

Quality Progress

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Understand Customer Behavior And Complaints

Eight areas of quantifiable data can be integrated into quality assurance decisions

by John Goodman and Steve Newman

CUSTOMER COMPLAINTS PROVIDE valuable quality assurance, service and marketing data. But the challenge is to use the data to make decisions that result in substantive action.



To use complaint data to solve problems in design, marketing, installation, distribution and after sale use and maintenance, you should have a basic understanding of customer complaint and market behavior.

This understanding will provide a framework for interpreting the data and extrapolating it to the entire customer base. The framework will allow organizations not only to quantify the implications of the data but also to set priorities and allocate scarce quality assurance re-sources to mitigate problems.

In fact, unsolicited complaints submitted at the time a problem occurs are less costly than systematic sampling and inspection and provide more timely information than is typically available from warranty data.

Eight factors about customer behavior are key to understanding the implications of complaint data.

1. Dissatisfied individual and business customers tend not to complain.

Research by TARP^{1, 2} indicates most customers do not complain when they encounter a problem. In one case that could have resulted in an average loss of \$142 to the customer, TARP found about 31% of individuals who encountered the problem did not complain.

We also found for small problems that resulted in either a loss of a few dollars or a minor inconvenience, only 3% of consumers complained and 30% returned the product. The balance of consumers encountering this problem either did nothing or discarded the product.

In a survey of 600 business software customers conducted by TARP,³ results indicated 37% of the companies that encountered problems did not complain to anyone, even to the software

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support center. In several business to business studies, an average score of 25% of business customers made no contact with the vendor.

Finally, a 2001 TARP survey of purchasing agents for companies using electronic broadcast equipment found more than 50% who had encountered problems took immediate punitive action against a company without complaining to either the salesperson or sales manager. Companies indicated it was easier to switch vendors than complain.

2. Complaints often do not directly identify the source or cause of the problem.

The causes of customer dissatisfaction and questions can be grouped into three major categories: individual employee caused, company or retailer product or process caused and customer caused.

Our experience is that the distribution of problems across these three major cause categories is about 20%, 40% and 40%, respectively. By reviewing case closing information, analysts are in a position to differentiate among and identify key company and customer based causes.

It also should be noted there are several possible solutions to a particular problem. For example, an automobile company could either modify the normal operation of a vehicle or make customers aware at the outset that the vehicle will operate a certain way.

A major problem in the collection of customer problem data is a lack of differentiation between the reason for the complaint and the cause of the complaint. Customers usually discuss symptoms that are evident to them rather than the underlying cause.

An organization must classify customer contacts using either three or four categorization schemes:

1. Reason for contact (symptom).
2. General cause (employee error, company caused or customer caused).
3. Root cause (specific detail).
4. Reason for escalation of the complaint to a manager or headquarters unit (usually an exacerbating factor different from the original problem).

An example will illustrate the use of the four schemes.

A consumer complains about a cancellation notice on his auto insurance policy. The company representative explains, "You failed to pay your premium." The consumer retorts, "I never got the premium notice." The representative says, "We sent it to 123 Main St." The consumer replies, "But I live at 127 Main St."

The reason for the call is a cancellation carried out in error. The general cause is a bad address. The root cause is the source of the bad address, which might be a keying error or illegible

information on the application sent in by the agent.

If the company representative is not authorized to override the cancellation and the consumer goes to an executive or regulator, the reason for such an escalation would be lack of frontline authority.

Frontline representatives will almost always be able to identify the reason for a complaint call and the general cause. Root cause usually requires investigation unless the consumers indicate their own mistakes or abuse caused the problem (as is the case 30% to 40% of the time).

Unless these several types of data are collected in significant detail, the data cannot be analyzed to produce actionable results. We usually find at least 100 complaint reason for call categories are needed to provide sufficient detail.



Broad categories may appear to be easier to use and just as effective when, in fact, valuable detail is lost. Airlines formerly used the category "smoking complaint" that included "wanted to smoke but couldn't" as well as "being seated in a smoking rather than a nonsmoking section." Putting the detail in the verbatim text was not useful because text cannot easily be cross tabulated and analyzed by computers, and manual case analysis is not practical for large volumes of customer contacts.

3. Retail, field sales and service systems filter and discourage complaints.

Several recent TARP studies determined that for package goods (small ticket items sold in a supermarket, for example), only one person in 50 who encounters a problem writes a letter to the manufacturer and only two use the toll-free number.

