

February 2016

Healing the Pain

Jean-François Damais | Roger Sant



Responding to bad experiences to boost customer loyalty

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INTRODUCTION

The importance of customer experience as a driver of business performance is widely acknowledged and most companies make significant investments in strategic action planning tools to design and deliver experiences that truly meet customers' needs.

More and more companies deploy Voice of the Customer (VOC) programmes or Enterprise Feedback Management (EFM) programmes to monitor the customer experience in real-time and enable timely interventions when customers face what we call "critical incidents". Critical incidents are moments of truth in the customer experience that have the potential to make or break a relationship.

Most VOC/EFM programmes have case management systems that enable companies to manage critical incidents on a customer-by-customer basis and to intervene in order to "close the loop" on each piece of customer feedback.

But too often companies do not think strategically enough about the way they manage and respond to critical incidents. This can lead to interventions that are not targeted enough and therefore ineffective

at mitigating negative customer outcomes such as bad mouthing or customer churn. In addition, ineffective case management systems lead to wasted efforts and resources, extra load on service staff and increased costs.

Closing the loop for every customer is hard to sustain as it is extremely costly and resource heavy. So how can companies prioritise action and understand how to best respond to customer issues?

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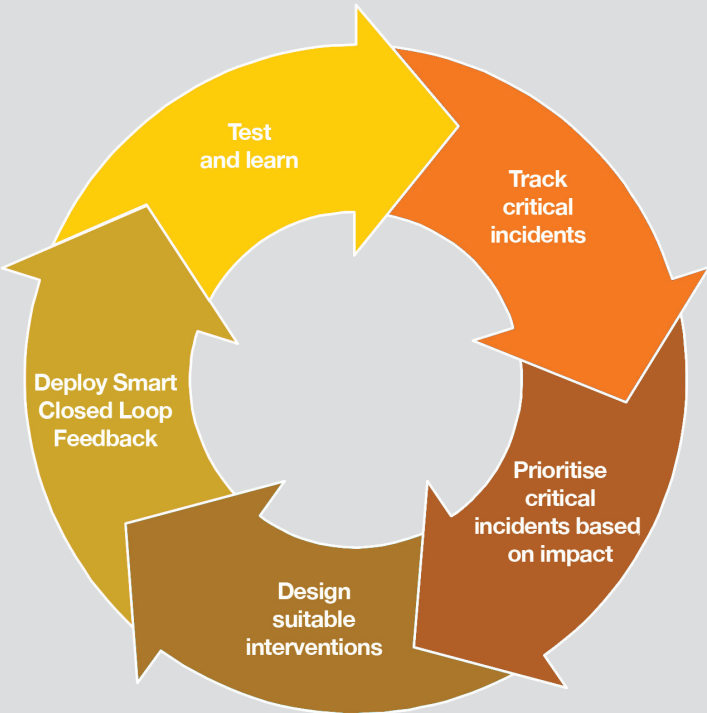
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Ipsos Loyalty Smart Interventions Framework helps clients optimise interventions for maximum effectiveness by focussing on two key principles:

- **Not all critical incidents are equal.** Companies need to discriminate between different types of incidents and prioritise interventions based on likely impact.
- **There is no “one size fits all” intervention.** Different types of incidents need different types of responses, taking into account customer profile and past transaction history.

Algorithms based on a combination of factors, such as type of critical incident, customer profile or transaction history, can then be created to help companies deploy intelligent case management and closed loop systems that can suggest what the best next action and intervention is for any given situation. This can maximise the ROI of customer feedback programmes and reduce customer complaints and churn.



Maximise the ROI of customer feedback programs and reduce customer complaints and churn

Ipsos Loyalty has carried out a survey* across 7 US sectors in the US in order to investigate the occurrence and impact of critical incidents and the extent to which companies are successful at mitigating negative customer outcomes following a customer issue. This paper presents our findings and the associated business implications.

