Customer retention management processes

A quantitative study

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Abstract

Purpose – Customer retention has been a significant topic since the mid-1990s, but little research has been conducted into management processes that are associated with excellent customer retention performance. This research investigates the associations between customer retention outcomes and a number of management processes including customer retention planning, budgeting and accountability and the presence of a documented complaints-handling process.

Design/methodology/approach – This is carried out using a quantitative survey of 170 companies in Australia. Participants represented all major standard industrial classification (SIC) codes.

Findings – It was found that excellence at customer retention is positively and significantly associated with the presence of documented complaints-handling processes. None of the other variables is significantly associated with the dependent variable.

Research limitations/implications – This research has limited generalisability to other regions and the self-report nature of the data is not independently corroborated.

Practical implications – The research emphasises the importance of developing and implementing documented complaints-handling processes. Future research should examine whether standardised processes such as those embodied in ISO 10002 are more effective than *ad hoc* processes.

Originality/value – The major contribution of this paper is the clear link that it establishes between customer retention performance and the presence of a documented complaints-handling process.

Keywords Customer retention, Complaints

Paper type Research paper

Introduction

The sole purpose of a business Peter Drucker (1973) once famously claimed was "to create a customer". However, keeping the customer has become regarded as equally, if not more important, since Dawkins and Reichheld (1990) reported that a 5 per cent increase in customer retention generated an increase in customer net present value of between 25 per cent and 95 per cent across a wide range of business environments. This finding generated a huge amount of interest and activity in academic and business communities, as researchers and consultants attempted to examine and verify these claims. There was a growing recognition that customers, like products, have a life-cycle that companies can attempt to manage. Customers are acquired, retained and can be grown in value over time. They climb a value staircase (Gordon, 1998) or value ladder (Christopher *et al.*, 1991) from suspect, prospect and first-time customer, to majority customer and ultimately to partner or advocate status.

A number of marketing scholars have begun to explore the link between the practices of customer management and shareholder value (Doyle, 2000; Payne *et al.*, 2001; Gupta *et al.*, 2004). In particular, the connections between customer retention and shareholder

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value have been subject to scrutiny. Gupta *et al.* (2004), for example, found that a 1 per cent increase in customer retention had almost five times more impact on firm value than a 1 per cent change in discount rate or cost of capital. As a result of this research, the business case for marketers to focus on the management of customer retention is becoming more clearly established. However, the mainstream marketing literature offers very little guidance on specific managerial practices that are associated with high levels of customer retention (DeSouza, 1992). This gap is the focus of our research.

Literature review

Relationship marketing

Although a number of authorities have suggested that relationship marketing represents a paradigm shift (Christopher *et al.*, 1991; Sheth and Parvatiyar, 1995) from a longer established transactional orientation to customer management, Grönroos (2000, p. 23) noted that the relational perspective on marketing is in fact "older than the transaction perspective in marketing" and is "probably as old as the history of trade and commerce". Grönroos (2000, p. 22) concluded that "the management of customer relationships in business is not a new phenomenon" although the term relationship marketing was only recently introduced to marketers by Berry (1983).

For over 20 years there has been growing interest in relational aspects of customer management. Conventionally, relationship marketing has been seen to be particularly relevant to industrial (Håkansson, 1982; Ford, 1997) and service markets (Berry, 1983; Grönroos, 1990). For example, business-to-business relationships have been found to be relatively stable and enduring, and to exhibit adaptation to the other party's requirements (Ford, 1980). Adaptations act as structural bonds, and serve as investments in a relationship, which may or may not be recovered when a relationship breaks down (Turnbull and Valla, 1986). In many service environments there is face-to-face interaction between service providers and customers from which social bonds may develop. A relational perspective fits well within these contexts, where there is an opportunity for companies to promote longer customer tenure, and gain the associated economic benefits.

