# Get fair or fail
## Why fairness is key to business success

**Jean-Francois Damais**

## All customer complaints are equal. But some are more equal than others. The challenge is to be fair to all of them.

When Ipsos Loyalty introduced a new Customer Experience (CX) metric called the Customer:Company Effort Ratio (C:CER) in a white paper called 'Are Your Customers Working Too Hard?'[1], the response from the CX community signalled we had made a breakthrough. The metric came from extensive research in the USA and Australia and proved to be three times more accurate at predicting a customer's propensity to use a company again following a poor experience or complaint than the Customer Effort Score alone.[2]

Now, new research across 14 service sectors in the UK has further validated the findings of the original R&D and sheds new light on why it is crucial for organisations to get the perceived balance of effort right.

## Customer and Company Effort – it's all about fairness (or lack thereof)

Research by Ipsos has proven that the Customer Effort Score alone is not enough to predict behaviour. To truly understand which customers are most likely to churn and when, and what to do to recover them, organisations need to measure both perceived customer and company effort – the amount of legwork customers feel they have put in compared to the company to resolve the situation.

When things go wrong, customers are to some extent willing to put some energy in to get things resolved. But this is only true as long as companies weigh in too. In their minds, this constitutes a fair exchange. However, when they believe that they are working harder than the company in question to sort out an issue, customers feel unfairly treated. This can have drastic consequences on customer loyalty.

## Fair's fair

Neuroscience indicates that 'unfairness' can in some cases be a potent 'button' that triggers a 'threat response' in individuals – or in other words, a distinct emotional reaction that can lead to a strong behavioural response.

In everyday life, that response can translate into bursts of anger, anxiety, verbal or – in extreme cases – physical violence. In the context of unfair treatment by companies, customers may engage in complaining behaviour, bad word-of-mouth, leave scathing reviews on social media or simply stop using the company (churn) – all types of behaviour that can impact the financial health of an organisation.

Our data shows that when it comes to dealing with customer issues or complaints, the key for organisations is to reduce perceptions of unfairness to lower or stop the 'threat' response and associated disloyal customer behaviour. And that's all about getting the balance of effort right.

**"The key for organisations is to reduce perceptions of unfairness to lower or stop the 'threat' response and associated disloyal customer behaviour.**
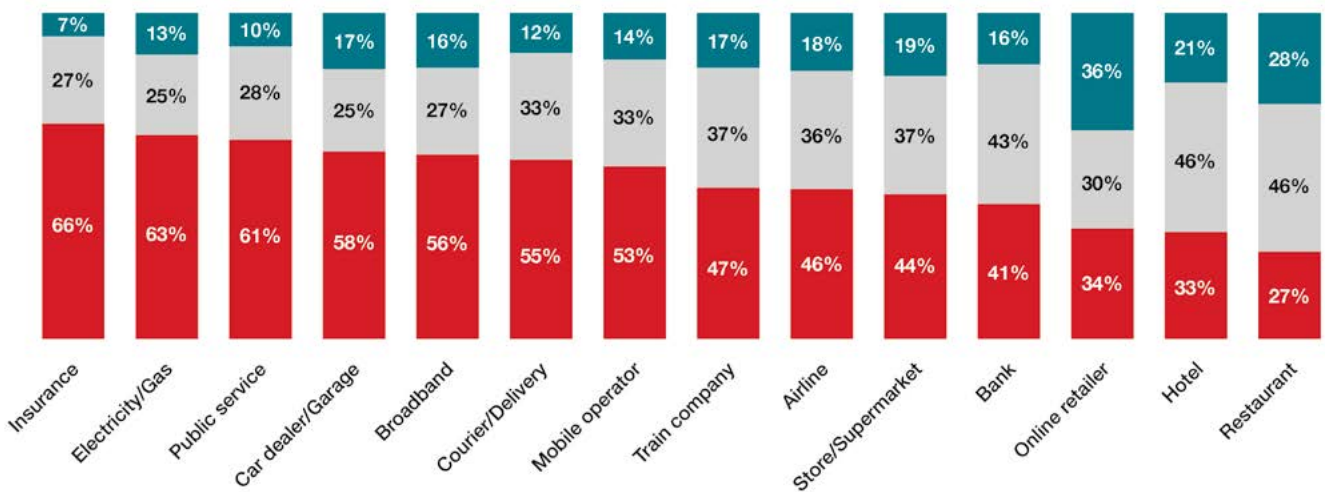
## How much of a threat is out there?

