Keep your customers cool

Once consumer loyalty is lost, it can be very difficult to retrieve, leading to serious financial repurcussions

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Most businesses will probably never face a customer as angry as William Foster, the character played by Michael Douglas in the film *Falling Down* (1993). After being told in a fast-food restaurant that he cannot order a breakfast meal because he's missed the cut-off point by three minutes, Foster pulls out a machine gun and threatens the staff until the manager relents. In the end, Foster proves a fickle customer: he changes his mind and decides he wants to order from the lunch menu instead, only to lose his temper again when his flaccid-looking Double Whammy Burger with Cheese fails to live up its glossy representation on the printed menu.

While most people would not condone Foster's behaviour, many would sympathise with his frustration: arbitrary rules and misleading advertising are among the biggest complaints of consumers across the world. It's just that most of them don't have an AK-47 to hand to help them make their point. But although the law-abiding and sane are much less visible than the obviously disturbed Foster, their quieter frustration is much more of a serious problem for businesses. Once loyalty is lost, it can be very difficult to retrieve, which can lead to serious financial repurcussions.

Much has been written about how to handle angry customers and most businesses realise how much difference the good management of complaints can make. Winning back unhappy customers can increase repurchases by 50% and generate 20 times more positive referrals by word of mouth than by advertising, thus potentially responsible for 20%-70% of new customers. Retaining customers is 5%-7% cheaper than finding new ones, but if customer defections go down by just 5%, profits will rise by 25%-85%. Conversely, a company's sales can go down by as much as 15% if it does not handle complaints well.

Computer giant Dell discovered this to its cost. Last year American journalist Jeff Jarvis purchased a Dell computer,

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encouraged by a discount coupon. He was unhappy with the product and even unhappier with Dell's customer service. He posted an online diary about the experience, which attracted hundreds of sympathisers, who reported equally bad experiences with the company. Shortly after this he wrote a 'Dear Mr Dell' letter online in which he claimed the product was a "lemon" and that the customer service was "appalling".

The response surprised Jarvis. He says that it amazed him "how other consumers coalesced around the original email". In the end, thousands of 'Dell-Hellers', as they are known, posted their own tales of woe. Jarvis followed up in August with an article published in the *Guardian* newspaper in the UK: "I updated my audience with my latest tales of trans-oceanic frustration: I'd paid for home service, but couldn't get it; Dell replaced half my machine, but it still wouldn't work; my email entreaties went unnoticed...and so did my blog posts."

Jarvis believes that a new breed of consumer has arrived. "We spit back," he wrote. Market researchers concluded that Dell had "sustained long-term damage to its brand image".

Dell's experiences prove that companies have no choice but to think carefully about how they manage angry customers. Ignoring the problem or getting it wrong can weaken the brand, hit sales and reduce customer loyalty. While most companies understand the importance of managing complaints well, in many cases they are not ready for the difficulties and complexities it involves.

A large part of the problem is that most corporate processes are geared to finding short-term solutions to the problem of a frustrated customer. This is perhaps understandable: unhappy customers invariably want a quick response, and in the majority of cases they can be dealt with through short-term actions, such as refunds, compensation or apologies. But companies that respond to customer frustration only in this way do nothing to help gain a deeper understanding of what went wrong.

Ideally, companies will respond to every customer's complaint on an individual basis. Complaints may seem similar on the surface, but each complainant will have their own views about what went wrong and what would be a fair response. Responding in the same way to all complaints may work with some, but not others. Customers need to know that your interest in them extends to when they are unhappy with the service or product and is not just limited to when they are buying it. But most of the time, companies rely on standard language and inflexible policies. They deny the customer's claims, get lost in protracted arguments, blame third parties or simply pay out. The short-term nature of these responses often fails to calm the customer down. Sometimes, they simply make things worse.

And the power of word-of-mouth means that this can be disastrous. Last Christmas consultant Verde Group, which specialises in helping North American firms measure and overcome customer dissatisfaction, conducted a survey of 1,200 US consumers. It showed that for every 100 shoppers, 64 will be told about a store's poor products or services. Nearly a third of all US retail customers who have a bad shopping experience will tell four people in such a way that those four people will have a more negative impression than the person who initially had the problem. Paula Courtney, the Verde Group's chief executive, says: "A lot of companies actively try to generate positive word-of-mouth, but very few understand the power of negative word-of-mouth. They just don't get how much collateral damage can be done by unhappy customers."