However, research by Nicole Coviello and her colleagues has called into question these conventional beliefs about relationship marketing. Coviello *et al.* (1997, 2001, 2002) have developed an empirically-derived taxonomy of marketing practices – the contemporary marketing practices (CMP) framework – which generally supports the idea that "relational aspects of marketing are implemented in *all types of firms*" (Coviello *et al.*, 2002, p. 42, emphasis added). Of the five forms of marketing identified in their research, four – database marketing, network marketing, interaction marketing and e-marketing – have a strong relational component. The fifth form is transactional marketing which is more widely practised in manufacturing firms than service firms, and consumer rather than business-to-business firms (Coviello *et al.*, 2002). The CMP research program confirms the ubiquity of relational approaches to customer management across all commercial environments: business-to-business, business-to-consumer, manufacturers and service producers.

Customer retention

Customer retention has been shown to be a primary goal in firms that practice relationship marketing (Grönroos, 1991; Coviello *et al.*, 2002). While the precise meaning and measurement of customer retention can vary between industries and firms (Aspinall *et al.*, 2001) there appears to be a general consensus that focusing on customer retention can yield several economic benefits (Dawkins and Reichheld, 1990; Reichheld, 1996; Buttle, 2004). As customer tenure lengthens, the volumes purchased grow and customer referrals increase. Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other. Because fewer customers churn, customer replacement costs fall. Finally, retained customers may pay higher prices than newly acquired customers, and are less likely to receive discounted offers that are often made to acquire new customers. All of these conditions combine to increase the net present value of retained customers. Lindgreen *et al.* (2000, p. 295), for example, compute that "it can be [up to] ten times more expensive to win a customer than to retain a customer – and the cost of bringing a new customer to the same level of profitability as the lost one is up to 16 times more.".

Given the opportunity afforded by the four relationally-oriented forms of marketing identified by the CMP research team, and the economic arguments in favor of customer retention, we became interested in examining how companies actually managed their customer retention processes. A number of organizational processes can be associated with customer retention, including the following: customer satisfaction measurement process, customer retention planning process, quality assurance process, win-back processes and the complaints-handling process. Our research, however, focuses on two of these processes: the customer retention planning process and the complaints-handling process, for reasons explained below. We investigate which of these two processes is more strongly associated with excellent customer retention outcomes.

Customer-retention planning process. The notion that companies should engage in planning if they want to achieve desired business outcomes is deeply embedded in modernist management literature. Kotler (2003), for example, writes that "successful companies... practice the art of market-oriented strategic planning", with the clear implication that failure can be traced to artlessness in planning disciplines. Most marketing management texts contain material on the development and implementation of marketing plans. Although critics of the strategic planning school such as Mintzberg (2000) promote a more fluid and emergent approach to strategy, Miller and Cardinal's (1994) review of management research finds that formal planning processes – involving executive responsibility and budgeting – are generally associated with better business performance.

There has been very little specific research into the development and content of customer retention plans, *per se* (DeSouza, 1992). However, there have been some reports indicative of the relative weight attached to customer retention budgets. According to Weinstein (2002, p. 259) "most companies spend a majority of their time, energy and resources chasing new business". He suggests that "80% or more of marketing budgets are often earmarked for getting new business" (Weinstein, 2002, p. 260). This is in line with Payne and Frow's (1999) finding that only 23 per cent of marketing budgets in UK organizations is spent on customer retention. Aspinall *et al.* (2001), in contrast, found that 54 per cent of companies reported that customer retention was more important than customer acquisition.

Our research tests three hypotheses grounded on these modernist principles of management. We specify these later, but broadly we expect companies that have a documented customer retention plan, or a dedicated budget or an executive with specific responsibility for customer retention management to generate better customer retention outcomes than companies that have none of these characteristics. Thus, we examine the impact of fundamental planning structures and processes on customer retention outcomes.

Customer retention metrics and segments. Despite the scarcity of research into customer retention planning, investigators and commentators have begun to report on a number of related questions, such as how to define and measure customer retention, how to segment customers for customer retention efforts, and what strategies to employ to recover at-risk or lost customers. We review some of that research now, and later we report some of our own descriptive data connected to this body of knowledge.

