Basic Facts on Customer Complaint Behavior and the Impact of Service on the Bottom Line[1]

By
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Several recent publications (including this one) have started off discussions of why customer service and quality are important by recounting basic facts describing customer behavior and the impact of service on market actions such as repurchase and word of mouth. Normally, the attribution for these facts is, "Research has shown." A number of these basic facts are based upon research originally conducted by TARP in the 1970s. TARP has since replicated the research in almost every industry and 20 countries, and has found the basic fact to still hold, even in the late 1990s. Unfortunately, the basic source is often lost and worse, the facts have often been garbled or confused. Finally, data and facts have been attributed to TARP that are outright wrong!

The following is the Truth According To TARP (or should I say The World According to TARP!)

[1] First published in Competitive Advantage, June 1999, pp. 1-5.
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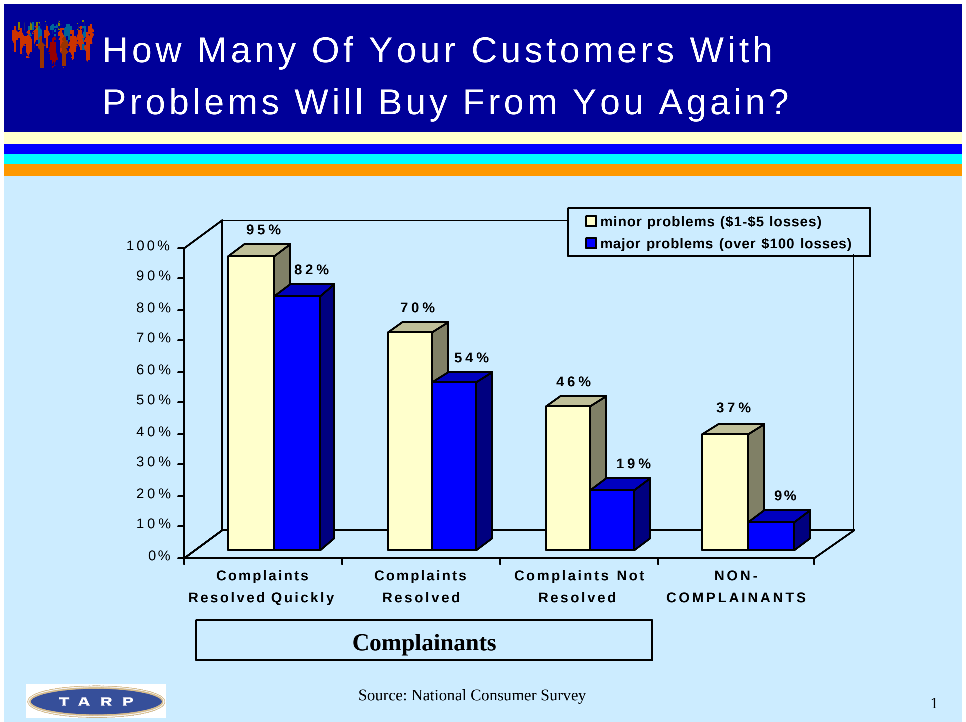
- On average, across all industries, 50% of consumers will complain about a problem to a front line person. In business to business environments, 75% of customers will complain to a front line person. If this front line person is an employee of a distributor or retailer, the chances are high that the problem will never be reported to the manufacturer or corporate office. This leads to the next finding.
- Only 1-5% of customers will escalate their complaint to a local manager or corporate HQ. For packaged goods and other small ticket items, TARP has found that 96% of consumers either do not complain or complain to the retailer where they bought it. For large ticket items, the complaint rate is higher, rising to 50% to front line and 5-10% of complainers escalating to local management or corporate. The existence of an 800 number at corporate HQ will, on average, double the number of complaints getting to corporate. However, only one out of 100-500 will actually be addressed to a senior executive.
- Complaint rates vary by type of problem. Problems which result in out of pocket monetary loss have high complaint rates (e.g., 50-75%) while mistreatment, quality, and incompetence problems evoke only 5-30% complaint rates to the front line. For example, TARP recently found that only 3% of consumers unhappy about their airline meal complained to anyone and they all complained to the flight attendant. No one complained to HQ or Consumer Affairs.
- On average, twice as many people are told about a bad experience than they are about a good experience. The original study for Coca-Cola in 1981 found that a median of 5 persons heard about a good experience and a median of 10 heard about a bad experience for a small ticket packaged good. A subsequent study for a domestic auto manufacturer found that a median of 8 persons were told about a good auto repair experience (big ticket cost) and a median of 16 received negative recommendations about a bad experience. The magnitude of word of mouth varies by product, price and industry. The original TARP White House Office of Consumer Affairs Study is (Survey Report released in 1976 and Final Report in 1980) contained the following chart recounting the impact of problem solving on loyalty.