You cannot avoid angry customers and you can't afford to ignore them, so there is little choice but to listen. After all, they are trying to maintain the relationship with your company. They may be pointing to a bigger problem that you can fix to the benefit of other customers. Patrick Barwise, professor of management and marketing at London Business School, and co-author of *Simply Better: winning and keeping customers by delivering what matters most* (2004), says: "There are two things that valuable brands have in common: brand awareness and trust, and trust does not come from the brand saying 'trust me'. It comes from experience. When a well-managed company such as Carphone Warehouse [see box] gets it wrong and tries to solve the problem, customers are more forgiving."

Developing a fast and efficient response system might increase the number of complaints coming through, but it will also reduce the number of horror stories spread between consumers. Time is undoubtedly an issue. Customers want to be able to ask a question quickly, so it is critical that your company is accessible and ready to listen to them straight away. But many customers will be prepared to wait for an answer so long as they can see that this is likely to be to their benefit. They want to be able to communicate. Once they have done so, they do not want an unreasonable delay and they don't want to see any broken deadlines.

ITSUO INOUYE / AP / EMPICS

It is crucial to insist on a good two-way conversation to make sure negotiation takes root. This requires skill and a carefully managed process. First, companies should acknowledge the customer's emotions without justifying or evaluating them. For example, you might say: "I can see you are frustrated about the loss of your bag and concerned about having something to wear for your meetings."

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Second, you should paraphrase the customer's concerns to test your understanding and show the customer you are trying to see things from their point of view. You may, for example, say: "If I understand you correctly, you either need your bag or an early warning before lunch-time, so you can at least buy a suit to be able to meet with an important client." Third, confirm that you understand and clarify any vague details.

Even if you have to disappoint the customer with a negative answer, they will appreciate the effort you have made. You should show that you are trying to be flexible and creative, and you should show commitment to help them, but not necessarily to give them something. Most customers understand that not all cases can be solved, but they definitely want to see you try to deal with them.

Apologising is a powerful tool, but also a risky one. It is probably true in most, if not all, cases that the company's product or service contributed to the customer's distress, even when it was the customer's fault. Many customers seek an apology and delivering it can calm them down to a point. But there may be a temptation to apologise too quickly with the result that you appease the customer too early. You have gone some way to accepting blame for the problem and therefore taken responsibility for fixing it, yet you do not know the source of the problem yet.

At the first, most emotionally charged phase, the company's goals are usually to regain the customer's trust and calm them down, reassure them that the complaint will be handled and that the company is committed to building a good relationship. The temptation is to try to solve the customer's complaint straight away. It is far better, however, to wait until you can discuss the issue in a calm and rational manner.

If it is established that the company has been at fault, compensation can then be negotiated. There are four ways to compensate angry customers: fix it, replace it, provide a partial rebate or refund the whole amount. Each will generate different reactions from the customer, but are still preferable to no

JAPAN: LAND OF BOWS AND APOLOGIES

It has been remarked that while Occidentals have a highly developed sense of sin, Orientals have a highly developed sense of shame. For proof of the latter half of this proposition, you need look no further than Japan, where being ashamed and showing yourself to be ashamed is considered an essential component of appeasing angry customers and shareholders.

The site of company presidents bowing, apologising and even weeping at news conferences is common in Japan. Scandals, bankruptcies and poor results can all occasion bouts of corporate self-flagellation, and it is invariably the man at the top who gets to publicly humiliate himself. In 1999 Japanese TV viewers were treated to the site of Shohei Nozawa, chairman of newly-bankrupt securities firm Yamaichi, weeping profusely as he apologised for the collapse of his company. This year Sony executives bowed and apologised at a news conference following a global recall in laptop batteries, acknowledging that the troubles had caused worries and inconvenience for consumers. Crucially, though, the executives remained seated and did not bow deeply while standing, as is the custom for corporate apologies, indicating Sony's reluctance to admit full responsibility for the problem.

Japanese firms' open embracement of shame is in marked contract to the approach of Western firms, which tend to respond to bad news with bullishness. It is difficult to imagine Jean-Pierre Garnier or Carlos Ghosn weeping in front of the TV cameras. Even when US and European companies acknowledge their guilt, their 'apology' is often overwhelmed by a detailed explanation of what they have done to rectify the problem and an expressed desire to 'look forwards' rather than dwell on their mistakes.

