

THE IMPORTANCE OF REDUCING AND RESOLVING CUSTOMER CONFLICT

by Shaun Belding

It always seems to be the popular question with people charged with serving customers – how do you deal with difficult customers or situations? In today’s fast-paced, high stress environment, conflict with customers may be inevitable. Customer expectations of quality, speed of delivery and price competitiveness have become so high, it has become virtually impossible to please everyone. The big question for business leaders, though, is, is there really a benefit in trying to reduce customer conflict, or training people how to deal with it more effectively? Is it worth the investment of time and financial resources, or is the best strategy to simply accept that there will always be some unhappy customers, and to learn to live with it?

There are really two questions that have to be answered. The first is, to what degree does customer conflict actually impact overall customer satisfaction, if at all? The second is, is there really support to the common belief that a link exists between customer satisfaction and profitability? Most everyone intuitively feels this to be the case. At some “the good guys always win in the end” level we want it to be true. But does it really make a difference? The available research indicates that, not only does customer conflict negatively impact customer satisfaction, and that there is a direct link to profitability, but that failure to address negative customer service experiences can have profound consequences.

Does Conflict with Customers Affect Overall Customer Satisfaction?

As to the first question about the degree to which customer conflict impacts overall customer satisfaction, there is growing evidence to suggest that customer conflict actually has a far greater impact than most people realize. As it turns out, not only will people tend to make negative assumptions about an entire organization based on a single, isolated negative occurrence, but that multiple negative occurrences create virtually unbreakable negative predispositions toward the company that can become devastating over a period of time.

In their study of *Frequency of Negative Critical Incidents and Satisfaction with Public Transport Services*, Margareta Friman and Tommy Gärling proved that all it took was one, single Negative Critical Incident (NCI) to reduce overall satisfaction with the entire public transport system. Robert Greene, in 1984 (“*Incidental Learning of Event Frequency*,”); and John Jonides and Moshe Navah-Benjamin in 1987 (“*Estimating Frequency of Occurrence*”), confirmed that multiple negative events became stored in memory; and in 1986, Reid Hastie and Bernadette Park linked this frequency to people’s judgments and perspectives. In a following 1999 study, Friman, Edvardsson, and Gärling confirmed that the total frequency of the NCIs dramatically affected the ratings of overall satisfaction. They also determined that different types of NCIs created different impacts. The way in which someone was treated by an employee, for example, ranked amongst the highest in negative impact. Reliability of service was similarly high in negative impact.

In 1990, a study of 700 critical incidents (Bitner, et al., “*The Service Encounter: Diagnosing Favorable and Unfavorable Incidents*”) found that it is the employees’ responses to negative incidents, not the incidents themselves, that most often leads to dissatisfaction.

These findings support the concept that each single conflict within an organization can have far-reaching consequences in long-term customer satisfaction, and that the human element – the way an employee interacts with a customer – plays the dominant role. They also strongly support that service recovery skills and procedures are critical in maintaining customer satisfaction.

How much of a Role does Customer Satisfaction Play in Profitability?

An immense amount of research has been conducted linking customer satisfaction to profitability. Vic Hunter, author of *Business to Business Marketing*, has identified that it can be 30 to 40 times more expensive to acquire new customers than it is to manage existing customers. He points out that in some industries a 5% increase in overall customer retention equates to a 25% to 55% increase in the profitability of a business. This is supported by a study by Reichheld and Kenny in 1990 that actually demonstrates that a five-point improvement in customer retention can lead to an increase in profits from 25% to 80%. Gerard King and Gus Geursen, (“*A System Dynamics Investigation Of The Linkage Between Customer Satisfaction And Firm Profitability*”) demonstrated the clear link between customer satisfaction and profitability, and showed that customer satisfaction is influenced by a number of factors. One of the most prevalent of these factors has to do with the degree to which customer expectations are met. A company which is performing well, they point out, may still have unsatisfied customers if a marketing campaign has over-promised.

