Complaint Management: working toward a total Customer Relationship Management solution (2013)

Michael V. Barbas
Professor, Marketing Management, Sharda University, Greater NOIDA, U.P.

Introduction

In sharp contrast with what was the rule in the 2000's, in the 21st century customers are becoming more and more demanding. Besides higher levels of service and better products, consumers today anticipate commitment and upgraded relationships with companies in order to feel valuable and important. To meet these higher expectations and fight intense competition for customer loyalty, more and more retailers are turning to Customer Relationship Management (CRM) solutions. Yet, the essential change from a product-oriented to a customer-oriented company may require a modification of business processes. Only such a modification results to a well-planned and effective implementation of a *CRM* system which in turn can result in greater benefits for the company. (Foran, 2001) (Ford et al, 1998)

This paper discusses the problems connected with execution of CRM systems. It looks into the importance of Customer Relationship Management and concentrates on complaint management and the ways to better satisfy customers.

Problem Identification

We have observed, until now, businesses trying to apply CRM most often make use of their customer database in order to segment their clients by individual characteristics, past purchases and by using information about their preferences. (Gronroos, 1997) To do this better, usually firms first estimate the different lifetime value of each customer; then they identify the most profitable customers and categorize them into groups. (Simms, 2002) Customer lifetime value describes the present value of each client and helps the organization decide on how much to invest in each customer, according to how important the customer is. Then through data mining, companies identify their most valuable customers and gain direct knowledge of their level of satisfaction. (Kotler and Keller, 2011)

To apply CRM companies usually segment customers according to their expenditures in top, middle and low tier expenditure. However, it has been observed, satisfied customers will not necessarily purchase additional products. (Verhoef, 2003) This being the case identifies the source of the problem, which practically is the lack of customer retention. As a paradox, when the satisfaction level is high, decreases at the level of expenditure are also high. Indeed, what happens most of the time is that top and middle level clients spend 20% less and lower tier customers only 5% when complaints double. (DeGregor, 2011)

The usual way to handle complaints is having a back office staff responsible to answer phone calls, letters and e-mails according to chronological order. In this paper, we suggest, eventually this is not an effective way to deal with complaints, since most of the times a backlog is created. Below we go on to demonstrate that in order to implement CRM effectively given the aforementioned constraints, it is necessary to include into the system an effective complaint handling program.

Implementing CRM Systems

Customer relationship management is an enterprise-wide commitment to identify named individual customers and create a relationship between the company and these customers so long as that relationship is mutually beneficial. (Gamble et al, 2003, p.9). The implication of this is that CRM systems aim on single customers and require the enterprise to be organized around the consumer, rather than the product. It then goes without saying that the customer-centric organization's goal is to serve its customers well. At the end of the day only a company that is capable of managing customer relationships effectively and efficiently will be able to improve customer satisfaction and retention rates. To take this argument further, only then CRM applications can substantially help organizations assess customer loyalty and profitability. (Chen and Popovich, 2003)
The first stage in building customer relationships is establishing customer satisfaction which will progress to loyalty and commitment. (Heskett et al, 2003). To manage this, the firm needs to take advantage of customer feedback. This will enable organizations to collect more information about consumers and be able to build a stronger, long-term and mutually profitable relationship with them. Research shows that by building trust, companies increase satisfaction levels and turn their customers into loyal ones. (Jobber, 2004; Yujong, 2009)

What makes CRM difficult is that although companies applying it consider their customers as the key to securing customer loyalty, they often disregard the fact that satisfaction does not always result in customer retention. (Egan, 2000; Whittemore, 2008) Customer retention is about keeping customers loyal to the company. It is really important since retaining customers is usually significantly cheaper than attracting new ones.(Johnston, 2001) Research shows it costs five times more to acquire a new customer than to keep an existing one. (Brown, 1999) Apparently, the problem of retention goes beyond satisfaction. This because dissatisfied customers never complain; they just switch to competitors. A disgruntled customer is not interested in complaining because it's easier for him or her to turn into better alternatives. (Peppers and Rogers, 2008) Indeed, customers that do complain are the satisfied ones and notably those customers that are loyal to the company. We observe, expectations of loyal customers are much higher and also they are interested in maintaining their relationship with the company. Moreover, complaints have nothing to do with product quality; it's about the way they are treated. (Brown, 1999)
At this point, we will stress the importance of complaint management. Customer complaints must be seen as an opportunity to increase customer loyalty, reduce defection and learn more about the value of each customer for the company. (Johnston, 2001)

