How to Profit from Customer Dissatisfaction
Catch it, Fix It, Capitalize On It

A White Paper | www.verdegroup.com

THE VERDE GROUP

Executive Summary

THE COST OF DISSATISFACTION

Despite the widespread adoption of customer satisfaction measurement programs, the typical North American company is at risk of losing 21% of its customers due to dissatisfaction.

Over the last ten years, we've conducted hundreds of customer dissatisfaction studies and surveyed thousands of customers each year. The statistics tell us that most companies are inadvertently "designed" to aggravate their customers. This white paper presents the aggregate results of the last five years of data detailing the nature of dissatisfaction among customers in North America and suggests an approach for how companies can convert that dissatisfaction into loyalty and profits.

Even under the best scenario, there is no question that you will always lose customers. The key is to figure out how to keep your most valuable customers. Because satisfying previously unsatisfied, valuable customers is significantly more profitable than acquiring new ones.

More facts you should know:

- 60-80% of defecting customers categorize themselves as 'satisfied' on surveys conducted immediately before their departure.
- 76% of customers experience at least one problem with a company's products/services over a 6-12 month period.
- Customers who don't experience problems are twice as loyal as those who do.
- Only 39% of customers are completely satisfied with the resolution to their problems.
- Over 67% of those who have a problem never tell the company about it.
- 68-73% of customers defect due to service/quality problems that, if known, would be relatively easy to fix.

A FALSE SENSE OF SECURITY

The reason these facts come as a surprise to most senior executives is that conventional customer satisfaction metrics—used by most organizations—are poor predictors of customers' future behavior and consequences.

Conventional customer satisfaction research has fundamental shortcomings:

It rarely produces actionable findings—it doesn't tell the company what to do, because the research:

- Asks 'how much do you love us' questions ("applause meter");
- Doesn't prioritize what to fix first;
- Is insufficiently detailed (doesn't identify common customer issues that are actionable);

It is rarely linked to direct financial impacts, such as:

- The cost of customer defections;
- Where the company should invest to protect its revenues by improving its performance;
- The return on investment from expenditures to protect revenues.

In short, most customer satisfaction measurement fails to produce useful results because it focuses solely on the customer's attitude itself; and it fails to identify how that attitude was formed and how that experience will influence the customer's future behavior.

THE GOOD NEWS

An increase of just 5% in customer retention can account for a 20% increase in productivity and a 50-100% increase in profit margins

There is a solution. Rather than emphasizing customer satisfaction measurement and tracking, companies should implement programs that focus on measuring the prevalence and drivers of customer dissatisfaction. These programs can tell you:

- How much is customer dissatisfaction costing us right now?
- What could pending customer defections potentially cost us?
- What will it take to win back their loyalty?
- Where should we invest for the greatest payback?
- How do we reduce our lost business rate?
- How do we increase our “share of wallet” among individual customers?
- How do we differentiate our sales/service experience from that of our competitors?

More good news is that the company itself can directly influence most of the factors affecting customer behavior and loyalty. In other words, while your own customer contact channels may be driving customers away, you also have the power to turn the situation around.

All companies have customer retention challenges. The remedies are to:

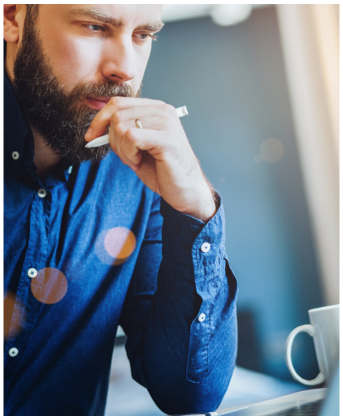
- Determine what causes dissatisfaction among your customers and what each problem is costing you;
- Apply sufficient managerial, technical and financial resources to remedy the problems based on payback; and
- Use these insights to achieve and sustain competitive advantage.

STEPS TO REMEDY CUSTOMER RETENTION CHALLENGES:

1. **Determine what causes dissatisfaction among your customers and what each problem is costing you;**
2. **Apply sufficient managerial, technical and financial resources to remedy the problems based on payback; and**
3. **Use these insights to achieve and sustain competitive advantage.**

Methodology

This report draws from nearly two decades of customer dissatisfaction research conducted by The Verde Group and captured in Verde's Customer Pulse® database.