The link between conflict resolution, service recovery and profitability is both clear and predictable. Using some of the statistical data, following is a model that illustrates the potential cost of a lost customer due to service failure:

Calculating The Potential Cost Of A Lost Customer Due To Service Failure

There are two factors involved in calculating the potential cost of a lost customer due to service failure:

- a. The average Customer Lifetime Value (CLV)
- b. The ripple effect

Calculating a CLV

The Customer Lifetime Value is the average amount one customer might be expected to spend with one business over a lifetime. It involves three components:

- i. The average dollar amount per transaction
- ii. The average number of transactions per year
- iii. The average number of years a customer remains in a business’s primary target group

Let’s use a toy store as an example. Assume an average dollar amount per transaction of \$13.00, and an average of 22 transactions per year per customer. (Kids Corp., 1986 – 1991). The average annual value of a customer, therefore, is $\$13 \times 22 = \286.00 .

Now assume that the average customer remains in the toy store’s primary target group for 12 years. The Customer Lifetime Value, therefore, is the annual value, (\$286.00), multiplied by 12 years, equaling \$3,432.00

Calculating the Ripple Effect

The Ripple Effect is the impact of a service failure beyond the initial incident. David Collier in 1995 (“*Modeling the relationships between process quality errors and overall service process performance*”), showed that the average customer experiencing a service failure told nine-to-ten people about the experience, where they would tell only half as many about service which exceeded their expectations. Subsequent research has demonstrated the impact of this - that

people will tend to avoid businesses they have heard negative things about, and patronize businesses they have heard positive things about.

Now, assume the worst case scenario: that a customer has a negative experience, that they tell ten people about their experience, that all ten people are also in the primary target group, and that all ten choose to avoid the toy store in the future. The CLV is now multiplied by 11 (the initial customer, plus the ten others). *With the Ripple Effect, therefore, the potential cost of a single service failure over a twelve year period in a toy store, therefore, is as high as \$37,752.00.*

It is unlikely, of course, that every negative incident, or even the majority of negative incidents, will result in the worst case scenario. Having said this, failure to address them, or minimize the number of negative incidents has significant consequences. A toy store for example, might have a conservative 40,000 transactions a year. Even if the store had an unlikely 99.5% service satisfaction rate, that still represents 200 service failures per year. And even if we choose to calculate the actual cost of a single unrecovered service failure as only a small fraction of the worst case scenario, the financial consequences are profound. It is easy to see how strategies and skills for reducing service failures and recovering service failures are equally important to those designed for proactively building sales. The analogy is that of bailing water out of a leaking boat. Faster bailing can improve conditions, but faster bailing plus filling in some of the holes will have a much more positive effect.

Calculating The Potential Business Loss Represented by Customer Complaint

Part of the challenge of management is that only 5 to 10 percent of dissatisfied customers actually take the time to complain following a service failure (Tax and Brown, 1998). This makes it difficult to assess customer satisfaction for a business, when 90 to 95 percent of service failures remain unreported. Knowing this, however, can provide an indication as to the potential business loss that the complaint represents.

What Tax & Brown's findings demonstrate is that each complaint typically represents 10-20 unrecovered service failures. And, as discussed, each of those unrecovered service failures in a toy store can represent as much as \$37,752.00 in lost revenue over twelve years. A manager of a toy store who receives a complaint, therefore, can assume that ***a single complaint has the potential of representing 10-20 negative incidents, or \$377,520.00 to \$755,040 in lost revenue over a twelve year period.*** Again, even at a small fraction of the worst case scenario, the financial implications of a complaint are profound. This dramatically illustrates the importance of responding to the red flags raised when a customer takes the time to bring a service failure to light.

While it may be true that, even in the best of companies, a certain amount of service failure is to be expected, there are clear financial consequences to not making efforts to minimizing them. The models above make it easy to understand how companies with high levels of service failures seem to perish so quickly. It is also easy to understand why companies which focus on minimizing negative incidents, and train people to effectively recover from the service failures they do have, can prosper even in the most competitive of industries.

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