

With A 500% Payback – Even The FD Can't Complain

If you ever needed an economic argument for implementing better service look no further than how you handle complaints. Service delivery often has the aim of "getting it right first time" but even six sigma lets you down sometimes! Enter the complaint handling process!

How complaints are handled is vital in recovering the relationship and ensuring continued custom of clients and customers. Good complaint handling, characterised by responsive empathetic staff using a well-designed, easy-to-deal-with-you process and can actually build loyalty and help retention.

An unnamed company we know of had done some preliminary estimates to discover that in their business to consumer situation, it cost them circa £600 per complaint. Let's just say that several millions of pounds going out the back door made the prospect of action justified in anyone's book.

Not every company of course has done the sums – for some it is quite a complex process requiring the collection of data from across the business. A recent article by our friend Francis Buttle, Professor of Management (Marketing and CRM) at Macquarie Graduate School of Management, Sydney, Australia created a data model that clusters costs under a three headings:

First off there is the actual **cost of handling current complaints** This is quite straightforward in that it equates to the total no. of complaints received in the period under consideration times the **direct cost** of these being:

- staff costs,
- IT costs
- communication costs,
- ex gratia payments, gifts,
- payment waivers
- repeating the original service or product replacement cost

Then there are the **indirect costs** attributable to:

- management time
- training and even
- the physical location of the complaints team.

Finally there is the **impact of lost custom** –

- churning customers
- bad mouthing and
- loss of reputation

This is where I began to see an issue with this. Going back to our unnamed company, I can't see how they took even this first cluster of costs into consideration – I am sure they didn't have the information or analytical set up to make the calculations. In addition there wasn't one single point of entry for complaints (which would have made it a bit easier to calculate) and there wasn't even a single definition of what constitutes a complaint. Think about it for just one moment – when is a complaint not a complaint? Perhaps when it is treated as an "enquiry" and so settled there and then and so does not get recorded or escalated?

The next "cluster of costs" that Buttle and his team highlighted (and managed to compute) were the costs to the organisation of learning from their mistakes. What they meant by this was that through the process of dealing with a complaint it is possible to make improvements to service processes, products or to increase productivity, make savings in marketing (e.g. switching off unnecessary mailings or campaigns).

The third cluster of costs is what Francis Buttle refers to as the cost of "unvoiced complaints". We can assume that human nature prevails and that there are many more people who cannot be bothered to complain than those who do – in what proportions though? In Buttle's article he used an example of a Health Insurer and of their 500,000 lives insured, in one year they had received 75,000 complaints – I make that 15% although the vast majority were considered minor in that they were quickly resolved. So if this is the tip of the iceberg, what lies beneath?

In the case of the health insurer of Buttle's paper, ultimately the cost per complaint was \$25. However, add in the cost of organisational learning and the revenue losses from unvoiced complaints were estimated at \$16 million. The total annual costs of customer complaints for this company was estimated at \$18 million in total.

The question is this – do you need the expertise and undoubted skills of Francis Buttle or his ilk to tell you that there could be a hitherto huge financial case for improving your service or are you happy to learn from others? Use \$25 or £600 as your benchmark and do a quick tally of your complaints – what you can be sure of is that this is probably a gross underestimation of both your costs and potentially your service issues. Again Francis Buttle and team did the maths and reckoned that a one-off investment in improving complaint-handling would reduce complaints-related costs by **\$5m per year!** Not a bad payback

Whatever the number you came up with then this is perhaps your first stab at a budget for fixing things. If you need some help with it, you know where to come!

Contact info@icd-partnership.co.uk



Further reading by our associate, Clare Moore, "Secrets of Successful Complaint Handling" – a must read for managers interested in delivering a better service to customers. Contact info@icd-partnership.co.uk to order your copy.