

How to Recover Lost Customers

By

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A satisfied customer will tell four or five others about a pleasant brand experience. Deliver a poor experience, and seven to 13 others will hear about it. Another study's scary statistic: Unhappy customers will continue to voice their dissatisfaction for up to 23 years.

No company can afford to have its brand trashed in the marketplace for two decades! No company can also truly afford to lose half its customers every five years.

Yet despite the unprofitable implications of customer dissatisfaction, surprisingly little attention is paid to customer retention. This is particularly true in Malaysia.

About 80% of marketing budgets are devoted to customer acquisition, even though it costs three to five times more to replace than to keep a customer. Archival searches through BusinessWeek, Fortune and Forbes magazines reveal only 17 non-financial articles that even mention "customer retention" or "service recovery."

That's unfortunate. Service recovery - the effort to satisfy unhappy customers to reduce defection - must be a core element of customer equity strategies.

The impact on profitability can be substantial. Studies indicate that service recovery investments yield returns of 30%-150%.

British Airways calculates that customer retention efforts return \$2 for every dollar invested. In fact, British Airways finds that "recovered" customers give the airline more of their business.

Hampton Inn Hotels estimates that its service guarantee increased revenue \$11 million and earned it the industry's highest customer retention rate.

An effective service recovery program occurs on two levels. The first is a three-step process that must be incorporated into

customer service operations. The first step consists of both apology and accountability. Say, "I'm sorry," and take ownership of a mistake, even if it's because of supplier or other problems.

Next, work with the customer to determine an appropriate remedy. This involves the customer in the resolution and sometimes uncovers less costly solutions. Resolution should not only address a customer's direct loss but also compensate "pain and suffering." Some refer to such compensation as "atonement." Manage expectations with resolution schedules. In one Citibank experiment, specifying time frames for next steps increased customer satisfaction by 40%.

Finally, follow-up. Determine whether the customer has received the promised treatment, and, more important, how they feel about it. One study indicated that a follow-up call to a once-unhappy customer can boost satisfaction by 5%-7%, and intentions to repurchase by 8%-12%.

The second level is building integrated service recovery capabilities in the following four areas:

Hiring, training and empowerment: Who interacts daily with customers, the most critical element of every corporate strategy? Despite numerous studies indicating a strong relationship between employee loyalty and customer loyalty, the average customer service representative only lasts an average of 18 months. Companies must do more to upgrade the skills, training and pay of customer service representatives, especially since they handle an estimated 65% of all complaints. Other employees must also understand the importance of customer retention.

Recovery guidelines and standards: How much authority do employees have to recover customers? Employees at Marriott International, for example, can spend up to \$2,500 without authorization to compensate customers. What are the timetables for resolution? British Airways research showed that 40%-50% of customers defected if it took the company longer than five days to respond. What level of complaints trigger corrective action? Can any employee handle recovery, or should you depend on special representatives trained for service recovery?

Systems for response: Customers should be easily able to complain via email, letter or even well-publicized hot lines. Systems should streamline complaint acceptance, and generate complaint-based reports. Such systems must incorporate integrated customer and product databases.

Measurement and accountability: No one likes to hear complaints, but they're actually opportunities for positive change, not reasons for defensiveness. Carefully track the number of complaints and resolution. Remember that a rising number of complaints is usually a sign of success, not failure.

Often, complaining customers are the ones most committed to a brand. British Airways found that 87% of customers who complained did not defect. One area of concern, however, is an increase in the same type of complaints.

"Customer retention" and "service recovery" have to be improved if Malaysian firms are to become competitive. Company after company has found that any increase in service costs is more than offset by exponential increases in customer equity. And it eliminates the risk that former customers will talk behind your brands' back for 23 years.