Half of customers believe that they are working harder than companies to resolve an issue. However, the ratio of effort varies significantly across sectors, with insurance, utilities and public services all registering more than 60% of customers who feel they work harder than companies. On the other hand, online retailers, hotels and restaurants all register far lower proportions (under 40%). Online retailers in particular are praised for the efficiency with which they deal with customer issues, while it is the 'human touch' that benefits hotels and restaurants.



## Balance of effort across sectors

Legend:
- Company Effort HIGHER than Customer Effort
- Company Effort = Customer Effort
- Customer Effort HIGHER than Company Effort

| Sector | Company Effort HIGHER | Company = Customer | Customer Effort HIGHER |
|---|---|---|---|
| Insurance | 7% | 27% | 66% |
| Electricity/Gas | 13% | 25% | 63% |
| Public service | 10% | 28% | 61% |
| Car dealer/Garage | 17% | 25% | 58% |
| Broadband | 16% | 27% | 56% |
| Courier/Delivery | 12% | 33% | 55% |
| Mobile operator | 14% | 33% | 53% |
| Train company | 17% | 37% | 47% |
| Airline | 18% | 36% | 46% |
| Store/Supermarket | 19% | 37% | 44% |
| Bank | 16% | 43% | 41% |
| Online retailer | 36% | 30% | 34% |
| Hotel | 21% | 46% | 33% |
| Restaurant | 28% | 46% | 27% |

## What's at stake?

The balance here is critical – when customers perceive that they have had to put more effort than a company into sorting out a situation, they are:

• **more than 4 times** as likely **to churn** than if they feel the company has put more effort in than them

• **3 times** more likely **to share their negative experience on social media**

• around **twice** as likely **to tell friends and family** about it

Customers who feel as though they work harder are also less forgiving. In the chart below, we have plotted average effort ratio score against favourability after a negative experience. The connection is very strong, indicating that the harder customers feel that they work compared to companies, the less forgiving they become when a critical issue arises. This, of course, has significant implications when it comes to building long-lasting emotional engagement with customers.