Customer Pulse contains hundreds of thousands of responses accumulated over 17 years of exploring the causes of customer satisfaction, dissatisfaction, defection and loyalty. This paper presents statistics for five years of data, from 2006 to 2010.

We conducted the studies for leading North American companies in both consumer and business-to-business markets. These companies tend to be focused on customer retention as part of their competitive strategy, and most rank in the Fortune 500 or Canadian Financial Post 500.

We executed the following steps for each study:

- Data review and planning
- Exploratory diagnostic research with secondary sources and focus groups
- Quantitative measurement
  a. Research design/methodology
  b. Sampling design/selection
  c. Survey (questionnaire) design and pre-testing
  d. Fieldwork/data collection (telephone, mail)
- Analysis and reporting

Although we custom design our studies to meet client needs, we adhere to market research industry standards that enable us to conduct meaningful comparative analyses that are statistically valid. This includes the use of standardized surveys and survey execution across studies; we always draw from a statistically valid sample size.

We typically ask customers:

- Whether they have experienced problems with the company's product or service.
- If they have, did they contact the company?
- Did they have problems with the contact process itself?
- To what degree are they satisfied or dissatisfied with the company's response.
- And, most important: how likely or unlikely are they to buy from the company again and recommend it to friends and associates?

The loyalty score is defined as the percentage of customers who respond that they definitely will recommend the product or service. References to top-quartile com-panies refer to those companies that have loyalty scores in the top 25% of all scores. Bottom-quartile companies have scores in the bottom 25%.

The Power of Negative Thinking

A STUDY OF PROBLEMS, WEAKNESSES AND LOSSES POINTS THE WAY TO POSITIVE, PROFITABLE ACTION

The traditional measurement of customer satisfaction on its own is of doubtful value as a strategic tool for producing bottom-line results, because it doesn't tell you where the trouble is, what it's costing you, and how to prioritize improvement initiatives. This paper presents and analyzes the results of five years of studies and more than 37,000 customer surveys on the topic of dissatisfaction; it also proposes how to convert that dissatisfaction into loyalty and profits through effective retention programs and ongoing measurement. In short, it suggests that companies go looking for trouble so that they can deal with dissatisfaction and prevent its reappearance in the future.

Customers tell us that they are most loyal to the companies that proactively ask for and respond to negative feedback. These companies are maniacal about seeking out and pinpointing weaknesses in their customer relationships—as experienced by the customers themselves. By studying the negative, companies can calculate the cost of each source of customer dissatisfaction in terms of potential lost revenue, if the customer were to defect. More importantly, as our study results show, a disgruntled customer can become both loyal and profitable; but only if you know about and properly handle the complaint.

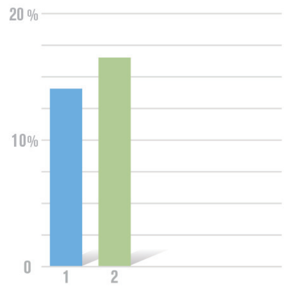
DISSATISFACTION IS COSTING A FORTUNE

On average, as much as 16% of the typical North American company's revenue is at risk due to customer dissatisfaction. This is the percentage of customers who would be unwilling or unlikely to repurchase due to problem experiences, ineffective complaint handling and/or negative word of mouth. This figure varies from as little as 9% to as much as 32% for the companies covered in our studies.

On a trended basis, this 16% is a decline from the 21% average revenue at risk we measured across all business categories between 2000 and 2004.

All companies have customers at risk, but the risk is almost twice as great among bottom

The average revenue that is at risk due to customer dissatisfaction in North America is 16%

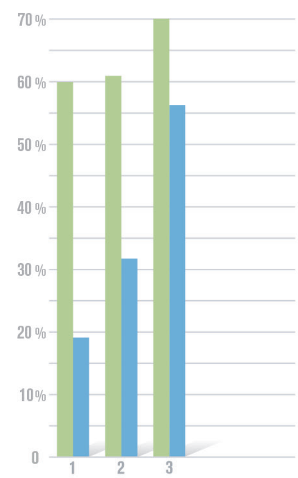


Percentage of Customers at Risk

1. Business to Business Companies (14%)
2. Consumer Companies (17%)

Study Results | the cost of problems

Among the customers surveyed in our studies, 76% had experienced problems with a supplier's product or service in the previous six to twelve months. When customers have problems, the company loses: in satisfaction, in loyalty, in negative word of mouth... and most important, in revenue.