Such sharply contrasting approaches can cause problems for firms seeking to move into Japan. In June this year, Swiss elevator manufacturer Schindler baffled many in Japan by failing to apologise promptly after 16-year-old Hirosuke Ichikawa was killed in one of its elevator units at a Tokyo public housing complex. The company eventually apologised publicly nine days after the incident – before that, it had offered condolences to the Ichikawa family only on its website.

Tatsumi Tanaka, head of corporate crisis management company Risk Hedge Co, says that in taking such a long time to apologise, Schindler made a huge mistake. "Japan is a country in which you are forgiven, in many cases, if you apologise quickly," he says.

Foreign journalist Virginia Kouyoumdjian can verify this, having been the angry customer of a Japanese firm: "I had ordered some appetisers from a deli in a big Tokyo department store for a party. I told them I would come by to pick everything up at noon on the day. When I got there, nothing was ready and I was furious. They apologised profusely and promised to deliver everything at home in plenty of time for the evening. At 5pm, the doorbell rang. It wasn't just a delivery boy. There stood the manager of the department, holding the trays and bowing worryingly low. I remained a faithful customer of the store."

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compensation at all. What is fair compensation? There is no easy answer to this. Compare the delay on the delivery of a book to a delay on the arrival of food and drink to a wedding. In the former case, you have a minor irritation. In the latter, you have hundreds of angry guests.

Many companies attempt to be fair to customers at a reasonable cost. One example is Air France's limit of €100 for a baggage delay of more than 24 hours. Perceptions of fairness are usually bound up with a sense of equity, equality or need. It is clear that Air France's policy is based on equality, but not equity or need. Business travellers may need to buy a new suit or miss an important meeting on that same day; holiday travellers may need to buy toiletries, but they will not really lose out on anything. The compensation actually gives them more money than they need.

Air France's policy attempts to be fair through the principle of equality. The problem is that this enables it to view every occurrence of delayed luggage as essentially the same problem, when the consequences it has for an individual vary enormously and can be worth a lot more – or less – than €100. Standard guidelines make it easier for staff to handle complaints, but equality can be a very crude measure of fairness and, perversely, create lasting feelings of unfairness. This type of policy also risks sending the wrong message to the consumer by suggesting that the company is not interested in individual cases. A compensation policy intended to be scrupulously fair can therefore actually reduce customer loyalty.

A potentially better policy would be to find out what the customer feels would be fair compensation. Companies can try to discover this during the negotiation: if the first phase has worked, the anger has been dissipated and the customer is more likely to be reasonable about compensation. Perhaps, then, several compensation cases will be solved by the principle of equality, as long it is clear that the problems and their consequences are the same or at least similar.

If individual customers' cases are different, however, it may

MYUNG JUNG KIM / AP / EMPICS

TALK TALK: TIME TO LISTEN

One of the more recent customer service problems to emerge in the UK concerned broadband provider Talk Talk. A subsidiary of Carphone Warehouse, Talk Talk launched a 'free' broadband service in April this year. For £20 a month, customers were given unlimited calls in the UK and 'free' broadband. The product was a hit – by the beginning of June, 340,000 people had signed up, double what the company had expected. But only 100,000 had been successfully connected by then, leaving 240,000 customers struggling to get their internet connection.

Patrick Barwise, professor of management and marketing at London Business School, says that Talk Talk made two mistakes: not only did it grossly underestimate the demand for its service, it also underestimated what customers needed to do to install the service properly. This double-whammy created a huge backlog at the Talk Talk customer service call centre.

Ceri Stanaway, senior analyst at *Which?* magazine, says that she was inundated with complaints from customers unable to get through on the phone; of staff reading answers from a script; of calls not being logged properly and written complaints going unanswered.

To give Talk Talk its due, however, it quickly acknowledged that it was having difficulties coping with demand. CEO Charles Dunstone (*right*) had started a blog when the free broadband launched and kept it updated with the progress. The company decided to train extra staff, but with a six-week training period, it wasn't until the end of August that Talk Talk finally started to catch up.

There are now 2,450 call-centre staff (compared with 1,000 at the beginning) and the company says it is on top of things. But Stanaway says that she has yet to see this translated in terms of customer satisfaction. She still receives complaints, and a quick search on the web will return fresh blog entries and comments about poor customer service at Talk Talk.