Aspinall *et al.* (2001) investigated the issue of definition and measurement of customer retention. They found that customer retention was particularly an issue in larger companies, and those serving business-to-business markets, but that "relatively few respondents [whatever their served markets] claimed to have an agreed definition of customer retention" (Aspinall *et al.*, 2001, p. 83). Nonetheless, more than half the respondents in their survey stated that they measured customer retention. Clearly the absence of measurable indicators makes it harder to gauge the impact of strategy implementation. Buttle (2004) found that companies can employ one or more of several types of retention-related KPIs – raw, sales-adjusted, or profit-adjusted customer retention metrics. Companies that adopt raw customer retention metrics focus on the retention of a given percentage or number of customers, regardless of value. Companies that use sales- or profit-adjusted retention metrics will focus their efforts on customers that generate higher levels of sales or profit. Coyles and Gorkey's (2002) research also notes the significance of focusing on the retention of profitable customers, rather than all customers. They suggest that it may be more important for companies to focus on managing the overall downward migration of customer spending than customer retention in its own right. They note that "many more customers change their behavior than defect, so the former typically account for larger changes in value" (Coyles and Gorkey, 2002, p. 80). They report the case of one bank that lost 3 per cent of its total balances when 5 per cent of checking account customers defected in a year, but lost 24 per cent of its total balances when 35 per cent of customers reduced the amounts deposited in their checking accounts. The need to manage migration rather than defection is particularly true when customers engage in portfolio purchasing by transacting with more than one supplier.

Another question that researchers have attempted to answer concerns the focus of companies' customer retention efforts (Koch, 1998; Ganesh *et al.*, 2000). Should retention of every customer be the goal, or should retention efforts be focused on subsets or even individuals? A report by PricewaterhouseCoopers (2002) observes that poor management of customer churn is a major value destroyer and that the key to prevention is to predict and avert attrition of the "right customers". The "right customers" are those that contribute most significantly to the achievement of the company's objectives. The implication of there being "right" and "wrong" customers to retain is that companies are advised to segment their customer base for retention efforts in much the same way that they would segment the market for acquisition efforts (Weinstein, 2002). Evans (2002) suggests that the right customers are those with the highest residual lifetime value.

Although there has been little investigation of customer retention planning processes, there has been considerable attention paid to assessing the role and effectiveness of retention strategies and tactics directed towards valued, at-risk or lost customers. For example, a number of researchers have examined the contribution of relationship marketing instruments such as loyalty programs and customer clubs to customer retention outcomes (O'Brien and Jones, 1995; Dowling and Uncles, 1997; Stauss *et al.*, 2001; Verhoef, 2003). Others have examined the development of customer attachment to organizations (Moorman *et al.*, 1992; Oliver, 1999; Hofmeyr and Rice, 2000).

The second retention-related process we investigate is the complaints-handling process.

Complaints-handling process

We decided to investigate the impact of documented complaints-handling processes on customer retention for two main reasons. First, there are already some indications that a well-executed complaints-handling process is of strategic relevance because it can have a positive effect on customer retention (Fornell and Wernerfelt, 1987; Brown *et al.*, 1996; Smith *et al.*, 1999; Stauss and Seidel, 2004). Indeed, customers who complain and are well recovered can be more satisfied, and less likely to switch than customers who had no cause for complaint at all (TARP, 1979; Nyer, 2000). Complainants who enjoy high standards of complaints handling experience the service quality attributes of empathy and responsiveness, which are not routinely on display when services are delivered, or products function, right first time (Buttle, 2004). Despite the strategic relevance of complaints handling, it is a process which it appears to be accorded little importance in many companies (Stauss and Schoeler, 2004, p. 47). We wanted to find out if the presence of a documented complaints-handling process has a greater impact on customer retention outcomes than customer retention planning processes.