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CUSTOMER EXPERIENCE REALLY MATTERS

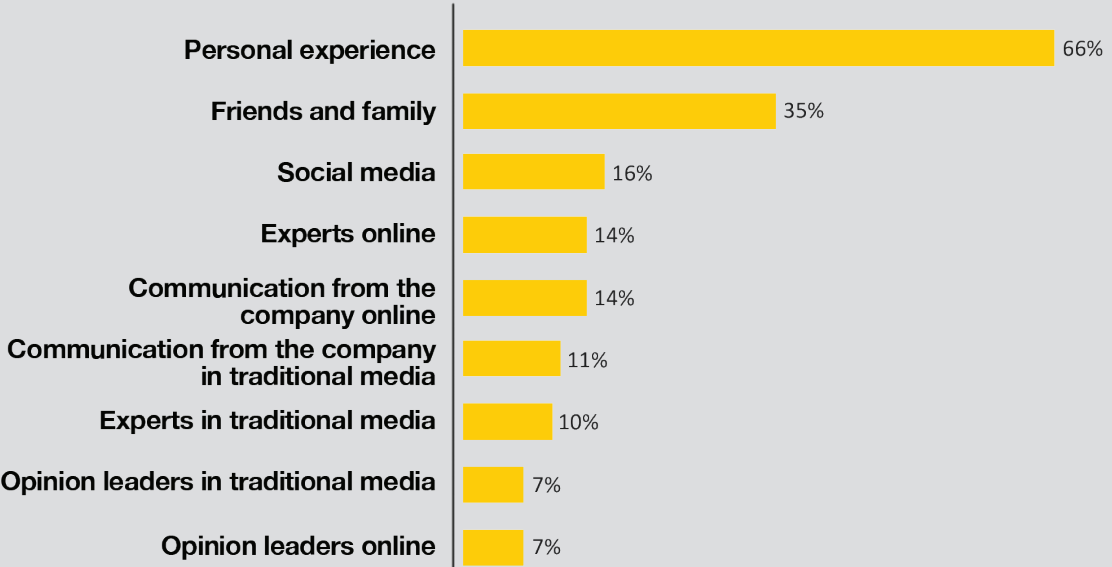
We first investigated the degree of influence of different factors on how customers make decisions about which brands they choose to do business with across a range of sectors.

The fact that personal experience matters is not a surprise - as expected customer experience is shown to have a significant impact on decision making, meaning that customers trust their own experience and judgement before relying on other types of information sources such as friends and family, social networks, experts/opinion leaders, and communications from the company itself.

But the dominance of customer experience in the ecosystem of influences is striking and has direct implications for companies when it comes to resource allocation and strategic planning. It is crucial to allocate the right amount of resources to manage the customer experience appropriately in order to drive usage and customer loyalty.

*According to our research, **66%** of respondents state that personal experience has a lot of influence on how they make decisions about which brands they choose to do business with.*

DEGREE OF INFLUENCE ON BRAND CHOICE



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WATCH OUT FOR CRITICAL INCIDENTS!

Managing the customer experience is not an easy task. In service industries in particular, keeping a high degree of consistency in the way services are delivered to customers is a challenge. And the number of channels of interactions has grown recently making it even harder for brands to offer a consistent and on-brand experience to all customers at all times.

Ipsos Loyalty's critical incidents question enables companies to identify and track the occurrence of critical incidents. A subsequent open-ended question can be mined using text analytics to get under the skin of issues and see what the recurring themes are.

Q - Thinking of your last visit to X, did you experience any of the following?

1. *Very positive experience*
2.
3.
4.
5. *Very negative experience*

If a positive experience, ask:

Thinking about what pleased you, can you tell us what happened? - *OPEN ENDED*

If a negative experience, ask:

Thinking about the problem you experienced, can you tell us what happened? - *OPEN ENDED*

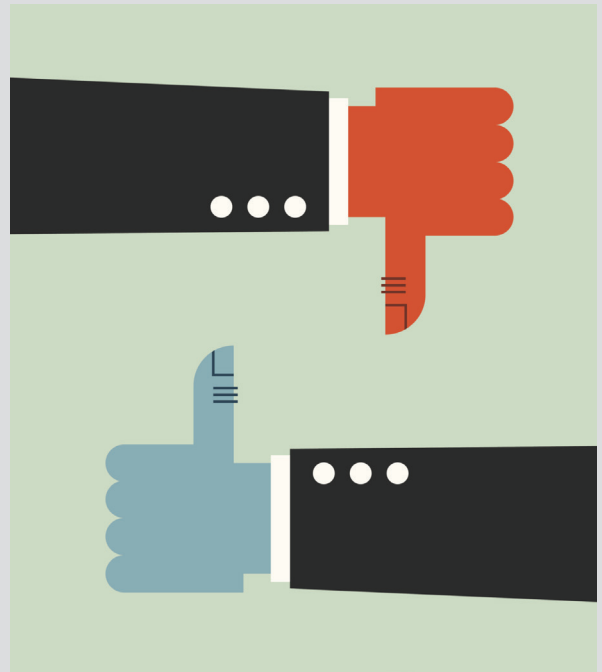


OCCURRENCE AND NATURE OF CRITICAL INCIDENTS

The data below shows the % of positive and negative critical incidents among customers who had specific interactions with companies across various sectors and channels.