Perhaps surprisingly, though, customers have kept coming. In its last statement, the company said that it had received 625,000 applications by the end of September, of which 421,000 were now live. Are customers not deterred by the bad publicity?

Barwise believes that most customers are reasonable. They appreciate that things can go wrong, but expect to be treated well when they encounter problems. "If you treat consumers as adults, you are being honest. If you make a mistake and you work your backside off to correct it, you can make up for it," he argues.

In that sense, Talk Talk got it right. Whether these initial difficulties will hurt the company further is unclear. The brand has been rattled and total losses relating to the launch are expected to reach £70 million by the end of the year (the extra staff incurred additional spending of £20 million). But both Stanaway and Barwise agree that it does take time to get things right. Ultimately, though, it is Talk Talk's half million customers who will give the company their seal of approval, or not.

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be necessary to move the conversation up a level to someone more senior. Air France could, for example, reduce the €100 compensation fee for most complaints, but increase it to €500 for a few customers. In doing so, it will be satisfying more customers in the long term and delivering a consistent message that the company treats its customers fairly.

If a company negotiates with each individual, it may find a more practical and efficient solution. Air France might tell a customer that the missing luggage will arrive in two hours' time and that it will deliver it to their hotel. However, the business traveller may need to go to a meeting directly from the airport and may suggest waiting in the business lounge until the luggage arrives. In this case, Air France will save money by not having to courier the luggage to the hotel. A negotiated fair compensation deal can be managed with minimal costs and result in greater satisfaction.

However, there will always be some people who are still dissatisfied with the process, no matter what the company does to compensate them or win back their trust. These customers present companies with a difficult problem. In an intensely competitive global market, customers are bombarded with choices and can easily switch to another firm. Even if you handle complaints well, some of your former customers will remember that they were angry with you in the past and may not want to run the risk of getting angry, frustrated and dissatisfied again.

Some companies react to this by offering a discount on future purchases as a way of keeping the customer. In so doing, they reward the complaint, but do not necessarily build a strong relationship. It is likely that the customer will use the discount and then walk away because the underlying issue of their lack of trust has not been resolved.

Verde's Courtney says: "A big mistake companies make is to link the compensation to their product – say, a discount or a month's free service. But this is so obviously designed to keep the customer in a relationship with the company that it often backfires. A much better way would be to offer a gift unrelated to the company –vouchers for a restaurant, for example, or tickets to a show."

It is important to remember that there are two aims in any negotiation with angry customers. First, ensure the customer feels that the process is inclusive and that they have had every chance to influence the outcome. Second, understand the customer's decision-making process in the future to guarantee that they repurchase from the company again. The first objective is reinforced by a good relationship and substantive negotiations. The second has to be explicitly covered at the end of the process. The question is simple: "What can we do to guarantee that you will do business with us in the future?"

Here, many customers may be tempted to ask for money or discounts. But these will not guarantee future purchases and are therefore of dubious value. If a senior representative manages to convince a customer that the problem will not be repeated, that customer will be much more inclined to repurchase. Certainly, they are unlikely get the same guarantee from the competition. Sticking with the current company becomes a better and safer choice.

Courtney says: "One of the most powerful things a company can do is for a senior manager to deliver a written promise that everything will be done to prevent the problem from recurring. It should be signed and include the direct phone line of that manager should any further difficulties arise."

Encouraging a positive attitude towards angry customers among front-line staff is difficult but necessary. When one company renamed its customer complaint form a 'consultant's report', it found that managers paid closer attention to the advice given. The valuable knowledge gained from angry customers should be passed on to the marketing and sales departments. Customer repurchases can be traced back to the employee who dealt with the complaint and they can then be rewarded accordingly.

A month after Jarvis' blog, Dell's senior vice-president for the US consumer business, John Hamlin, said the company was opening more call centres and improving training for phone representatives. The company had also started to scan the web for blog complaints and make contact with them: "We will now go wherever they are and get involved in their conversations, where we try to resolve the issues."

Dell has introduced a new service called Dell Connect, where technicians can access customers' computers remotely to solve their problems. But despite such measures, Dell's efforts to deal with its angry customers has fallen short. Although it has put a lot of effort into improving its complaints procedures, it did not take the crucial step of addressing Jarvis' (and other customers') perception of future risk. Because it did not work hard enough to convince him that he could have the confidence to buy its products in future, Dell failed to make the final, necessary, move in dealing with the complaint.

This is one angry customer who has not been won back. ■

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