

## **Table of Contents**

|     |   |   |
|-----|---|---|
| 1.  | Complaints: A Critical Form of Communication .....                | 2 |
| 2.  | Why is Complaints Handling Important? .....                       | 2 |
| 3.  | Complaints Management System: Management's Role .....             | 3 |
| 4.  | Customer Retention Strategy: Costs and Savings .....              | 3 |
| 5.  | Complaint Handling Staff .....                                    | 4 |
| 6.  | Publicizing the Customer Complaint Management System .....        | 4 |
| 7.  | Customer Complaint Resolution at the First Point of Contact ..... | 5 |
| 8.  | Third-party Dispute Resolution .....                              | 5 |
| 9.  | Basic Steps for Effective Complaint Management .....              | 6 |
| 10. | Complaint Management System Conclusions .....                     | 7 |
| 11. | Complaint Management System Checklist .....                       | 7 |

Source: Government of Canada

## 1. Complaints: A Critical Form of Communication

### Complaints are a goldmine of information

Complaints offer businesses an opportunity to correct immediate problems. In addition, they frequently provide constructive ideas for improving products, adapting marketing practices, upgrading services, or modifying promotional material and product information.

While occasional problems with service of merchandise are, to some extent, inevitable, dissatisfied customers are not. Companies can learn to recover from mistakes. A good recovery can turn angry, frustrated customers into loyal ones.

Recognizing the importance of responding fairly and efficiently to buyer disappointment in the marketplace, many businesses have established effective and innovative systems for resolving consumer complaints. Within any industry, those companies with a positive philosophy and a reputation for fair complaint-management have a competitive edge.

A management philosophy that embraces customer satisfaction as a primary goal of business, instead of defending the company in the face of complaints, can change the rules of the game for companies. It shifts the emphasis from the cost of pleasing a customer to the value of doing so, and trusts front-line employees to use their judgment.

British Airways' customer-relations department can claim to be a true champion of the customer. The retention rate among those who complain to customer relations has more than doubled, while its return on investment (the value of business saved plus increased loyalty and new business from referrals relative to the department's total costs) has risen 200%. British Airways employees are never happy to have service failures but are eager to hear about them when they occur because they know that ignorance is anything but bliss.

## 2. Why is Complaints Handling Important?

### Generate Loyalty, Goodwill and Word-of-Mouth

By talking back when they believe they have not received their money's worth, consumers give businesses an opportunity to correct the immediate problem and restore goodwill. Experience shows that consumers who complain about products and services continue to frequent the businesses and buy the products they complain about if they believe the complaint was resolved fairly.

Research into complaint behavior reveals that only a fraction of dissatisfied consumers complains to business and, thereby, gives the company an opportunity to correct the problem. There is evidence that some consumers do not complain because they are skeptical about business's willingness or ability to resolve disputes fairly. Consumers simply withdraw their patronage and criticize the company or the product to others.

Such findings underscore the importance to business of a complaint management system that is well-publicized and easily accessible. An unregistered complaint may do as much harm as one that is mismanaged or not resolved.

Careful complaint management can save business unwanted costs. For example, negative word-of-mouth publicity from dissatisfied consumers means lost revenue and necessitates additional investment in advertising to attract replacement customers.

Complaints and complaint trends tell business how to do its job better by alerting management to problems that need prompt attention and correction. Furthermore, they indicate long-range opportunities for product innovation and problem prevention. A well-planned system for screening and recording complaint data can provide business owners and managers answers to such important questions as the following:

- Are products "oversold" or "over advertised?"
- Is advertising clearly understood?
- Are salespeople overzealous?
- Do product disclosures (such as labelling, warranty information and service agreements) need to be improved?
- Are user's manuals clear, complete and easy-to-read?
- Would changing warranty coverage reduce complaints?
- Complaints also provide information about product quality:

Are there opportunities for product improvements or better quality control?

Are there indications of safety defects that should be reported and corrected, or that justify a recall?

To get this valuable feedback, complaint-reporting must generate information swiftly and systematically to the appropriate managers or departments. Initial screening should trigger immediate action, when necessary, and statistical summaries should identify trends and long-range courses of action.

### **3. Complaints Management System: Management's Role**

#### **Demonstrate a commitment to complaints management**

Management attitudes are reflected in the conduct of employees and the performance of the company. Top-level commitment to effective complaint management establishes the motive and incentives for all personnel to strive for consumer satisfaction.

Management's responsibility begins with the preparation of written policies and procedures for speedy and fair complaint resolution. These policies and procedures should be put in writing and communicated to all appropriate departments, emphasizing the accountability of individual employees to resolve complaints courteously and fairly. Employees whose primary responsibility is sales or service, for example, may have difficulty resolving complaints objectively if they feel their performance rating could be adversely affected. If management establishes clear lines of authority, consumer problems should be solved quickly and effectively.

Management should regularly review and, when necessary, find ways to improve complaint-management procedures, paying particular attention to refining communication and coordination between the complaint-management and operating departments. Periodic surveys of consumers will reveal whether they feel they have been well served by the complaint-processing procedures, and whether they find the company's policies on refunds, repairs, exchanges and other forms of redress to be fair.