Complaint Management

The term 'complaint management' includes service recovery and involves the receipt, investigation, settlement and prevention of customer complaints and recovery of the customer. (Johnston, 2001:p61) The main objective of complaint handling should be not only meeting customer expectations but giving a little 'extra'. Applied to complaint management it would mean being generous, overcompensating the customer. (Gummesson, 2003)

According to research, 95% of customers who have complained will return to the company, if their problem is successfully and quickly resolved. (Johnston, 2001; *TICSS2009*;

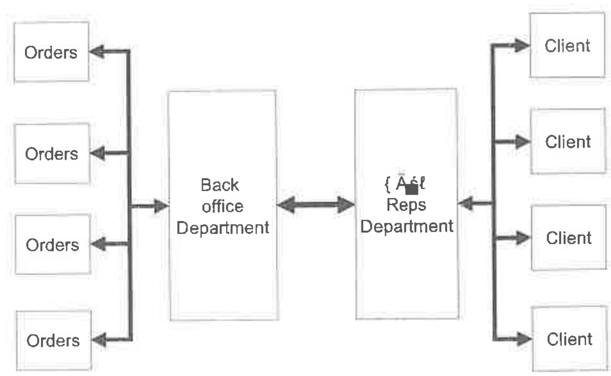
Buckinx, Verstraeten, and Van den Poel, 2007) On the other hand, a customer that is not satisfied from the way his complaint was resolved will tell, approximately, to 8-10 people about the problem; this has a harmful impact on a company's image and influences in a negative way other people's opinions. (Stichler and Schumacher, 2003) Thus dealing with complaints should be seen by companies as an opportunity to make improvements, leading to more satisfied customers and preventing the company from doing the same mistakes in the future. (Harari, 1999) Otherwise companies will keep losing customers. In fact, when a customer decides to complain, he or she expects to receive the best possible solution from the company. So companies must aim to find out what complaining customers expect in order to be able to identify the determinants of complaint satisfaction. (Stauss, 2002)

Data Mining and Segmentation

In implementing CRM first of all organizations must make good use of data mining. This will aid the company to segment correctly its customer base and be able to acquire all the appropriate information in the fastest and most effective way. Assisted by data mining processes firms can improve the quality of decision making and consequently gain better knowledge of customers to better satisfy customer needs. (Ma et al, 2000) Below we discuss possible ways to really gain the most of data mining systems.

Here we will argue that two departments should be established in organizations applying CRM, each department being responsible for different tasks. Figure 1 below illustrates this situation. First the firm should use easier access methods for the customer by providing front-line representatives with the authority to resolve problems immediately. (Turchan and Mateus, 2001) By doing this, customers will definitely feel that the firm is listening to their problems and is willing to resolve the problem as soon as possible. But at the same time, this department should work together with a back office, whose task will be to file all complaints for further examination and analysis in order to understand customers better and prevent future repetition of mistakes. (Chen and Popovich, 2003). From now on let us call front line department Department A, and back office Department B.