The first finding is that significant proportions of customers do indeed experience critical incidents across all sectors. The second finding is that the occurrence of these experiences varies significantly across sectors and service channels.

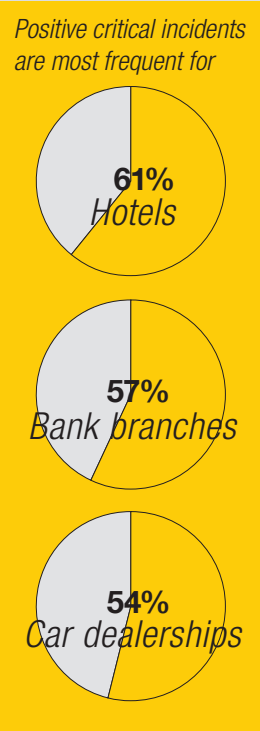
- *On average across all sectors and channels, **78%** of customers have experienced some form of critical incident in the recent past*
- **48%** *have experienced a positive critical incident*
- **30%** *have experienced a negative critical incident*



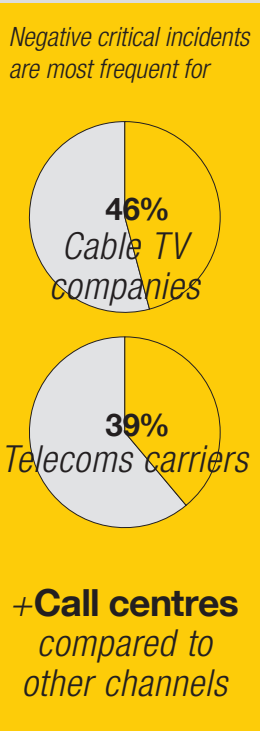
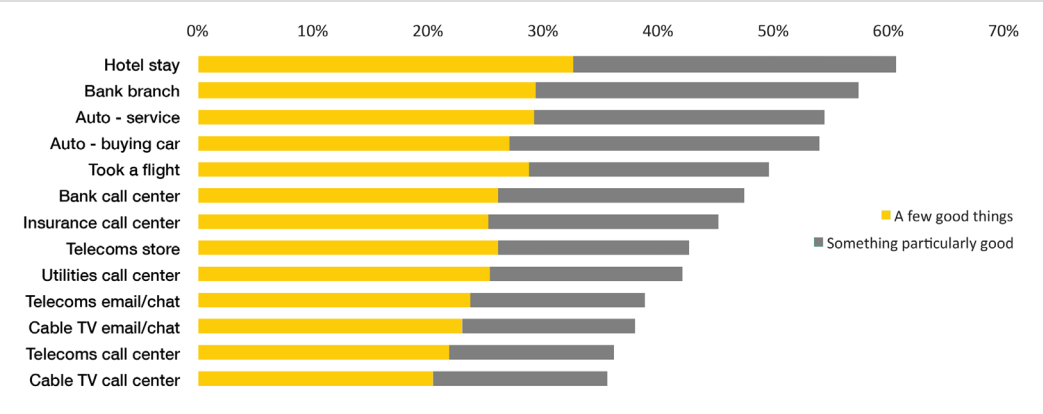
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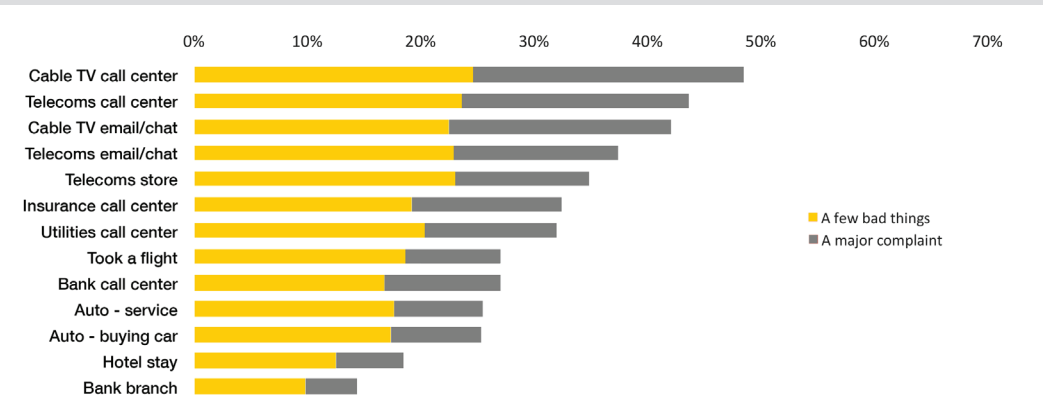
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POSITIVE CRITICAL INCIDENTS