## Customers are less forgiving when working harder

Correlation of 0.8 at the aggregate level
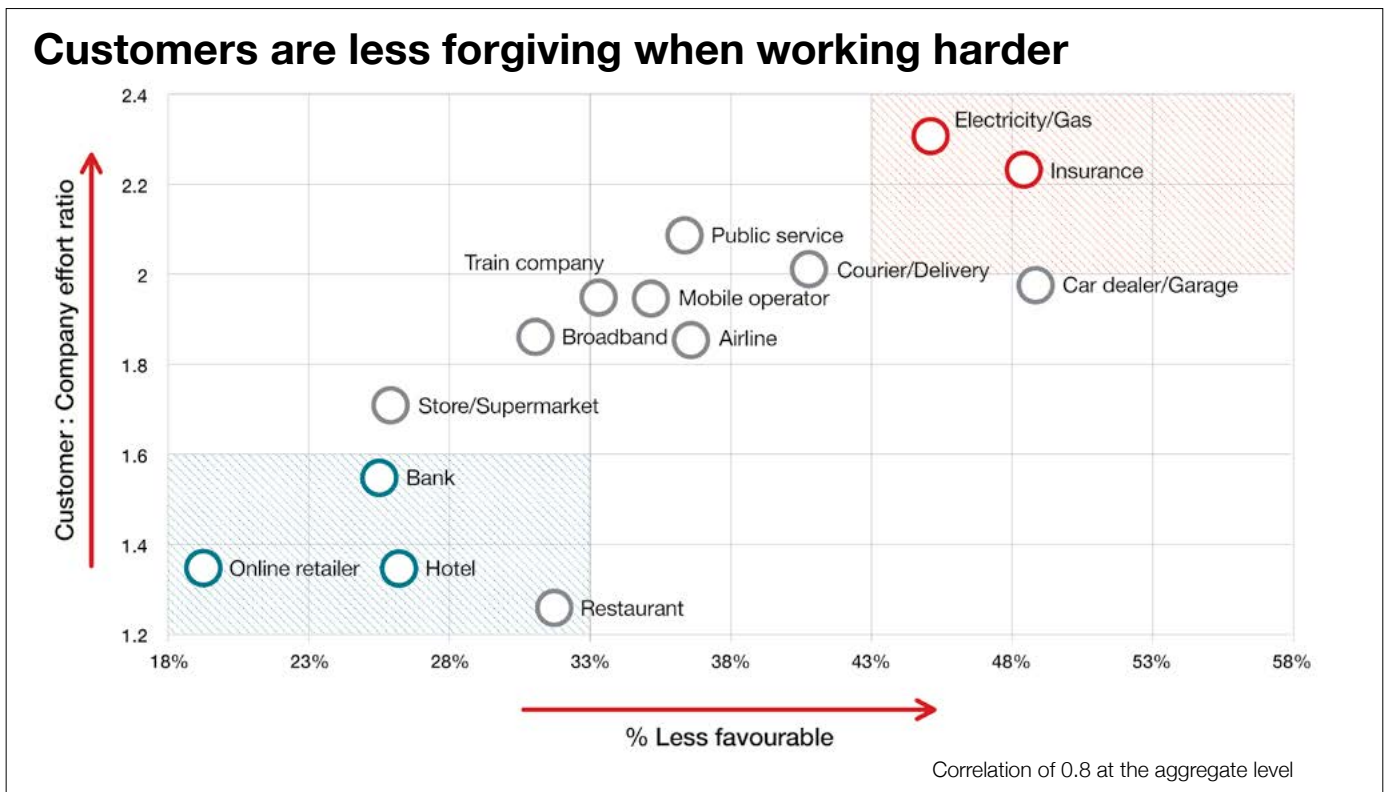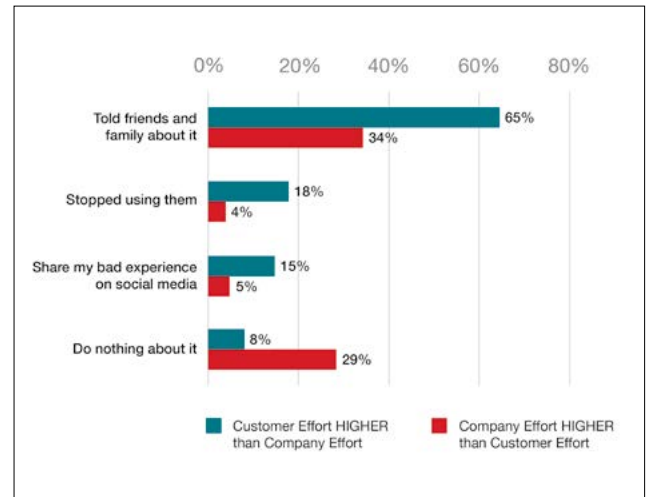
## The path to Customer: Company harmony

In addition to tracking the C:CER as a red-flag indicator of potential churn, it is important for organisations to understand how to optimise the ratio – in other words to get the balance of perceived effort right to reduce the threat response and the associated negative customer outcomes.

Getting to the bottom of customer issues is, of course, extremely important to reduce customer effort and the overall number of complaints. Analysing the wealth of data that is collected and readily available (e.g. customer or employee survey research data, complaints data, customer emails, user-generated content on social media – etc) to get to the root cause should always be the first step.