### **4. Customer Retention Strategy: Costs and Savings**

#### **Complaint Management Return on Investment**

Even though a good customer retention strategy incurs cost, so does a badly performed service. No business can afford to lose customers, if only because it costs much more to

replace a customer than it does to retain one -- five times more, most industry experts agree. A customer recovery service allows a business to shift its cost from constantly courting new customers to cutting customer defection.

Also keep in mind that dissatisfied customers almost always get stuck with certain costs: the money they spend for phone calls, the time they spend making their cases, and the aggravation they must endure throughout. The customer left stranded on the highway because her car was not repaired properly might miss an important meeting, have to pay for a tow truck, and spend time waiting for the repair to be made. Many service companies conveniently overlook these hidden costs, but the customer surely will not. Companies known for excellent service will go the extra mile to cover all the costs a failure incurs or, if the inconvenience is so great that the company cannot completely compensate the customer, respond in a tone that signals the company's regret.

## 5. Complaint Handling Staff

### What Makes a Great Complaint Manager?

Complaint managers need to be patient, articulate, and able to balance fairly the interests of the company with those of the consumer. They also should be able to communicate legitimate consumer complaints to management to help determine whether there is a need for changes in company policies or procedures.

All members of a complaint-management department should be familiar with the operations of the company and with its products and services. Prior experience in other departments may be an asset. Training can strengthen interviewing and communications skills and heighten the staff's awareness of the special needs of consumers from different cultural, economic or educational backgrounds. Also, complaint-management staff should be familiar with consumer protection laws and with the operations of third-party dispute-resolution mechanisms to which particularly difficult complaints may need to be referred.

Finally, customer-relations personnel should have professional status, adequate salaries and opportunities for advancement consistent with the importance management assigns to the function.

## 6. Publicizing the Customer Complaint Management System

### Visible and Accessible Complaint Management System

A complaint management system must be visible and accessible in order to serve consumers and accomplish company goals. Management, sales, service and public relations personnel should all cooperate to make the complaint system accessible to consumers.

#### How to publicize the complaint management system:

- on posters and signs in the sales and service area
- on contract forms and sales slips
- in charge account mailings
- in the use and care manual
- in advertising -- your company's complaint system could be the theme of an advertising campaign
- on product packaging and labeling

Instructing consumers of their responsibilities can help avoid misunderstandings and unnecessary complaints. Include advice in the material that advertises your complaint system and have sales and service personnel encourage consumers to do the following:

- Carefully read promotional material and product literature before buying.
- Follow instructions in the use and care manual.
- Understand the terms of sale (warranties and guarantees, contracts, credit terms, refund policies, and so on).

## 7. Customer Complaint Resolution at the First Point of Contact

### Empower Front Line Staff, Distributors, and Sales People

Consumers are likely to turn first to the place of their purchase -- retail store, service establishment, contractor, and so on -- to complain. Resolving complaints at this level avoids unnecessary consumer frustration and preserves the direct buyer/seller relationship. Moreover, it is likely to be relatively easy, quick and economical.

It is important that companies coordinate complaint management with others in their distribution network. Retailers, manufacturers and service outlets mutually benefit from keeping one another informed of complaints and complaint trends and cooperating when necessary to see that complaints are fully and satisfactorily resolved.

Manufacturers should encourage consumers and retailers to contact them when a dispute cannot be resolved at the place of purchase. Complaint systems at the retail level should be structured to isolate those matters that need the immediate attention of manufacturers. These include complaints that suggest possible design or production defects that affect product safety and performance. Also, complaints forwarded from the retail level can help manufacturers evaluate their own policies toward warranty coverage, for example, or identify advertising or labeling that needs to be clarified, or learn things about product performance or marketing that are revealed only after wide distribution.

## 8. Third-party Dispute Resolution

### Conciliation, Mediation and Arbitration

If complaints cannot be resolved directly between the consumer and retailer or manufacturer, they should be referred to third-party dispute resolution. Third-party mechanisms use the services of unbiased individuals or panels to resolve disputes through conciliation, mediation and arbitration.

#### **Conciliation:**

A neutral conciliator brings the parties together and encourages them to find a mutually acceptable resolution to the dispute.

#### **Mediation:**

A neutral mediator becomes actively involved in negotiations between the parties. The mediator can propose a resolution, but cannot dictate a settlement of the dispute.

**Arbitration:**

An independent individual or panel hears the facts on both sides of a dispute and reaches a decision. Usually both parties have previously agreed to abide by the decision, but in some systems, only the business agrees in advance to abide by the outcome of the arbitration.

Third-party dispute resolution is advantageous to business because it enables expeditious, economical and fair complaint resolution without government regulation or legal action. In fact, government agencies encourage the use of third-party mechanisms when complaints cannot be resolved directly between buyer and seller. Proponents of third-party systems point out that their use can help make manufacturers and retailers more responsive to consumer problems. By submitting disputes to a neutral decision-maker, a business can demonstrate goodwill through its willingness to seek unbiased solutions to consumer complaints.