Therefore, in a letter based environment, a package goods manufacturer at best hears only about one out of 50 problem experiences at the headquarters level unless the difficulty is severe (such as loss of a substantial amount of money, a threat to the consumer's good name or a life threatening result of use).

Our survey found fewer than half who complained at the retail level were ultimately satisfied. Furthermore, fewer than half who were dissatisfied bothered to escalate their complaint to the retailer's headquarters or to the manufacturer. The retailer or field service outlet may handle or mishandle the complaint but, in any case, may stop it from going further.

Thus, complaint data must be extrapolated to the customer base to determine the potential severity of the problem. The absolute number of articulated complaints in a particular area cannot be considered in isolation. A key factor is the potential extent to which the field or retail service systems have reduced the signal received by headquarters.

For example:

- After inadvertent production of a defective ladies' garment that cost \$20 and tore during its first use, either the customer or the retailer returned only one in 2,000 of the defective garments.

- Fewer than half of the residential customers who experienced a billing problem with a telecommunications supplier articulated it to the company. Additionally, corporate clients have been found to complain to service technicians rather than account executives because of perceptions that marketing staff is powerless to solve technical problems.
- A business customer of a major computer company was told his staff was the cause of system failures. Company headquarters did not realize there was a problem until the dissatisfied consumer placed an ad in the Wall Street Journal and was joined by 300 other companies in the action.⁴ Company regional sales representatives and management had decided the problem was customer incompetence and not product related, because each had heard only one or two complaints.
- The average customer who complained to the headquarters of a major credit card company had previously tried to use routine channels an average of six times.
- Both medical product manufacturers and insurance companies found sales representatives tended to forward complaints only when it would ingratiate them with an important customer, or when the product was of such low margin the sales staff would rather see it discontinued. (Complaints provide a good rationale for discontinuing a product.).

The ratio of complaints heard at headquarters to the instances of occurrence in the marketplace (whether articulated or not) is called the multiplier. Based on a review of more than 500 studies with individual companies, multipliers can be characterized as follows:

- A 6-1 ratio for serious problems, when there is no visible field or retail contact organization.
- A 2,000-1 ratio for less serious problems, when there is an extensive field service organization to receive and absorb problems.

This multiplier can be used to extrapolate to the marketplace.

4. Brand loyalty can be retained by merely getting customers to articulate their problems.

The primary interest of any organization is to maximize sales and market share in the most profitable way. Customer satisfaction, therefore, is a means to an end--it is the way to retain customers. Getting customers to articulate their problems provides an effective mechanism to increase satisfaction and brand loyalty.

Original research executed by TARP projectable to the U.S. population shows the following for consumers who experienced a problem with a potential financial loss of less than \$5:

- 37% of those who did not articulate the problem stated they would continue to buy the product.
- 46% of those who did complain but were not satisfied by the company remained brand loyal.
- There were several cases in which articulated complaints

did not lead to increased loyalty; in fact, if a complaint handling system is poor, it will further alienate the customer, resulting in lower repurchase rates.

- 70% of those who articulated the problem and were satisfied remained brand loyal, and more than 95% of complainants who were satisfied quickly remained brand loyal.

For consumers who experienced a problem with a potential financial loss of more than \$100, our surveys show the following:

- 9% of those who did not articulate the problem remained brand loyal.
- 19% of those who articulated the problem but were not satisfied remained brand loyal.
- 54% of those who articulated the problem and were satisfied remained brand loyal.

The research has since been confirmed in over 500 separate surveys of at least 700 customers from both business and consumer markets. Thus, brand loyalty can be retained by encouraging consumers to complain. Encouragement can include posting a number in a store or on an invoice. Employees can simply make eye contact and ask, "Is there anything else I can do for you?"

Even if the complaint handling mechanism is not able to satisfy the consumer, incremental brand loyalty can be achieved. Of course, if the complainant is satisfied, substantial amounts of brand loyalty can be obtained. In fact, loyalty can actually become up to 8% higher than loyalty when no problem has occurred.

5. Increasing the ease of access to the provider can reduce the complaint ratio (also known as the multiplier).

Research by TARP across both manufacturing and service industries shows consumers don't complain because of the following:

- It isn't worth the time and trouble.
- They don't know how or where to complain.
- They don't believe the company will do anything.
- They fear retribution in medical, financial, governmental and some auto environments.