Problems: Impact on Satisfaction & Loyalty

No Problem Problem

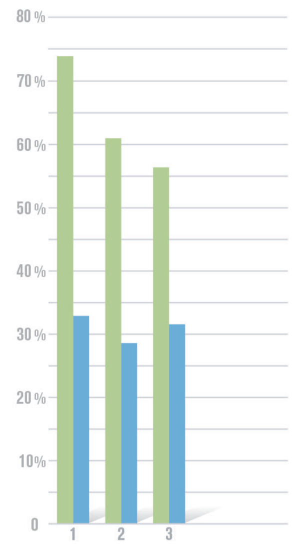
1. Financial Services (60%, 19%)
2. Telecommunications (61%, 32%)
3. Pharmaceuticals (70%, 56%)

PROBLEMS IMPACT SATISFACTION AND LOYALTY

The occurrence of problems can cause a 24-41% drop in high-satisfaction responses and in loyalty indicators: intention to repurchase and to recommend.

IMPACT OF PROBLEMS VARIES BY INDUSTRY

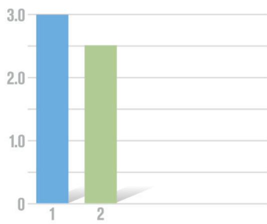
The impact of problems on customer loyalty varies with the industry. The impact is greater when the product or service is high priced or strategically important to the customer.



Problems: Intent to Repurchase

No Problem Problem

1. Very Satisfied (74%, 33%)
2. Will Definitely Repurchase (61%, 29%)
3. Will Definitely Recommend (56%, 32%)

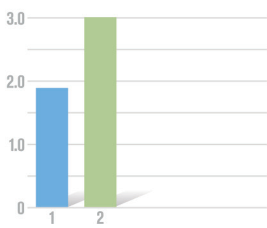


Average Number of People Told About Problem

1. Business to Business Companies (3.0)
2. Consumer Companies (2.5)

PROBLEMS LEAD TO NEGATIVE WORD OF MOUTH

Our studies show that, on average, one dissatisfied customer will tell at least three other people about their unsatisfactory experience. Consumer and business-to-business industries show little difference in the average number of people to whom a customer talks. But the effect is greater in consumer industries, because there are so many customers. If a company has a million customers and 76% of them experience a problem, 1.9 million people will hear negative comments about the company.



Average Number of People Told About Problem

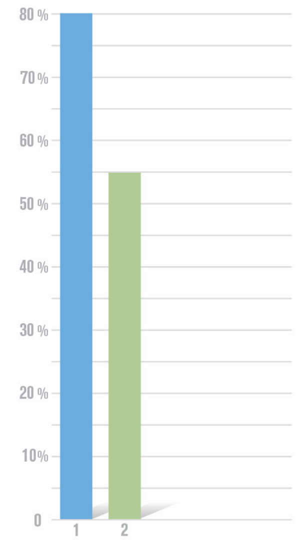
1. Top Quartile Companies (1.9)
2. Bottom Quartile Companies (3.0)

COMPANIES WITH LOW CUSTOMER LOYALTY SUFFER EVEN MORE

Customers of bottom-quartile companies (highest levels of overall dissatisfaction compared to others studied) tell 63% more people about their bad experiences than the customers of top-quartile companies (lowest levels of overall dissatisfaction). For companies with a million customers, even if the top- and bottom-quartile companies had the same problem rate of 76%, about 1.1 million people would hear bad news about the top-quartile company, as compared to 1.8 million for the bottom-quartile company: an additional striking benefit of customer loyalty.

Study Results | the cost of silence

Given the cost of dissatisfaction and, therefore,the importance of resolving it, an alarming number of customers never openly express their dissatisfaction.



Percentage of Unexpressed Complaints

1. Top Quartile Companies (80%)
2. Bottom Quartile Companies (55%)

MANY UNHAPPY CUSTOMERS DON'T COMPLAIN

Overall, more than two thirds of customers (67%) who experience problems never contact the company about them. Organizations that assume no news is good news are at significant risk. Rather than complain, these people spread negative word of mouth and then vote with their feet by making future purchases elsewhere.