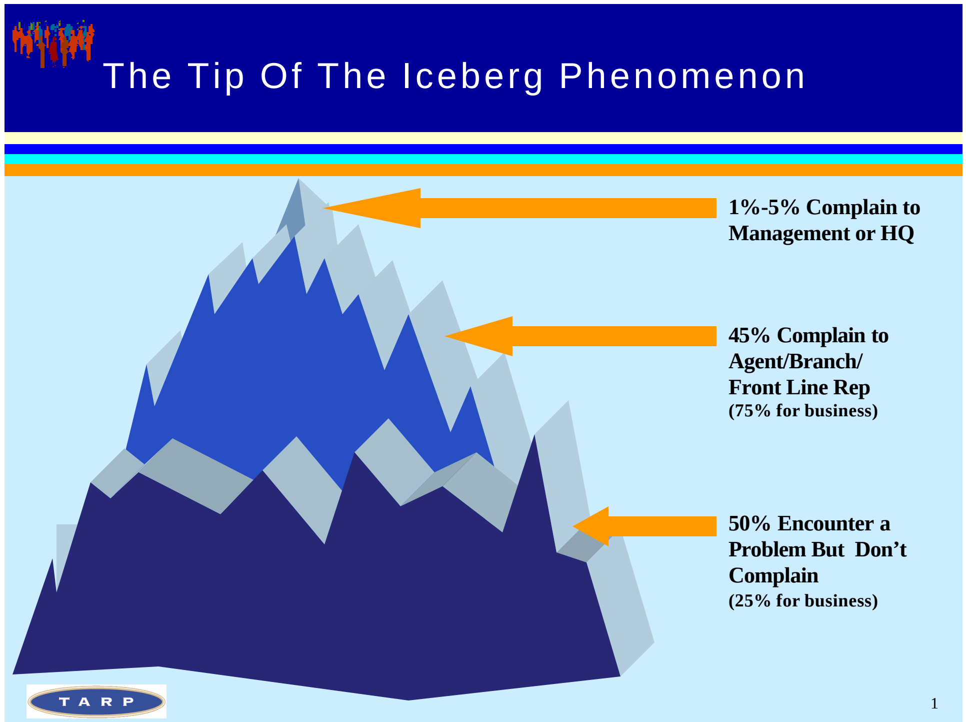
- The "*resolve quickly*" bars were added in 1982 based upon an analysis of the loyalty if the customer's problem was resolved on the first contact. A subsequent study for Coca-Cola in 1982 further showed that resolution on first contact achieved 10% higher satisfaction and loyalty than resolution via multiple contacts.
- TARP also examined the cost to obtain a new customer vs. retaining a current customer via complaint handling. The original study examined the advertising cost to win new auto customers vs. the goodwill expense to retain an existing customer for a domestic auto company. The company had a cost of $375 in advertising for each car sold. They had about a 50% base loyalty rate, which meant that the actual advertising cost **per new customer won** was actually $750. The goodwill expense to retain a customer averaged $150. Therefore, we derived the fact that it was five times as expensive to win a new customer as to keep a current customer. This formed the basis for establishing many of the customer service 800 numbers in the early 1980s. (See, Business Week, *Making Service a Potent Marketing Tool*, June 11, 1984, pages 164-170.) Since then, TARP has found the real ratio of cost to win a new customer vs. retaining a current customer varies from 2 to1 to 20 to1.
- TARP's last basic finding, first published in 1988, is that customers who complain and are satisfied are up to 8% more loyal than if they had no problem at all.

- One set of data that is often attributed to TARP is the reasons why customers leave. This so-called study reports that 2% of customers die, 5% have personal reasons, and the rest are lost due to poor employee attitude. TARP vehemently disagrees with this suggestion because TARP finds that most employees want to do a good job. TARP finds that only 20% of dissatisfaction is caused by employee actions, 40% by corporate products and processes which have an inherent unpleasant surprise for the customer, and up to 40% are caused by customer mistakes or incorrect expectations.

For additional information, contact www.e-Satisfy.com.or 703-524-1456

(Editor's Note**:** Our February Issue of Competitive Advantage included an article that contained some "statistics" that rightfully should have been attributed to TARP. Our apologies. Please retain this edition of Competitive Advantage and use this article as a source to list Mr. Goodman and TARP as the source of any of the statistics contained in the article. Mr. Goodman spoke at the 7th Annual Service Quality Conference and is a keynote speaker at our 8th Annual Service Quality Conference in St. Pete Beach).

Mr. Goodman also made the following TARP graphic available to Competitive Advantage. The Tip of the Iceberg Phenomenon, originally published by TARP in 1988, was used by Vice President Al Gore in his article, "Serving the American Public: Best Practices in Resolving Customer Complaints," Federal Benchmarking Consortium Study Report *as reported in the* National Performance Review, March 1996.


The Tip Of The Iceberg Phenomenon
1%-5% Complain to Management or HQ
45% Complain to Agent/Branch/ Front Line Rep
(75% for business)
50% Encounter a Problem But Don't Complain
(25% for business)
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