NEGATIVE CRITICAL INCIDENTS



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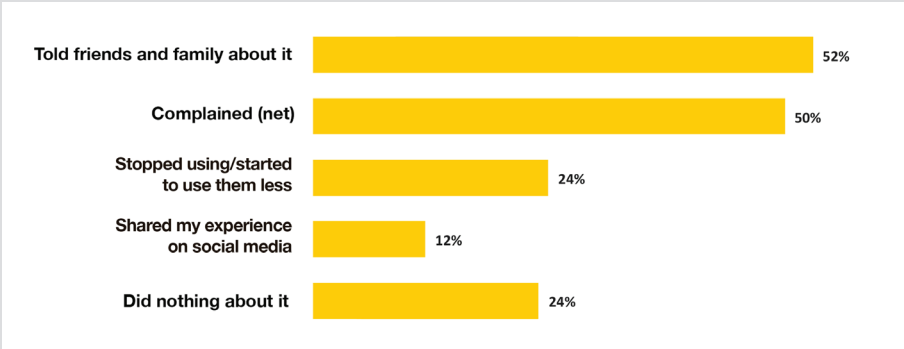
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WHAT ABOUT IMPACT?

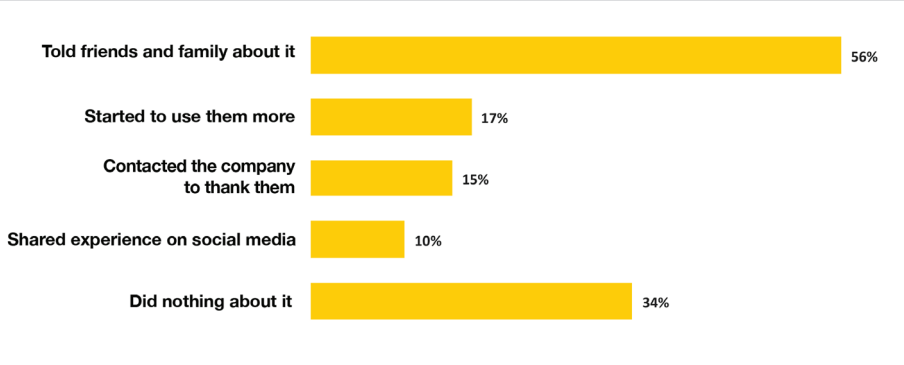
So we know that there are many critical incidents, but what about impact? Do these experiences really make a difference in terms of customer attitudes and behaviour towards brands? Can single incidents really impact or even make or break long term relationships between customers and companies? The answer is clearly YES. Our data shows that...

- **52%** of people who had a negative experience say that they told friends, family or colleagues about this bad experience
- **50%** contacted the company to complain
- **24%** state that they started to use the brand less or stopped using it since it happened
- **12%** shared their bad experience on social media since it happened



The same is true for positive critical incidents...

- **56%** who had a positive experience with a brand say that shared their experiences with friends and family
- **17%** say they started using that brand more since
- **10%** say they shared their experience on social media
- **15%** say that they contacted the company to thank them
- **34%** did nothing about it



Not only do critical incidents have an impact on repeat purchase and actual behaviour, they also have a significant ripple effect via word of mouth and social networks. In the case of negative experiences, another consequence is increased load on the call centre/service staff as customers will keep complaining about the issue until a suitable resolution is provided.

Clearly the stakes are high and companies need to work hard to leverage their customers' good experiences and resulting goodwill, while designing processes and service experiences that minimise the occurrence of negative critical incidents.