With all the strategic planning in the world, there will never be a perfect process, so companies need to be able to intervene on those occasions when things do go awry. Interventions can range from 'soft' actions, such as an apology or a detailed explanation of the situation and next steps, to 'hard' actions such as offering a discount or some form of financial compensation. Well-timed and well-designed interventions increase customers' impression that companies are taking their issue seriously and putting effort into resolving the problem.

There are two ways to optimise the effort ratio, detailed below.

## Optimising the effort ratio

# 1

Fix recurring CX issues strategically to reduce the number of complaints leading to Customer Effort

# 2

Implement smart interventions when things go wrong to drive perceptions of Company Effort



Fix and Intervene  >  Optimise the Effort Ratio  >  Reduce bad-mouthing and churn

## Is there an ROI in being fair to a customer?

Keeping all customers happy at all times is not a realistic goal for most organisations. A more viable proposition is to focus on either situations or customers that will provide the biggest return on investment (ROI). Organisations need to design and deploy 'smart' interventions; interventions that are effective at mitigating negative customer outcomes, but also maximise the return on effort and investment.

Our data shows a non-linearity in the relationship between the balance of effort and churn rates. When it comes to reducing churn, the priority for companies should be to reduce the number of cases where customers feel they are working harder than them. In other words, focusing on reducing the 'threat' response and making it 'fair' again first makes sense, and will have the highest ROI.

> **"**
> **If making it fair to customers is not a powerful enough call to action, we can demonstrate the financial return of doing so...**



% stop using them
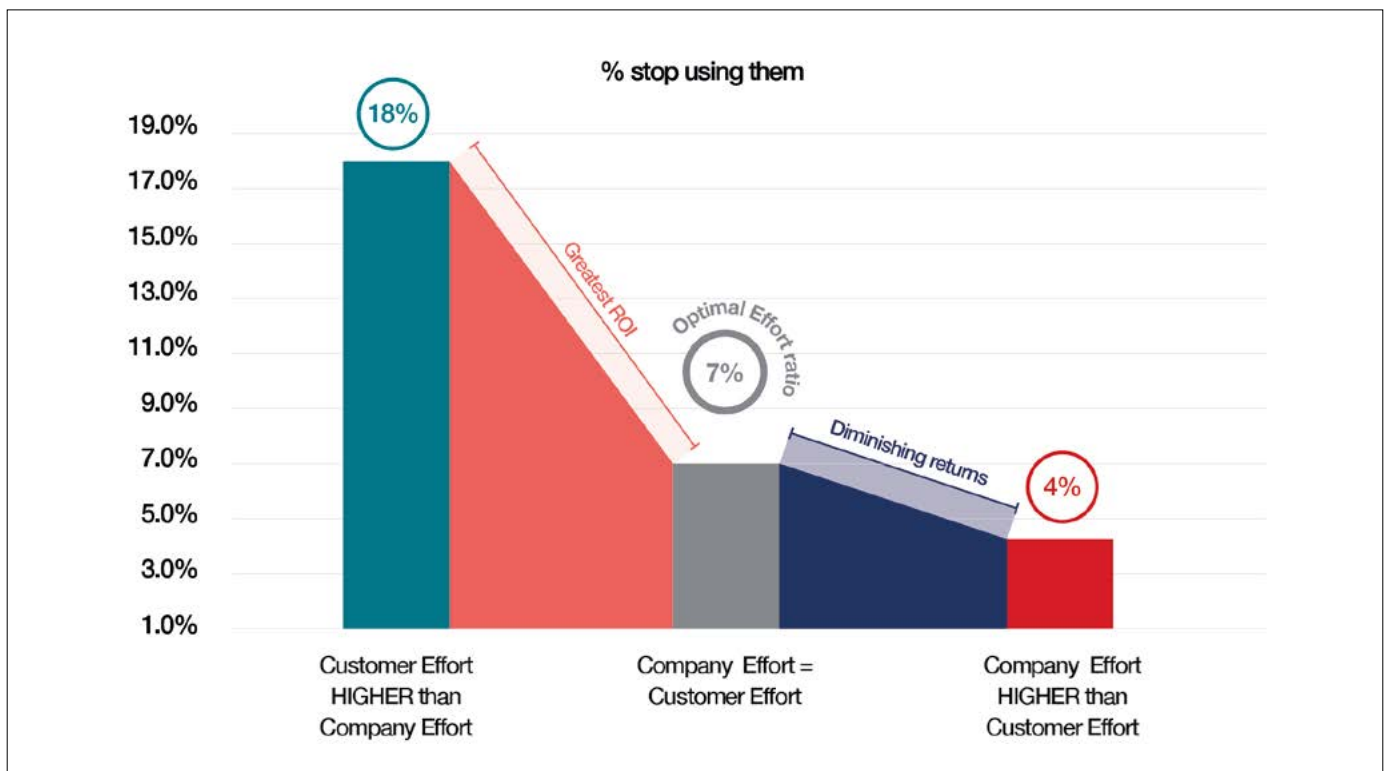
Of course, organisations should look for cost-effective opportunities to delight a customer or exceed expectations following a poor experience and throughout the customer journey. But when it comes to decreasing churn rates in a way that maximises ROI, the bulk of the effort needs to be put on matching customers' base-level expectations to start with, rather than trying to constantly exceed them.