Our second reason for investigating complaints handling is the timely publication of an international complaints-handling standard. Our fieldwork was designed in anticipation of the launch of this standard. The International Organization for Standardization (ISO)'s new standard, ISO 10002, provides a documented guide to the design and implementation of an effective complaints handling process. The standard claims that a major benefit from excellent complaints handling is maintained or enhanced customer loyalty (ISO, 2004). ISO 10002 is drafted to be compatible with the quality management system, ISO 9000, although it is also expected to be used independently of ISO 9000. However, ISO 10002 is not the only documented complaints handling standard – there are others in the UK (CMSAS 86:2000) and Australia (AS 4269). In addition, a number of academic researchers have identified attributes of high quality complaints-handling processes (Hart *et al.*, 1990; Johnston, 1995; Van Ossel and Stemersch, 1998). The majority of their recommendations have been incorporated into ISO 10002. Investigating the relationship between having a documented complaints handling process and customer retention outcomes at this time will provide a pre-ISO 10002 benchmark of performance against which change can be plotted. Our focus on documented complaints-handling processes is reflected in our fourth hypothesis below.

Research questions

Our main goal in conducting this research was to compare the contributions that certain business processes have on customer retention outcomes. The processes which are the focus of our research are customer retention planning processes and the complaints handling process. We wanted to be able to specify which processes are more strongly associated with the achievement of customer retention objectives. From the literature summarized above we derived the following hypotheses. The first three hypotheses draw on the modernist planning literature. The fourth hypothesis draws on the literature on complaints handling.

H1. Companies that excel at customer retention have an explicit, documented customer retention plan.

H2. Companies that excel at customer retention have budget dedicated to customer retention activities.

H3. Companies that excel at customer retention have nominated a particular person or group to be responsible for customer retention.

H4. Companies that excel at customer retention have a documented process for handling customer complaints.

Methodology

Our methodology involved gathering data by mail-administered survey of a stratified random sample of companies. Details of the sampling strategy, data collection methods, instrument development and analysis follow.

Sampling

Since all companies in all sectors have been found to implement relational aspects of marketing (Coviello *et al.*, 2002), our population of interest was the full range of primary, secondary (manufacturing) and tertiary (service) sectors of industry. A stratified random sample of 732 companies was selected from the Dun and Bradstreet database of the top 1,000 companies in Australia. The population was stratified into three annual turnover groups: $50 to $99 million, $100 to $500 million, and above $500 million.

Data collection. A mail questionnaire was developed. Following an initial telephone solicitation to participate, the instrument was mailed to the sample. Follow-up calls and reminders were issued after one month. The invitation to participate was addressed to the person in charge of customer relations, customized by name where this was known. We encouraged response by offering a summary report of the study. This has now been distributed to respondents.

Instrument. Items in the instrument were developed from the literature review, and piloted and refined over several versions of the questionnaire. The majority of the questions measuring the independent variables were nominal in nature, and required “yes”, “no”, or “do not know” responses. These questions investigated the presence or absence of a range of customer retention management practices, objectives and tactics.

As is clear in the hypotheses, we wanted to identify management practices associated with “excelling at customer retention”. In the questionnaire, this dependent variable, excellence at customer retention, was operationalized thus: “In the last 12 months, to what extent has the number of customers retained by your company met your expectations?” This variable was measured on a seven-point metric scale, anchored at three points. The point 1 anchor read “greatly under-performed expectations", the mid point (point 4) read "met expectations" and the point 7 anchor was "greatly exceeded expectations". When a company reported that their expectations had been exceeded (scale points 5-7), this was recoded as "excellent at customer retention". Sample items from the questionnaire are presented in Figure 1.

Analysis. Data were analyzed using procedures within SPSS_PC version 10. Two basic forms of analysis were performed. First, simple descriptive uni-variate statistics were computed for the measured variables; second bi-variate correlations were performed to test the hypotheses.

To enable non-parametric bi-variate correlations to be performed all data were transformed into ordinal form according to procedures recommended by Sheth and Parvatiyar (1995). The metric data were recoded as follows: all responses above the midpoint (i.e. 5-7) were recoded to "1". Those below, including the midpoint (i.e. 4-1), were recoded to "2". Non-parametric (Kendall's tau) correlations were computed. If Kendall's tau revealed a significant correlation between any customer retention practices, objectives or tactics and the dependent variable, Chi-square tests were also conducted to confirm the association.