How successful are companies at intervening when something goes wrong in the Customer Experience?

Most companies recognise that delivering a perfect experience to all customers at all times is not a realistic goal. It is inevitable that some experiences will go wrong and the key is to then know how to best intervene to mitigate the potential impact of negative critical incidents cost effectively. Our analysis enables us to picture the current mechanisms of interventions that companies deploy when things go wrong and the extent to which these interventions are successful.

*Across all sectors, customers report that in over **1 in 3** cases companies are not even aware of a complaint or negative experience, meaning that they do not have the right systems in place to capture customer feedback following an interaction.*

And when they are aware of negative critical incidents we found that:

- *The company did not do anything in **1 in 3** cases*
- *In **3 out of 4** cases the company did not apologise to the customer*
- *Only **16%** of customers say that they have been kept informed of the situation by the company*

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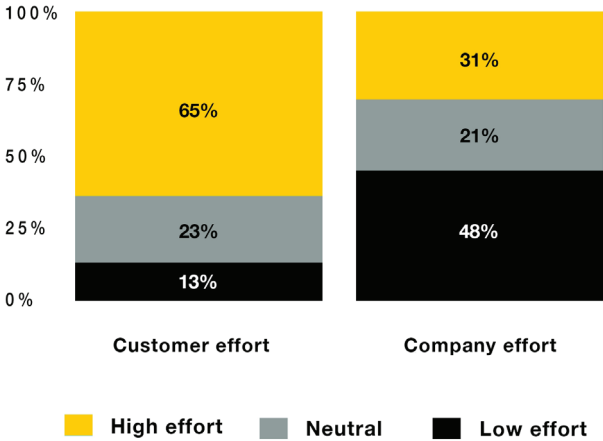
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DON'T LET CUSTOMERS DO ALL THE WORK!

In addition, while we would expect companies to work hard to solve a customer issue, our data shows that too often customers perceive that they are putting more effort in than companies to get things resolved following a negative critical incident or complaint.

- **65%** of customers think they had to put a lot of effort in to get things resolved
- Just under **50%** of customers perceive that companies have made little effort to resolve the issue



Even more concerning is the fact that in about 6 out of 10 cases customers perceive that they have had to put more effort than companies to sort out an issue. When we compare these people to those who think the company put in more effort, we find they are;

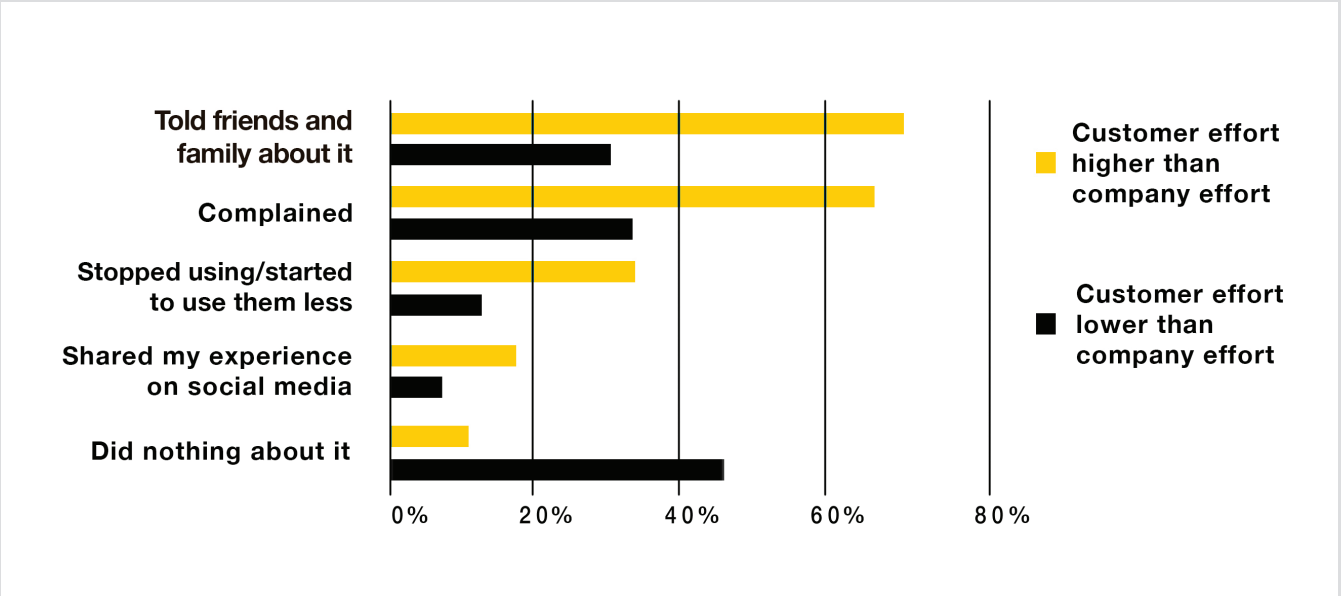
- **Over 3 times** more likely to share their negative experience on social media
- **4 times** more likely to use the company less or stop using it
- **2.5 times** more likely to tell friends and family about it
- About **twice** as likely to complain to the company about it