A small percentage of consumers and businesses seek more formal third-party complaint resolution in small claims courts. Use of the courts can be cumbersome and costly for both sides and can usually be avoided if a good faith effort is made to resolve disputes at the company level or through informal dispute resolution.

## 9. Basic Steps for Effective Complaint Management

### 1 - Designate a Location to Receive Complaints

Consumers need to know where and how to file complaints or make inquiries.

- Select a place to receive complaints that is visible and accessible to consumers.
- Publicize the complaint system to encourage consumers to voice their dissatisfaction and to make the good intentions of the company apparent.

### 2 - Develop a System for Record-keeping

Prepare forms for recording, categorizing and filing complaint records. Design the system to perform functions such as the following:

- communicating complaint data to top management;
- permitting swift identification and response when complaints need to be reported to other departments or companies in the distribution network, or to law enforcement or regulatory agencies;
- providing market research through complaint trends; and
- enabling management to monitor the efficiency and effectiveness of the complaint-management system.

### 3 - Process and Record Complaints

- Log in the complaint and any relevant data.
- Categorize it for resolution and record-keeping. Categories must be clearly defined and exclusive of one another.
- Assign the complaint to one person for handling.
- Forward the complaint to another level of authority, if appropriate.

### 4 - Acknowledge Complaint

Consumers do not register complaints with only a casual interest in their disposition.

Complaining involves some inconvenience and, possibly, expense. Loyal customers with strong feelings are often involved.

- Personalize the response.
- Talk to the customer, if possible, by phone or in person.
- Use letters when necessary, but avoid impersonal form letters.
- Take extra time, if needed, to help consumers with special needs, such as language barriers.

#### **5 - Investigate and Analyze the Complaint**

- Be fair.
- Get both sides of the story.
- Keep records in the complaint file of all meetings, conversations or findings.

#### **6 - Resolve the Problem in a Manner Consistent with Company Policy**

- Forward the complaint to the appropriate level of authority for resolution.
- Keep the consumer informed through progress reports.
- Notify the consumer promptly of a proposed settlement.

#### **7 - Follow-Up**

- Find out if the consumer is satisfied with the resolution. Was it carried out?
- Refer the complaint to a third-party dispute-resolution mechanism, if necessary.
- Cooperate with the third-party.

#### **8 - Prepare and File a Report on the Disposition of the Complaint, and Periodically Analyze and Summarize Complaints**

- Circulate complaint statistics and action proposals to appropriate departments.
- Develop an action plan for complaint prevention.
- Make sure the consumer viewpoint is given appropriate consideration in company decision making.

## **10. Complaint Management System Conclusions**

Complaint management systems and company policies on refunds, exchanges and product service vary widely depending on the nature of the product or service, the terms of purchase, consumer use patterns, and so on. There is no single formula that will provide universal relief for dissatisfied consumers.

The commitment and continuing involvement of company management is critical to successful complaint resolution and to the optimum use of complaints as a management tool. Managers will help discover new ways to improve both the complaint-management system and the fairness of remedies offered to consumers.

## **11. Complaint Management System Checklist**

### **Evaluate your complaint management system**

In planning a system for complaint management or evaluating the one you have in place, consider the following questions:

- Does your company depend on repeat customers?
- Do you have written procedures for your complaint-management system?
- Are staff throughout the company well aware of the procedures and the importance of your complaint-management system?
- Does top management directly oversee your complaint-handling procedures?
- Do incentives exist to reinforce staff commitment to consumer satisfaction?
- Is your complaint system easily accessible to consumers?
- Do you publicize your complaint system to consumers? If yes, how? Printed media (posters, advertising, monthly statements)? Communications by sales personnel?

- Is your complaint system organized so that:
  - front-line employees have clear responsibilities for resolving complaints in one department or location?
  - larger or more serious complaints are referred to designated senior managers?
- Are you providing adequate training for your complaint-management staff?
- Does the customer-relations staff feel they have equal stature with other professionals in the company?
- Do you periodically survey your customers to see if they are satisfied with your complaint-management system? Do you encourage feedback?
- Do you regularly review your complaint-management system and make necessary improvements?
- Do you utilize your system of complaint management for more than settling individual complaints? For example, do you use it for quality control and problem prevention?
- Does your complaint system swiftly generate systematic information about causes of complaints and complaint trends?
- Does this data meet your management needs?
- Do you circulate to top management periodic reports of data from complaint records with suggestions for action to prevent recurring problems?
- Can you identify areas in the company in which your complaint-management system is having an effect? Has it been positive or negative?
- Do you coordinate your complaint-management system with others in the distribution chain for your products or services? Do you have a direct line of communication with them?
- Do you have an adequate understanding of how these external organizations are affecting your relationship with consumers?
- Do you work cooperatively with local and governmental consumer agencies?
- Do you use third-party dispute-resolution mechanisms for those problems not resolved in-house (i.e. mediation or arbitration)?