Even though the dependent variable was measured on an interval scale (1-7), non-parametric procedures were used throughout because:

- all the independent variables were measured on nominal scales (yes, no, do not know);
- some analyses employ relatively small sample sizes ($n < 30$);
- all variables violate the assumption of normality (with significant Kolmogorov-Smirov statistics); and
- almost all items also exhibit heterogeneity of variance (with significant Levene statistics).

Under these circumstances, the use of parametric test statistics is inappropriate (Siegel and Castellan, 1989).

Independent variables: questions requiring a Yes/No/Don't Know answer

1. Does your company have an explicit, documented customer retention plan?
2. Does the plan specify a budget for customer retention activities?
3. Has your company nominated a particular person or group to be responsible for customer retention?
4. Has your company used any formal models (e.g. 'propensity to switch' model) to identify customers who might take some, or all of their business elsewhere in the future?
5. Does your company look for clues or signals which indicate customers might be likely to take some, or all of their business elsewhere in the future?
6. Does your company have a documented process for handling customer complaints?

Dependent variable: question employing a Likert-type scale

In the last 12 months, to what extent has the number of customers retained by your company met your expectations?

Greatly under-performed expectations			**Met expectations**			**Greatly exceeded expectation**
1	2	3	4	5	6	7

Figure 1.
Extracts from the questionnaire

Results

Response rate

A total of 170 responses were obtained, representing a 23 per cent response rate; 43 had annual turnover between $50-$99 million, 46 were between $100-$500 million, and 42 were above $500 million. Of the companies, 39 declined to divulge their annual turnover. Participants represented all major standard industrial classification (SIC) codes. Dominant sectors were manufacturing (43 companies); wholesale and retail (24 companies); and health, community services, accommodation, cultural/ recreation, personal and other services (23 companies).

Before discussing the hypotheses we summarize briefly the state of customer retention across the sample.

Descriptive results

The sampled companies are generally not very advanced in customer retention management. Only 39 per cent have an explicit, documented, customer retention plan, and even fewer (28 per cent) have a specific budget dedicated to customer retention activities. However, 70 per cent claim to have a nominated person or group in charge of customer retention.

Of the companies that have a retention plan (39 per cent of our sample), very few think in terms of customer profitability when setting retention objectives. The customer retention objectives of companies with plans, in order of frequency are:

- 74 per cent – revenues to be earned from retained customers;
- 68 per cent – retention of specific customer segments;
- 59 per cent – retention of specific named customers;
- 55 per cent – margins to be earned from retained customers; and
- 50 per cent – numbers of current customers to be retained.

Of companies, 85 per cent look for clues or advance warnings that their customers are about to switch, and 19 per cent use formal models (for example, "propensity to switch" models) to predict defection. The most common indicator of likelihood to switch is the receipt of a customer complaint. Of companies that looked for advance warnings, 79 per cent cited customer complaints as an important indicator. This finding provides an important additional *ex-poste* justification for our focus on complaints-handling processes. A number of other advance indicators of switching behavior were identified also: reduced share of customer spending (72 per cent), change in customer's buying personnel (55 per cent) and requests for more technical information (40 per cent).

A large proportion of the companies also do not segment their customer base when implementing retention strategies. Of respondents, 41 per cent chose "we do not want to lose any of our customers' over the alternative answer "we focus our retention efforts on particular customers". This is at odds with the recommendations of a number of authorities (Koch, 1998; Ganesh *et al.*, 2000; Weinstein, 2002; Evans, 2002).

Finally, in terms of handling complaints, 79 per cent of companies have a documented complaint handling process, of whom 74 per cent believe it is effective. A total of 56 per cent of companies reported that they had exceeded their customer retention expectations in the previous 12 months.

We now turn to our analysis of the hypothesized relationships. Which of the tested processes are associated with excellent customer retention?