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CUSTOMER:COMPANY EFFORT RATIO MATTERS



One of the key findings here is that measuring customer effort in isolation is not enough. While it does link to customer outcomes, we found it is the Customer:Company Effort Ratio that really matters.

The ratio, which takes both perceived customer and company effort into account, is 3 times more predictive of a customer's propensity to use the company again following a negative critical incident or complaint than the Customer Effort Score alone.



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February 2016

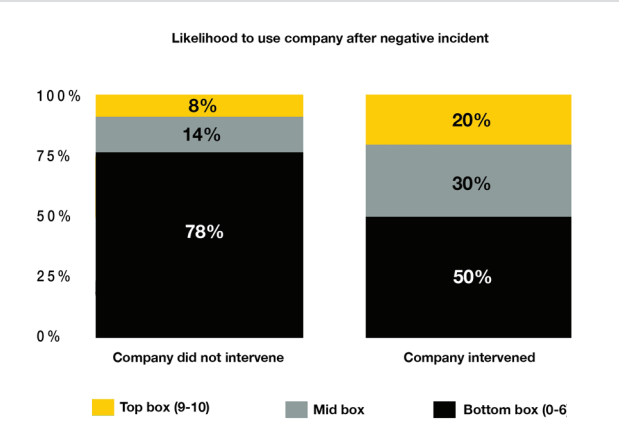
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SMARTER CLOSED LOOP FEEDBACK

Optimising interventions for maximum effectiveness

All in all, about 50% of customers who experienced a negative critical incident are dissatisfied with how the issue was resolved. This clearly shows that companies need to do much more to intervene or respond to negative experiences in order to meet customers' expectations.

It makes intuitive sense that interventions can make a real difference in customers' attitude and behaviour following a negative critical incident. Indeed, our data shows the proportion of customers who are unlikely to use the company in the future, as a result of a negative experience that has not been addressed by the company, is 78% vs 50% among those whose issue has been addressed by the company.



Interventions work. The challenge is to do design cost effective intervention schemes that maximise the return on effort and investment.

Key questions companies need to address:

- *Do we need to contact every single customer, every time they give a low score or report an incident?*
- *Which types of critical incidents should we respond to in priority?*
- *When is an apology good enough?*
- *When should some form of compensation be offered?*