Consumers are more likely than business-to-business customers to keep their complaints to themselves. And customers complain less when there are many easily available alternatives.

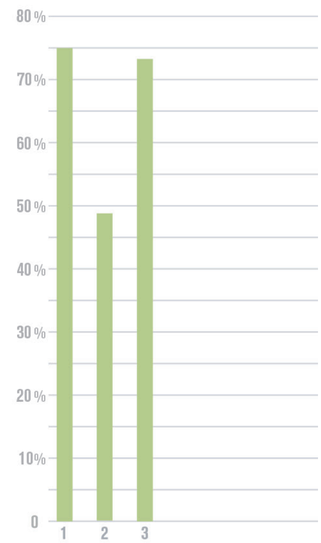
UNEXPRESSED COMPLAINTS VARY BY INDUSTRY

This rate of non-complaint does not vary much with the company's ranking in loyalty scores. However, it does vary by problem type and by industry.

THERE ARE REASONS THEY DON'T COMPLAIN

The research has identified four reasons for the failure of many customers to complain when they have a problem. In order of frequency, they are:

1. Customers believe that complaining will do no good because no one cares.
2. They feel it's not worth the time or trouble.
3. They don't know where or how to complain.
4. They fear hostility or retribution.

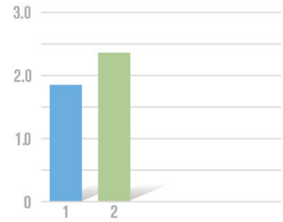


Percentage of Unexpressed Complaints

1. Financial Services: 75%
2. Telecommunications: 49%
3. Pharmaceuticals: 73%

Study Results | the cost of poor complaint handling

For customers who do make the effort to complain, the feedback experience tends to compound their dissatisfaction and increase the likelihood they will defect.

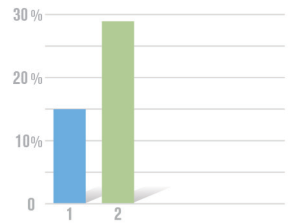


Average Number of Contacts to Resolve Problems

1. Top Quartile Companies (1.9)
2. Bottom Quartile Companies (2.4)

IT TAKES MULTIPLE CONTACTS TO SOLVE A PROBLEM

Too many. One contact should do it, but top-quartile companies are averaging 1.9 contacts. The figure for bottom-quartile companies is 26% higher. This is expensive for the company and frustrating for the customer.



Percentage of Customers Dissatisfied with Length of Time to Resolve Problems

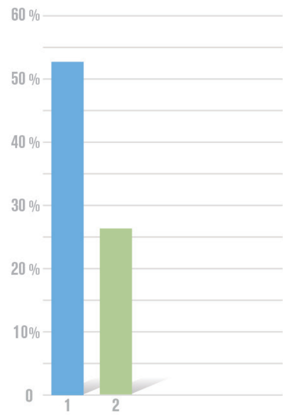
1. Top Quartile Companies (15%)
2. Bottom Quartile Companies (29%)

IT COSTS MORE THAN IT SHOULD

For companies with one million customers, an average problem rate of 76%, and an average contact rate of 33%, the difference between top—and bottom—quartile level contact means more than 125,000 unnecessary additional calls. If the cost to the company is as little as $5.00 per call, the difference represents at least $627,000 in additional service costs.

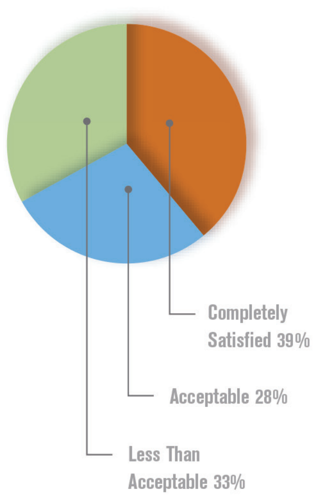
IT TAKES LONGER THAN EXPECTED

Speed is critical in satisfying customers. In the bottom-quartile companies, 14% more customers were unhappy with how long it took to resolve their problem.