Bi-variate correlations

Kendall's tau was used to measure the hypothesized relationships. Where a significant correlation was identified, chi-square tests were also performed. The results are as follows (see also Table I).

H1. Companies that excel at customer retention have an explicit, documented customer retention plan.

There is no statistically significant correlation between having a retention plan and exceeding customer retention expectations ($r = 0.07$; $p > 0.05$). *H1* is therefore rejected.

H2. Companies that excel at customer retention have a budget dedicated to customer retention activities.

There is a positive but statistically insignificant correlation of $r = 0.24$ ($p > 0.05$) between having a retention budget and exceeding customer retention expectations. *H2* is therefore rejected.

H3. Companies that excel at customer retention have nominated a particular person or group to be responsible for customer retention.

Table I shows a negative, but insignificant, correlation of $r = -0.1$ ($p > 0.05$) between having a nominated person or group responsible for retention and exceeding retention expectations. *H3* is therefore rejected.

H4. Companies that excel at customer retention have a documented process for handling customer complaints.

There is a strong positive relationship between exceeding retention expectations and the presence of a documented complaints handling process. *H4* is therefore supported. Indeed, this is the strongest of all the associations investigated ($r = 0.28$, $p < 0.01$; $\chi^2 = 12.3$; $p < 0.01$).

Discussion

First we discuss our uni-variate descriptive data, and then turn to the hypothesized relationships.

Descriptive data

Our finding that only 39 per cent of companies have a formal customer retention plan indicates that companies are not giving retention the attention it deserves, given its widely-acknowledged economic effect on business performance. This finding confirms the findings and sentiments of Payne and Frow (1999), Aspinall *et al.* (2001) and Weinstein (2002), cited earlier. We were also surprised by the low priority companies pay to profitability of customers when establishing retention objectives. Of all the objectives investigated, the most commonly employed was the simple metric of "revenue from retained customers" (at 74 per cent). On the other hand, the more profit-oriented objective, "margins to be earned from retained customers" was only adopted by slightly more than half of the sample (at 55 per cent). This implies either

Table I.
Correlations matrix

	Exceeding retention expectations	Documented customer complaint process	Have customer retention plan	Have a person/group in charge of retention	Use formal models	Look for clues/signals of defection	Have budget for retention activities
Exceeding retention expectations	1						
Documented customer complaint process	0.28*	1					
Have customer retention plan	0.07	0.20**	1				
Have a person/group in charge of retention	−0.01	0.17**	0.24**	1			
Use formal models	0.10	0.21**	0.22**	0.17**	1		
Look for clues/signals of defection	0.13	0.10	0.02	0.20**	0.07	1	
Have budget for retention activities	0.24	−0.19	N/A***	0.02	0.05	0.08	1

Notes: * Correlation is significant at the 0.05 level (two-tailed); ** Correlation is significant at the 0.01 level (two-tailed); *** No correlation can be computed for this cell. Because we only asked about the availability of a retention budget among those who possessed a retention plan, the data on budgeting are nested within the retention plan question that companies do not think in terms of customer profitability or that they have no well-developed processes in place for measuring customer profitability. This seems to be supported by another finding that a large number of companies (at 42 per cent) do not even segment their database for the purpose of retention.

Hypothesized relationships

Of the four hypotheses tested, three were rejected. We found no statistically significant relationship between the modernist management practices of formal planning, budgeting and accountability and excellent customer retention performance. This result flies in the face of conventional management wisdom that in order to achieve desired business outcomes it is necessary to build a plan, provide a budget and ensure accountability. We found no support for such a claim. Perhaps the reason that the association is not verified is that it is the quality of the plan and its execution that makes the difference, not accountability or budget itself.

However, we did find strong support for one hypothesis – *H4*. Our evidence suggests that companies that excel at customer retention have a documented process for managing customer complaints. These findings turn out to have important managerial significance.