And, if making it fair to customers is not a powerful enough call to action, it is possible to demonstrate the financial return of doing so in order to drive a customer-centric agenda all the way up to the management board of organisations.

Under a few assumptions, it is possible to model the ROI of fairness in the context of service recovery by simulating increases in perceived company effort, like so:

**Moving each customer 1 point up the Company Effort scale up to optimal effort ratio point brings churn down by 31%**

**ROI scenario / assumptions**

- Total number of customers: 10 million
- No. of customers with complaint/issue: 2 million
- Average value per customer: €1.5k a year

**Financial simulations**

**€138m extra**

(saved) revenue pa

## How to drive perceptions of Company Effort

The question of how to drive perceptions of company effort among customers remains. When asked what they expect of companies when it comes to handling their issue, apart from resolving it, customers mention[3]:

- being treated with respect – 56%

- receiving a detailed explanation – 50%

- being kept informed about the situation – 39%

- an apology – 36%

- being offered financial compensation – 32%

These factors show that making it fair again is not just about delivering financial rewards. Companies can salvage negative experiences by being proactive, dedicated, transparent, and simply showing respect.

The real challenge is to understand how to optimise interventions in order to maximise return on investment made in complaints and case management systems, and ultimately reduce churn and negative word-of-mouth. Companies using analytical frameworks that give guidance on which issues should be prioritised and what the most suitable and cost-effective response or intervention is will have a competitive advantage.

Additionally, companies that use the vast amount of information they hold about their customers to truly understand their needs and expectations to customise responses and communications will create opportunities to differentiate themselves and excel.

## Three key principles

There are three key principles to deploying a more intelligent case management system:

1. **Focus on what really matters** – companies need to prioritise incidents that have the highest impact on dissatisfaction and churn

2. **Not all customers are equal** – incorporating customer profile and history into the mix is crucial. Focusing on high-value customers and those that are most likely to churn will provide greater ROI

3. **There is no 'one-size-fits-all' intervention** – different types of incidents may need different types of response. In extension, different types of customers may need different types of response.

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 more 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.

To sum up, customer management needs planning. It's a time-critical case of reacting intelligently, being mindful of your customer and knowing when it's enough to just say 'sorry'. And more importantly, when it isn't.

### References

[1] 'Are your customers working too hard?' Jean-Francois Damais, Ipsos

[2] 'Stop Trying to Delight Your Customers' Matthew Dixon, Karen Freeman, Nicholas Toman

[3] Ipsos Global Trends Survey

# Get fair or fail

**Jean-Francois Damais,**
Deputy Managing Director, Global Client Solutions, Ipsos Loyalty

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