Figure 1: CRM Structure



Above, we argued about the importance of categorizing different customers to high, medium and low purchasers. We consider that by using customer segmentation effectively, a company may better concentrate on those clients that mostly add value to the organization, and eventually increase profitability. That's why it is essential to use the right criteria from the beginning and to always keep to mind that not all customers are the same nor they contribute equal value to the organization. (Brown, 1999) (Johnson, 2002)
Next, the company must determine its priorities. In practise most companies use to answer complaints in chronological order. (Moloney, C. X., 2006) Yet, our analysis above suggests that replying to complaints must be based first on the importance and frequency of the complaint and then on the relevant importance of particular customers. This does

not mean that clients grouped in low level value won't be treated equally. But the company cannot afford to risk and possibly loose important customers due to failing to satisfy complaints and resolve the current problem quickly. "If the complainer is relatively nobody, then delegate handling or reschedule for a less busy time." (Gamble et al, 2003:p312)

At this point let us make clear that for the above ideas to work company employees must provide the client with reliable and quick responses. In addition, it is also important to keep the customer informed throughout the process. Further, in order to reinsure that the solution provided to the client was the most satisfying one, the company must also install follow-up measures to check with customers after resolution. (Johnston, 2001) That way, organizations may hope to get accurate information on the complaint satisfaction level of clients.

Complaint handling and Internal Marketing
Our analysis suggests that to successfully implement complaint handling, we must empower company employees with this idea. Thus internal marketing comes into the picture. The objective of internal marketing within CRM is to build relationships between management and employees and to train employees how to build interactive relationships with customers. It is essential that support staff is well informed about the company's strategies and is able to deal with customers according to the company's culture and objectives. (Gummesson, 2003) This means, every employee must understand the function and benefits of implementing CRM and specifically complaint management. Sometimes this can be complicated, as it requires cultural changes and active participation of all employees. It is here where management should show its commitment to an ongoing company-wide education and training program. At this point we must ensure that job evaluations and reward systems will facilitate and reward customer orientation. (Chen and Popovich, 2003) By appraising performance, employees will be motivated to work harder and harder and deeply care about resolving successfully possible complaints. Also, in order to communicate complaint data in the company, management may consider including complaints in monthly reports and circulating them within the company or form them as part of team briefings, published in staff newsletters. This way staff will be aware of the problems with customers and will be better informed on how they are dealing with them. (Johnston and Mehra, 2002)

Contact Management

We have seen above that the human face of the organization through personal contact with the client is vital for the success of complaint management and also is connected with successful implementation of CRM. This because, one can understand, personal contact is really important in establishing stable relationships with the customers. In order now to decide who is appropriate to do the contact, companies must also take into consideration the stage of relationship with the customer and his or her value and level of loyalty to the company. The main tool to implement contact strategies is the customer database and data warehouses. Yet this may contain several dangers. A common mistake made by companies is to prefer large-scale systems with long-term promise to an incremental approach with immediate impact (Chung and Sherman, 2002). Companies going for the simultaneous installation of all the elements of classic relationship marketing (RM) are most likely to see their return on investment being deferred as compared to companies which build their systems incrementally (Chung and Sherman, 2002). A good example is the TV industry and how they gain from encouraging viewers to more and more use social media while watching programs. A post-study survey showed that when AT&T sponsored a Team Coco app to use while watching Conan, AT&T's brand favorability among those that used the app was 33% higher than those who didn't use it. (Russell, 2012) AT&T's example suggests that applying CRM should adopt a "try it, fix it" approach to system and business process development. This would mean that a core system can be up and running quickly. Offers, processes, and models can be tested with minimal investment and design can be improved as the company goes along. (Ruediger et al, 1997; Stuart, 2007) Marketing programs can be piloted before systems are completed and monitored by rudimentary tracking systems. (Ruediger et al, 1997).

Nevertheless, one should apply the above with caution as focusing only on the hardware capabilities like the data warehouse in the belief that these alone will deliver success has its limitations. Processes and organizational structures will have to be changed to support the effective use of the digital weaponry (Gamble et al, 2003). Gronroos (1996) argues that companies need to break away from their functional structures and that the chain of activities delivering relationship value to the customer has to be managed as one process. Setting up a CRM team needs one representative from each CRM support disciplines like marketing, product management, statistics, call-centre management, finance, IT and sales, could be the solution for firms applying CRM.