Excellent customer retention is predicted by the presence of a documented customer complaints-handling process. We have established a clear link between having a documented complaints-handling process and excellent customer retention. Other academic research (Johnston, 2001) has identified a strong association between an organization's complaints handling prowess and improvements in three outcomes: customer retention, employee performance and process improvement. These three outcomes are in turn highly correlated with overall financial performance. Companies that capture customer complaints and handle them well enjoy two benefits. First, they are better placed to resolve the particular complainant's problem and retain that customer's residual value. Second, they can begin to identify problems that are systemic or repetitive and therefore can develop solutions to those problems. If companies can use complaints data to understand the reasons for customer churn they are better placed to identify root causes and fix the problems. The documentation supporting ISO 10002 (ISO, 2004) also notes that excellent complaint-handling processes "enhance the ability of an organization to identify trends and eliminate root causes of complaints, and improve an organization's operations". A number of academics (Keaveney, 1995; Hart *et al.*, 1990) have suggested that it is important for companies to conduct research into the reasons for customer defection and create appropriate managerial responses.

Deeper data exploration reveals additional findings. In order to shed more light on the association between retention outcomes and complaints-handling processes, we have further explored data relationships around our major finding. This has revealed a number of significant associations between having a documented complaints-handling process and other variables investigated in this study (Figure 2). We found that companies that have a documented complaints-handling process are more likely to:

(1) have an explicit customer retention plan ($r = 0.20$, $p < 0.01$; $\chi^2 = 6.9$; $p < 0.01$);

(2) use a formal switching model to predict defection ($r = 0.21$, $p < 0.01$; $\chi^2 = 7.0$; $p < 0.01$);

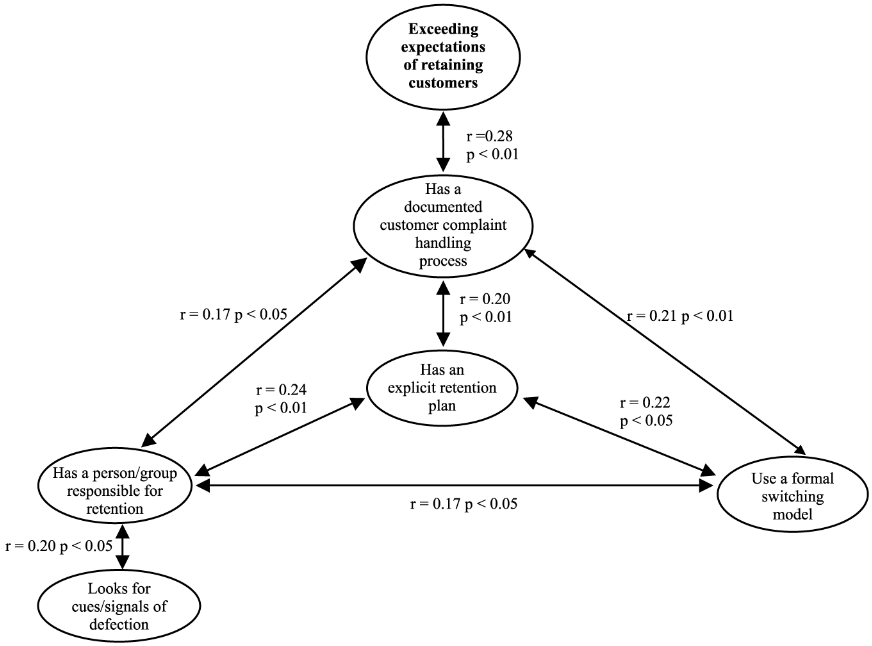

Figure 2.
Statistical associations with "exceeding expectations of retaining customers" (statistics are Kendall's tau)

(3) have a person or group in charge of customer retention ($r = 0.17$, $p < 0.05$; $\chi^2 = 5.0$; $p < 0.05$); and

companies that have a person or group in charge of customer retention are also more likely to:

(4) look for cues or signals of impending customer defection ($r = 0.20$; $p < 0.01$; $\chi^2 = 6.6$; $p < 0.05$).