Percentage of customers who contacted the company and are completely satisfied with resolution

1. Top Quartile Companies (53%)
2. Bottom Quartile Companies (26%)



Customers' Satisfaction With Response

FEW CUSTOMERS ARE COMPLETELY SATISFIED WITH PROBLEM RESOLUTION

Bottom-quartile companies are 27% less effective in providing customers with a completely satisfying problem resolution. However, since 2004 there has been an overall increase in customers reporting satisfaction with problem resolution.

THEY AREN'T SATISFIED WITH THE RESPONSE

How did customers feel about the response they received when they made contact with companies? About four in ten (39%) were completely satisfied and six in ten were unhappy to some degree. In the eyes of the unhappy group, the company now has two strikes against it: for the problem itself, and then for failing to handle it properly when the customer complained.

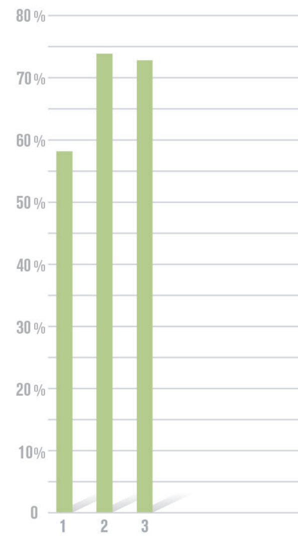
CUSTOMER DISSATISFACTION VARIES BY INDUSTRY

Many customers are not happy with the response of business to their complaints. The percentage not completely satisfied varies by company and by industry. But almost all companies perform poorly in the critical area of service recovery, where the company must attempt to repair the damage caused by its own failures or mistakes.

COMPLAINT HANDLING IMPACTS RECOMMEND

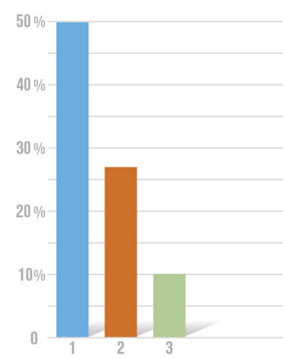
The figures to the right demonstrate the critical importance of achieving complete satisfaction with customers who complain. With any result less than complete satisfaction, loyalty drops by at least 40%.

We can apply these numbers, and others given elsewhere in this report, to our hypothetical company with a million customers. If 76% have problems, and 33% of those contact the company, we can see that the difference between "completely satisfied" and "acceptable" gives us more than 57,000 additional customers who continue to recommend the organization.



Customer Dissatisfaction with Complaint Handling

1. Financial Services (58%)
2. Telecommunications (74%)
3. Pharmaceuticals (73%)



Impact of Complaint Handling on Recommend

1. Completely Satisfied (50%)
2. Acceptable (27%)
3. Less Than Acceptable (10%)

A False Sense of Security

The reason the study results surprise most senior executives is that the customer satisfaction metrics they tend to use don't reflect this kind of feedback and are poor predictors of customers' future behavior and consequences.

THE TROUBLE WITH SATISFACTION

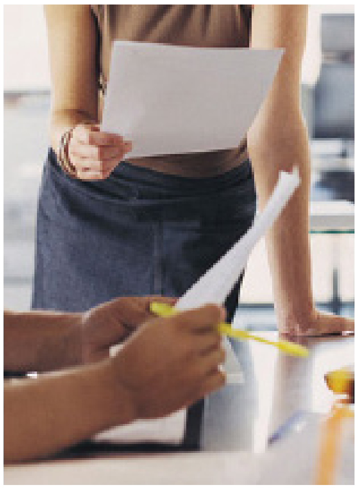
When businesses conduct surveys to measure customer satisfaction, that is just what the results tend to show: satisfaction. "How much do you love us today?" is a question of little value as a basis for action. Such a feel-good survey is often useful only as an applause meter.

Management may be reluctant to ask the tougher questions that reveal where mistakes are being made. But those are precisely the questions they must ask. Dissatisfaction is the critical element because it drives away customers, and it points directly to crucial areas of improvement. The sooner a company identifies sources of dissatisfaction, the sooner it can take action to fix them. And real movement can begin towards the ultimate objective—which is not mere satisfaction, but loyalty and retention.