Moreover, softer capabilities like people skills (Melewar et al, 2001) and culture, in terms of people mindset, will have to be developed to deliver relationship marketing. Buying-in the importance of collecting data, as Chung and Sherman (2002) has suggested, can be motivated by appropriate rewards like commissions given to those who manage to persuade customers to fill out every space on their various forms. Though it is not within the scope of this paper to discuss change management, it is worth noting that the use of change management methodologies like those developed by Kotter (1996) and Kanter (2000) will have to be used to ensure successful and sustainable RM.

The contact strategy then must be based on programmes designed to maximize the profitable lifetime value of each customer. To assist this, one of the basic contact tools is the 'sales team and face-to-face contact'. This technique can be employed for the most valuable customers of the company and it proves to be really effective because the employee is in direct contact with the client. This in turn makes the customer feel important and gives him or her the impression that our company is willing to satisfy all his or her needs and demands. (Gamble et al, 2003) Furthermore, one more effective contact tool is mailing. Mailing is the lowest cost method often with high impact customers. It is appropriate for customers that are not that valuable to the company. Mailings have some unique characteristics: enablement of personalized offers, no direct competition for the attention of the *customer* from other advertisements, and a capacity to involve the respondent. (Verhoef, 2003:p8) Finally, telephony allows employees to manage actively those clients who prefer telephone calls over visits or the ones that are not easy to visit.

Conclusion

From the abovementioned it becomes clear that CRM is a customer-centric model that needs a continuous effort to be implemented successfully. It also requires redesigning core business processes starting from the customer perspective and involving customer feedback. (Chen and Popovich, 2003) Our study has shown that even though the satisfaction level sometimes is really high, customers often decrease their expenditures and double their complaints. It is difficult to understand the reasons of such behaviour immediately, but the company needs to implement successfully the CRM system and definitely include complaint management in it. That way, managers will have the chance to better examine and analyse data concerning preferences and characteristics of their customer base.

The important argument here is that complaints should be used to improve current operations and to enhance product and service quality. This is a way indeed for the company to stay connected to the marketplace and to its customers. (Harari, 1999) Additionally, management must reward its employees when they are willing to encourage and collect complaints as well as develop training programs for staff and managers in problem resolution.

Finally, CRM fully implemented is not just technology applications for marketing, sales and service, but rather a cross-functional, customer-driven, technology-integrated business process management strategy that maximizes relationships and encompasses the entire organization." (Chen and Popovich, 2003:p.673). Accordingly, its implementation requires a balanced approach to technology, process and people. Companies that are able to successfully apply CRM may hope to reap the rewards in customer loyalty and long run profitability.

References

- Brown, S. (1999) *Strategic Customer Care*, Toronto, John Wiley & Sons
- Buckinx W., Verstraeten, G., and Van den Poel, D., (2007), "Predicting customer loyalty using the internal transactional database," *Expert Systems with Applications*, 32 (1).
- Chung, S. & Sherman, M. (2002) Emerging Marketing, *The McKinsey Quarterly*, 2002 Number 2
- Chen I. and Popovich K. (2003), 'Understanding Customer Relationship Management: people, process and technology', *Business Process Management Journal*, 9(5), p.672-688
- DeGregor, D. (2011). *Customer-Transparent Enterprise: Beyond 20th Century CRM.* Motivational Press
- Egan J. (2000) 'Drivers to relational strategies in retailing', *International Journal of Retail & Distribution Management*, 28(8), p379-386
- Foran T. (2001) 'Integrating people with technology', *Retailing Today*, 40(19), p12
- Ford, D., Gadde, L., Hakansson, H., Lundgren, A., Snehota, I., Turnbull, P. and Wilson, D. (1998) *Managing Business Relationships*, United Kingdom, John Wiley & Sons
- Gamble, P., Stone, M., Woodcock, N. and Foss, B. (2003) *Up close & personal?*, 2ed, Great Britain, Kogan Page Limited
- Gronroos, C. (1996) Relationship Marketing: Strategic and Tactical Implications, Management Decision, 34(3), pp 5-14.
- Gronroos C. (1997) 'From marketing mix to relationship marketing-towards a paradigm shift in marketing', *Management Decision*, 35(4), p322-339
- Gummesson, E. (2003) *Total Relationship*

