retention. Indeed, customers who complain and are well recovered can be more

satisfied and less likely to switch than customers who had no cause for complaint at all. We wanted to find out if the presence of a documented complaints-handling process was a factor in this, with a greater or lesser impact on customer retention outcomes than other customer retention strategies.

The secondary factor was the timely publication of an international complaints-handling standard, ISO 10002, from the International Organization for Standardization. It provides a documented guide to the design and implementation of an effective complaints handling process. Its importance and relevance to business is enhanced if the linkage between complaints handling processes and customer retention can be shown.

Methodology

We formulated a questionnaire to probe the topic, and piloted several versions. The majority of the questions required simple ‘yes’, ‘no’, or ‘don’t know’ responses. One key question ‘In the last 12 months, to what extent has the number of customers retained by your company met your expectations?’ used a 7-point scale, with 1 labeled “greatly under-performed expectations”, 7 labeled “greatly exceeded expectations” and the mid-point, 4, labeled “met expectations”.

Beginning with the Dun and Bradstreet database of top 1,000 companies in Australia, we selected a stratified random sample of 732 which covered the full spectrum of primary, secondary (manufacturing) and tertiary (service) sectors of Australian industry. Following an initial telephone discussion and invitation to participate, the questionnaire was mailed to each organisation in the sample group, with follow-up calls and reminders issued after one month where required. We encouraged response by offering participants a report of the study’s results.

Two basic forms of analysis were performed. First, simple descriptive statistics were computed for the variables and, second, correlations were performed to test relationships between variables.

Our results

One hundred and seventy responses were obtained, representing a 23% response rate, with a good spread across all major standard industrial classification (ANZSIC) codes.

We found the responding companies generally were not very advanced in customer retention management. Only 39% had an explicit, documented, customer retention plan. Even fewer, 28%, had a specific budget dedicated to customer retention activities, but 70% claimed to have either a nominated person or a group in charge of customer

retention. Of those companies which had a formal retention plan, the objectives of those plans were most commonly expressed in terms of revenues to be earned from retained customers. Very few used customer profitability for their retention objectives, which involves consideration of customer-related costs as well as revenue.

We also found a large proportion of the companies do not segment their customer base when implementing retention strategies. 41% said “*we don’t want to lose any of our customers?*” rather than select the alternative answer “*we focus our retention efforts on particular customers?*”. Interestingly, this is at odds with the recommendations of a number of today’s authoritative business commentators.

Most companies (85%) say they look for clues and advance warning that a customer might be about to switch but only a much smaller group (19%) use any formal models and methods to predict those defections. Nearly all the rest (79%) said that the most common indicator of a customer’s likelihood to switch is the receipt of a complaint. This finding provides an important justification for our focus on complaints-handling processes which can, amongst other uses, provide an early warning system. We found 79% of surveyed companies to have a documented complaint handling process with 74% believing their process to be effective. Slightly more than half (56%) of all companies reported that they had exceeded their customer retention expectations in the previous 12 months.

We put these findings together to find what the common factors were amongst companies that are very good at customer retention.

- Was it the existence of an explicit, customer retention plan? No.
- Was it the existence of a dedicated customer retention budget? No.
- Was it that they had an executive in charge of customer retention? No.
- Was it that they had a documented process for handling customer complaints? Yes!

This leads to an important conclusion. It indicates that excellent customer retention is predicted by the presence of a documented customer complaints handling process.

This linkage shows that organisations can improve retention – delivering major business benefits - by having a documented complaints handling process. Customer retention is important in its own right but independent research also shows that other benefits flow from handling complaints well: improved employee performance and business processes, which in turn contribute to financial performance.

Overall, our results coupled with others’ shows that companies that capture customer complaints and handle them well:

- are well-placed to resolve a particular complainant’s problem and thereby retain that customer’s residual value; and
- have a head-start in identifying systemic or repetitive problems that affect the bottom line and, therefore, have an advantage in developing solutions to those problems.

The documentation supporting ISO 10002 also notes that excellent complaint-handling processes ‘*enhance the ability of an organisation to identify trends and eliminate root causes of complaints, and improve an organization’s operations?*’, which are important benefits as well.


In order to shed more light on the association between retention outcomes and complaints-handling processes, we ran some additional tests. These revealed a number of significant associations between having a documented complaints-handling process and other variables investigated in our study. We found that companies that have a documented complaints-handling process are also more likely to:

- have an explicit customer retention plan;
- use a formal switching model to predict defection; and
- have a person or group in charge of customer retention.

Conclusions and implications

There are two major conclusions to this study. First, excellence in customer retention is strongly associated with the presence of a documented complaints-handling process. Secondly, and perhaps counter-intuitively, the standard management practices of planning, budgeting and assigning accountability for customer retention prove not to be associated with achieving excellent customer retention performance.

For managers, the most important implication from this research is that they should implement a documented customer complaint handling process. In so doing, attention should be paid to features that can identify and act upon the problems that motivate customers to take some or all of their business to competitors. Guidance in how to do that is available in the ISO 10002 standard. Managers may also need to revise their customary approaches and intuitive beliefs to retention management in the light of our findings, which show that a documented complaints handling process is much more important than having a budgeted customer retention plan under the control of a responsible manager.



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