SATISFACTION VS. LOYALTY

Customer satisfaction, as desirable as it is, is simply a feeling that expectations have been met—possibly even low expectations. It is a neutral feeling, which may or may not translate into real bottom-line benefits.

Loyalty, however, is more than a feeling. It is a set of behaviors that produce revenue: repurchasing the product or service, purchasing other products or services from the company, and recommending these to others. In fact, customers' overall "willingness to recommend" correlates directly with a company's growth



rate. In his December, 2003, Harvard Business Review article, "The One Number You Need to Grow," Frederick F. Reichheld of Bain & Company shared research results that proved this.

Our studies demonstrate that satisfaction is a precondition to loyalty but cannot guarantee it. Even customers who claim to be satisfied may be experiencing problems that go unnoticed by the supplier. Research shows that many of the "satisfied" will happily switch to a competitor tomorrow.

An investment in devloping a loyal customer—through improved complaint handling, for example—will pay great dividends in two ways. First, a loyal customer, by definition, does not defect. Customers who lack loyalty easily defect, and companies must spend much of their marketing budget foraging for new customers to replace the defectors—an expenditure with little incremental benefit. Industry studies show that it costs five times as much to recruit a new customer as to retain an old one. Therefore an investment in retaining customers offers an opportunity to leverage marketing dollars, because they now go into growing the customer base rather than continually compensating for losses.

Second, the loyal customer's willingness to recommend the company is a particularly important factor in building business in today's marketplace. It is difficult for products to stand out amid floods of advertising, and the public has become skeptical or cynical about corporate claims. So advice from a friend or associate, based on personal experience of a company's product, service and responsiveness, can be a decisive influence on purchasing choices.

The Good News

HOW TO CONVERT DISSATISFACTION INTO LOYALTY AND PROFITS

Our research shows that an increase of just 5% in customer retention can account for a 20% increase in productivity and a 50-100% increase in profit margins. The key is to know the list of specific issues creating dissatisfaction; understand the economic impact of each item on the list and, therefore how to prioritize them; and to implement a systematic program of addressing the issues and monitoring the impact those improvements have on customer retention.

An increase of just 5% in customer retention can account for a 20% increase in productivity and a 50-100% increase in profit margins

PINPOINT THE PROBLEMS

Rather than emphasize customer satisfaction measurement and tracking, companies should implement programs that focus on measuring the prevalence and individual drivers of customer dissatisfaction. These programs can tell you:

- How much is customer dissatisfaction costing us right now?
- What could pending customer defections potentially cost us?
- What will it take to win back their loyalty?
- Where should we invest for the greatest payback?
- How do we reduce our lost business rate?
- How do we increase our “share of wallet” among individual customers?
- How do we differentiate our sales/service experience from that of our competitors?

There will always be customers who lack loyalty and defect. There isn’t anything you can do about those. The ones you care about are the valuable ones who would like to be loyal but have been disappointed by preventable problems. Find out what those are and how important they are to loyalty.

Your list should include product/service problems and complaint resolution problems. The quick resolution of a customer’s issue brings satisfaction, which has a good chance of translating into loyalty. Our database shows that in many industries customers who complain and have their problem resolved satisfactorily are more likely to show loyalty than customers who have no problem at all.

PRIORITIZE THE PROBLEMS BASED ON COST AND CUSTOMER RETENTION

Once you have a list of problems causing dissatisfaction and have measured customer loyalty, you can calculate how much revenue is at risk due to dissatisfaction and what it would take to resolve each problem. You can then estimate the return on investment to fix the problem—how much it costs versus how much it will improve retention and, thus, revenues and profits. This allows you to prioritize initiatives.

A company can only handle so much change at a time. When there are twenty pressing problems, and you know you can only fix five of them within the next six months, you must prioritize based on how much they impact loyalty.

A competitive study can help you prioritize according to competitive advantage. If an issue is prevalent among all of your competition, for example, perhaps it can fall lower on your list. Conversely, fixing an issue that the competition is already on top of can substantially reduce defections.