Marketing, 2ed, Great Britain, Butterworth-Heinemann

- Harari O. (1999) 'The power of complaints', *Management Review*, 88(7), p31
- Heskett, J., Sasser, W. and Schlesinger, L. (2003) *The Value Profit Chain*, New York, The Free Press
- Jobber, D. (2004) *Principles and Practice of Marketing*, 4ed, United Kingdom, McGraw Hill
- Johnson L. (2002) 'The real value of customer loyalty', *MIT Sloan Management Review*, 43(2), p14
- Johnston R. (2001) 'Linking complaint management to profit', *International Journal of Service Industry Management*, 12(1), p60-69
- Johnston R. and Mehra S. (2002) 'Best-practice complaint management', *Academy of Management Executive*, 16(4), p145
- Kanter, R.M. (2000) Leaders with Passion, Conviction and Confidence Can Use Several Techniques to Take Charge of Change Rather Than React to It, Ivey Business Journal, May/June 2000, 64(5), pp 32-36.
- Kotler, P., and Keller, K., (2011) *Marketing Management,* 13ed, New York: Prentice Hall
- Kotter, J.P. (1996) Leading Change, Harvard Business School Press.
- Ma C., Chou D. and Yen D. (2000) 'Data warehousing, technology assessment and management', *Industrial Management & Data Systems*, 100(3), p125-134
- Melewar, T.C., Hunt, C. & Bridgewater, S. (2001) Business-to-Business Relationship Marketing: An Internet and International Perspective, *The Marketing Review*, 2, pp 169 – 185
- Moloney, Chris X. (2006) "Winning Your Customer's Loyalty: The Best Tools, Techniques and Practices" AMA Workshop Event(s). Misc. materials distributed related to event(s). San Diego, 2006.
- Peppers, D., and Rogers, M., (2008), Rules to Break and Laws to Follow, London: Wiley, pp. 24, 164
- Ruediger, A., Grant-Thompson, S., Harrington, W. & Singer, M. (1997) What Leading Banks Are Learning About Big Databases and Marketing, *The McKinsey Quarterly*, 1997 Number 3, pp 187 – 192.
- Russell, M., (2012) Second Screen Helps Hold Viewers' Attention, *Ad Age Media News* (Retrieved 5/7/2012)
- Simms J. (2002) 'Judging the lifetime value of customers', *Marketing (UK)*, p27
- Stauss B. (2002) 'The dimensions of complaint satisfaction: process and outcome complaint satisfaction versus cold fact and warm act complaint satisfaction', *Managing Service Quality*, 12(3), p173-183
- Stichler J. and Schumacher L. (2003) 'The gift of customer complaints', *Marketing Health Services*, 23(4), p14
- Stuart, E., (2007) "No Such Thing as Loyalty", in iclployalty.com, 2007. The International Customer Service Standard (2009), *TICSS2009*, The International Customer Service Institute
- Turchan M. and Mateus P. (2001) 'The value of relationships', *Journal of Business Strategy*, 22(6), p29
- Verhoef P. (2003) 'Understanding the effect of *Customer Relationship* Management efforts on *customer retention* and *customer* share development', *Journal of Marketing*, 67(4), p30
- Yujong H. (2009) 'The impact of uncertainty avoidance, social norms and innovativeness on trust and ease of use in electronic customer relationship management'. *Electronic Markets* 19 (2-3) pp 89-98
- Whittemore, S. "Metadata and Memory: Lessons from the Canon of Memoria for the Design of Content Management Systems." *Technical Communication Quarterly* 17, no. 1 (Winter 2008): pp 88-109.

****