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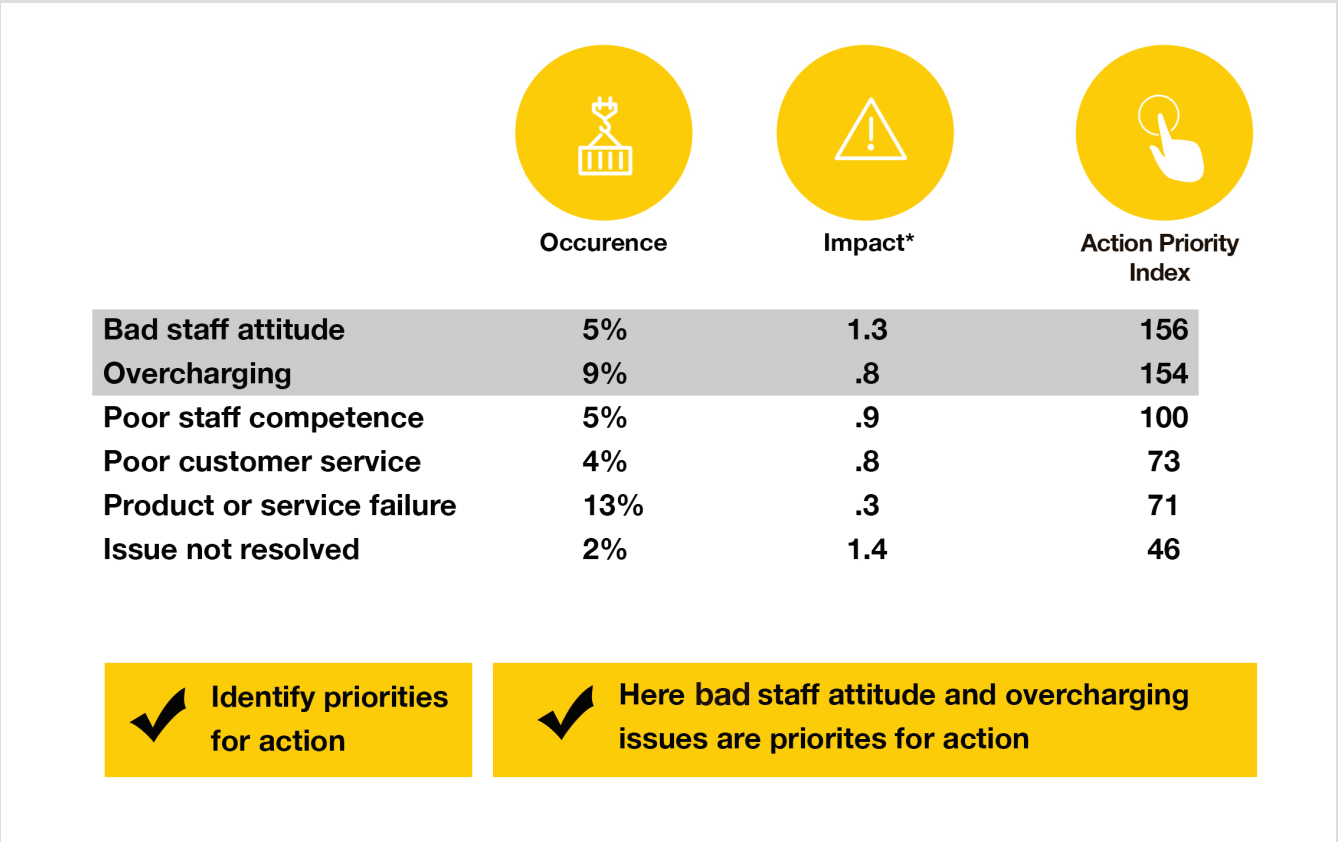
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We used our Smart Interventions Framework to understand how companies should prioritise interventions and maximise their effectiveness. We applied the framework on the data we collected and some results are shown below.

We used Text Analytics to mine customer comments in order identify the different types of issues that customers are facing across all sectors and assess their likely impact on customer behaviour. Our Action Priority Index is a weighted average of impact vs incidence and ranks the issues that companies need to focus on in order of priority.

- **Step 1 - Understand which critical incidents have the highest impact**



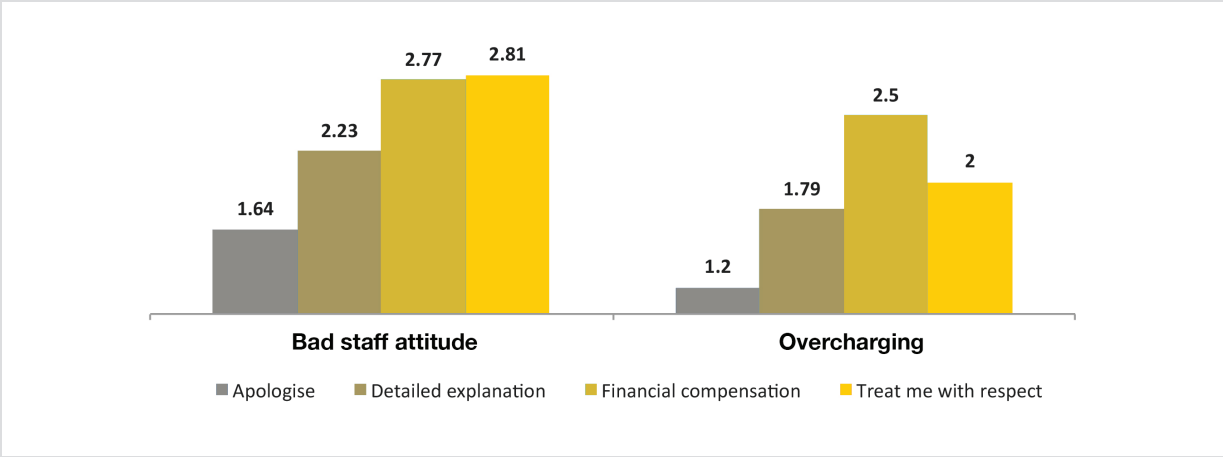
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The second step enables us to understand which interventions are best suited to each type of incident. The graph below shows the potential impact** of different types of interventions on likelihood to use the company in the future for the top two priority critical incidents.