By breaking down these perceived barriers to complaining, an organization can successfully increase the percentage of customers who articulate their problems. Barriers can be broken down by making it easy to complain via toll-free numbers or through "contact us" or feedback buttons on a website or invoice that are accompanied by a message that says, "We can only solve problems we know about."

The market implications of this type of aggressive complaint solicitation are shown by our research:

- In the telecommunications industry, seven of 10 respondents who encountered a problem and did not articulate it would have complained had the company maintained a toll-free number. Overall, this aggressive

solicitation strategy would reduce unarticulated dissatisfaction by more than half.

- For a manufacturer of household products, the establishment of a toll-free telephone system for consumer contact led to a doubling of complaints to the manufacturer. Additionally, the mix of complaints was different. Many were received that would have otherwise been handled and filtered by the retailer.

6. The propensity to complain is directly proportional to the perceived severity of the problem and damage to the respondent.

Consumers tend not to complain about things they consider minor inconveniences. Think about your own experience as a consumer--how many times have you complained about a mediocre meal in a restaurant or slow service in a department store?

If, however, the problem will cause a major financial loss or damage to a consumer's reputation, the tendency to complain is much greater:

- Significantly more (70%) purchasers of high priced telecom equipment articulated their problems than did purchasers of low or moderately priced equipment. Still, 30% of those with inoperable equipment never complained but simply discarded the \$100 item.
- Six out of 10 respondents who encountered a billing problem by a residential telecom service provider never complained. It was easier to pay the small amount in dispute than to voice the problem. That was due, at least in part, to the difficulty customers encountered in dealing with the company.
- For major problems with an average loss of \$142, 69% of the households complained, and half of those not satisfied complained a second time; for package goods, only one-third returned the item and only one in 50 wrote to headquarters.

7. Complainers tend to be the heaviest users of the product or service.

Consumers who are heavy users of a product or service are those who have made a commitment. Thus, in a sense, they have a vested interest in having the company improve its offerings.

These are the consumers who represent the potential for the most market damage if their loyalty is compromised. In fact, our research indicates the following:

- 40% of those who escalated their problems to the headquarters of a provider of credit card services charged more than \$1,000 per month and represented a potential annual loss of profits of more than \$500. This is in contrast to the average potential loss of \$50 to \$150 experienced by those who complained at the initial point of service for the same company.
- Complainants to a major Midwest bank, a medical products manufacturer and a car rental company on average had been loyal customers for longer periods and had purchased

in heavier volumes than had an average customer.

8. Problem experience, especially in the case of those consumers who remain unsatisfied after complaining, results in substantial amounts of negative word of mouth.

Consumers typically tell others about their positive and negative experiences with a product or service. Positive communication can effectively serve to increase market share and revenue because those who hear it try the product or service.

Conversely, negative word of mouth can result in market damage and revenue loss. Additionally, dissatisfied complainants generate twice the negative word of mouth as do satisfied complainants generate positive word of mouth.

Some word of mouth research conducted by TARP showed the following:

- Satisfied Coca-Cola complainants told an average of four to five people about their positive experience, while dissatisfied complainants told an average of nine to 10 people about their negative experience.⁵
- In the automotive industry, one TARP study found an average of eight positive word of mouth communications resulted from each satisfied complainant and 16 negative word of mouth communications from each dissatisfied one.
- Word of mouth from unarticulated dissatisfaction can also result in market damage. In this instance also, a 2 to 1 ratio is seen.
- Consumers who experience a problem and don't articulate it to the provider tell twice as many people as satisfied consumers who do not experience a problem.
- For a residential telecom service provider, there were an average of 1.5 positive word of mouth communications from satisfied consumers and 3.7 negative word of mouth communications from consumers who experienced a problem and did not articulate it to the provider.

A Harvard study found that negative word of mouth had twice the market damage as positive word of mouth had a positive impact.⁶

All this information about consumer behavior provides a framework for integrating complaint data into quality assurance decisions, a topic we will discuss in the February 2003 issue of Quality Progress.

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JOHN A. GOODMAN is president of TARP in Arlington, VA. He earned a master's degree in business administration from Harvard University. Goodman is a member of ASQ.

STEVE NEWMAN is director of research for TARP. He earned a bachelor's degrees in mathematics and political science from Vanderbilt University.

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