Interestingly, none of these four variables has a direct, statistically significant, association with the ultimate dependent variable – exceeding customer retention expectations (see Table I). This is evidence of the important role of a documented complaint handling process in facilitating customer retention. In other words, having a retention plan, designated officer and budget are in and of themselves not sufficient to deliver exceptional customer retention performance.

Conclusion

There are two major conclusions to this study. First, we find that excellence in customer retention is strongly associated with the presence of a documented complaints-handling process. Second, we find that the standard management practices of planning, budgeting and assigning accountability for customer retention are not associated with excellent customer retention performance.

Perhaps we should not be surprised by the importance to customer retention of having a documented customer complaints handling process. Effective complaints handling, as noted earlier, can generate two benefits. First, when a customer complains, companies are being given a chance to fix the particular customer's problem, and to retain the customer's current and future business. Second, a well-designed complaints handling process allows management to collect and analyze complaints data over time, identify systemic and repetitive problems, and fix root causes, whether they be problems caused by product, people, process or anything else.

Managerial implications

The most important management implication from this research is to implement a documented customer complaint handling process that can identify and act on the problems that motivate customers to take some or all of their business to competitors. This is much more important than having a budgeted customer retention plan under the control of a responsible manager. Such a complaints-handling process will enable companies to understand better why customers defect.

Having a documented complaints-handling process is critical to customer retention excellence. A number of published standards offer guidance on the development of a complaints-handling process. For example, there are national standards in Australia (AS 4269) and the UK (CMSAS 86:2000). However, a new international standard, ISO 10002, aims to supplant these national standards and provide companies with "guidance for the elements of a complaints handling process within an organization, including planning, design, operation, maintenance and improvement" (ISO, 2004). ISO 10002 outlines how handling complaints well provides benefits both to customers and to organizations.

ISO 10002 is presented in nine sections. Among the more managerially relevant sections are numbers 4, 6, 7 and 8:

- *Section 4* sets out guiding criteria for effective complaints handling processes: visibility, accessibility, responsiveness, objectivity, no charges, confidentiality, customer-focus, accountability and continual improvement.
- *Section 6* provides guidance on the planning and design of the processes: setting objectives, establishing processes and providing adequate resources.
- *Section 7* covers operational issues: communicating the process to customers, complaint reception and tracking processes, assessment and investigation, response approaches and closure.
- *Section 8* advises on the importance of assessment and improvement of the processes by measuring, analyzing and auditing various parts of the total process and presenting the results for management review.

In conclusion, this research shows that the more commonplace managerial concerns with having a plan that is budgeted, and a responsible individual or group, are inconsequential alongside the clearly identified significance of effective complaints handling. This is the first study we are aware of that demonstrates the importance of having a documented complaints handling process. This suggests that ISO 10002 may become a useful standard against which companies can build, audit and improve their complaints-handling processes.

Limitations and future research

There are two notable limitations to this study. First, it was conducted in a single geographic region, and the results therefore may not transfer into a different geography. Second, it employs self-reports from executives charged with responsibility for managing customer relationships. Their self-reports have not been objectively corroborated.

Given the significance that this research attaches to documented customer complaints handling processes, there is potential for future research into the effectiveness of ISO 10002. An important research question is the following. Do companies that have a complaint handling process that is standards-based (i.e. aligned with ISO 10002) achieve better customer retention outcomes than companies that either have no complaints-handling process or a process that is not based on the standard? This present study has provided a benchmark against which changes in complaints-handling processes and outcomes can be plotted. The proposed new research would require the development of an audit tool to measure compliance with the standard. If the research were to find that compliance to ISO 10002 produced no improvement in customer retention outcomes, that would call into question the integrity and value of the standard.

Our finding that a budgeted customer retention plan managed by a nominated executive is not associated with excellent customer retention performance deserves further examination. This is a counter-intuitive result that is at odds with other academic research that confirms the value of well planned and implemented strategy (Miller and Cardinal, 1994). We propose a more qualitative investigation that examines the composition and implementation of customer retention plans across a wide variety of contexts. The goal would be to identify structural and/or process attributes in retention plans that are more strongly associated with excellent retention outcomes.

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Further reading

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