- Step 2 - Identify most suitable response to high impact critical incidents**



Bad staff attitude -
 Treating customers with respect is the most suitable response as less costly than financial compensation but as effective.

Overcharging -
 Here, a financial compensation will be needed to make a real difference.

KEY FINDINGS ARE:

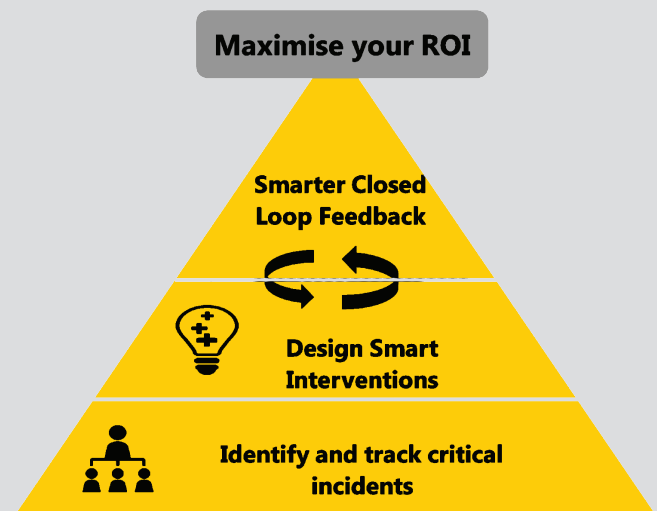
- Treating customers with respect is the most suitable response among customers who had a critical incident relating to staff attitude. It will not only be less costly than any harder intervention, such as financial compensation, discount or freebie, but will be as impactful.
- Harder interventions, such as financial compensation, discount or freebie, are more likely to be needed when customers have been overcharged although softer interventions will also have some positive impact.
- It is very important for companies to understand the likely impact of interventions and to know when it is suitable to apply soft vs hard interventions depending on the situation.
- Without an understanding of which critical incidents to focus on in priority and how to best respond to these incidents, companies might well be losing valuable resources, customers and money from fighting the wrong fight.

KEY IMPLICATIONS

1) Closing the loop for every customer is hard to sustain as it is extremely costly and resource heavy. Companies need to **prioritise effort and interventions** by **tracking and targeting critical incidents** that have the **highest impact on customers**.

2) Companies then need to **understand** how to best respond to these **high impact critical incidents** in order to **maximise return on effort and investment**.

3) This will in turn enable the deployment of more **intelligent case management** and **closed loop systems** that will **maximise the ROI of customer feedback programmes** and **reduce customer complaints and churn**.



ABOUT IPSOS LOYALTY

Ipsos Loyalty helps companies address customer issues for maximum return on effort and effectiveness. Our Smart Interventions Framework enables companies to identify high impact critical incidents to focus on in priority and optimise response. This type of analysis can help companies design and deploy intelligent case management and closed loop systems that can maximise the ROI of customer feedback programmes and reduce customer complaints and churn.

*10,061 interviews collected via Ipsos online panels in the USA across 7 sectors among customers who have experienced a critical incident in the recent past.

**impact defined as mean % increase in likelihood to use company in future assuming intervention was offered following negative incident.

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February 2016

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Ipsos Loyalty is the global leader in customer experience, satisfaction and loyalty research with over 1,000 dedicated professionals located in over 40 countries around the world. Our creative solutions build strong relationships which lead to better results for our clients. This has made us the trusted advisor to the world's leading businesses on all matters relating to measuring, modeling, and managing customer and employee relationships.

This *Ipsos Views* white paper is produced by the **Ipsos Knowledge Centre.**

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