IMPROVE PROBLEMS AND MONITOR THE IMPACT

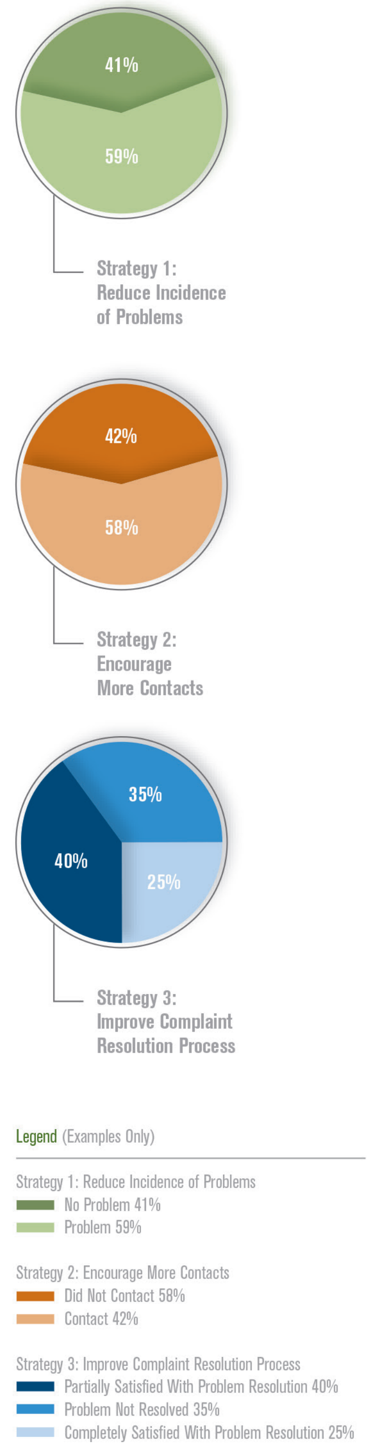
There are three strategies that contribute to reducing dissatisfaction and increasing loyalty:

1. Reduce the number of questions and problems experienced by customers.
2. Increase customer satisfaction with the contact experience.
3. Encourage more customers to contact the company with questions and problems.

The research findings will tell the company which of the three strategies should be used, in what combination and in what sequence. Sometimes there are strategies which should not be used: our studies have found that some companies' complaint handling was so seriously flawed that it caused the loss of more customers than if the customers had not called at all! Such companies should not encourage more contacts until the organization is ready for them.

Increased customer loyalty shows itself in willingness to buy the product again or continue using it; willingness to buy the company's other products; and willingness to recommend the company to others.

Finally, and perhaps most importantly, it's critical to measure customer dissatisfaction through an ongoing, standard monitoring program and set of metrics. This allows you to determine the effectiveness of your improvement programs, measure the return on investment and radically improve customer retention. Over time dissatisfaction levels will drop as you tackle one problem after another. Loyalty will rise. Customer retention will rise. Revenues and margins will rise.



Summary

- An average of 16% of a North American company's revenue is at risk because of customer dissatisfaction.
- Measurement of satisfaction alone is of little value.
- Dissatisfaction is the measurement factor that drives increased customer retention.
- Problems in the customer experience sharply reduce customer satisfaction and loyalty.
- The adverse effect of customer problems is multiplied through negative word of mouth.
- Many customers believe complaining is useless because nobody cares.
- Even high-ranked companies require too many contacts to resolve a customer issue.
- Only 39% of customers who complain were completely satisfied with problem resolution.
- Complete satisfaction with complaint handling is critical to customer loyalty.
- To increase customer retention, a company must reduce customer dissatisfaction.
- To accomplish this, a company should take a baseline dissatisfaction measurement to pinpoint and estimate the cost of problems; it should then prioritize improvement initiatives based on return on investment; finally, it should implement those initiatives and monitor dissatisfaction on an ongoing basis for continuous improvement.

ABOUT THE VERDE GROUP

The Verde Group is a customer experience consultancy, growing businesses by employing a proprietary research methodology that is based on a fundamental principle of human behaviour: Individuals are far more likely to take action in response to negative events than positive ones. What makes us different is our ability to financially quantify revenue at risk by isolating the most business-critical pain points across the customer journey and turn those negative experiences into revenue drivers. With our client partners, we create enduring change and financial results. For more than 20 years, across more than 25 countries, we've been passionate about partnering with top executives in Fortune 1000 companies to deliver actionable, sustainable and measurable improvements to customer experience.

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