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The Silver Lining of Customer Problems

CUSTOMERS WHO EXPERIENCED
PROBLEMS IN THE PAST SIX MONTHS

59%

GALLUP

by John Timmerman and Daniela Yu

Story Highlights

- Many companies' problem resolution processes are missing the mark
 - Handling problems effectively can lead to higher customer engagement
 - Organizations need to understand and prevent their most severe problems
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This is the first article in a four-part series.

For many businesses, customer problems pose a persistent challenge.

In a recent study of more than 13,000 customers, Gallup found that about six in 10 customers (59%) report experiencing problems with at least one company in the past six months.

As if high customer problem rates weren't bad enough, many companies' problem resolution processes are seriously missing the mark. For any company, poor problem resolution wreaks havoc on organizational outcomes -- including customer engagement, brand perception and future purchase intent. Because problems are arguably inevitable, companies that lack world-class problem resolution place bottom-line outcomes at risk.

But there's good news: When a company handles problems effectively, it can dodge potential threats and end up with *higher* customer engagement than it had before the problems occurred. It all comes down to experiences. Customers care more about how companies handle their problems than about

the existence of the problems in the first place. So while taking action to prevent problems, leaders should also employ proven strategies for problem resolution experiences that leave customers as satisfied as possible.

In a 2016 study, Gallup identified the factors that matter most for satisfactory problem resolution experiences: incident rate, severity and resolution satisfaction (i.e., a customer's satisfaction with the way a company handled a problem). Together, these factors account for 86% of the variance in customer satisfaction with problem resolution experiences -- meaning they demand leaders' attention. Importantly, these key factors point to one resounding need for all companies: customer-centric problem resolution.

Incident Rate of Customer Problems Across Industries

Gallup found that industry performance varies significantly across the three factors for satisfactory problem resolution experiences -- and ultimately, industry type explains 24% of the variance in customers' problem resolution satisfaction.

For example, the retail industry has the highest incident rate of customer problems compared with other industries, but its average problem severity is one of the lowest, and its customer problem resolution satisfaction rating is among the highest. In contrast, social assistance companies in the healthcare industry tend to have extremely low problem rates, but they have more severe problems and the lowest problem resolution satisfaction among the industries Gallup studied.

Overall, hospitals and pharmacies rise to the top of the list, with low average problem severity and high resolution satisfaction ratings. At the other end of the spectrum, problems in the government and social assistance sectors tend to be most severe and have low resolution satisfaction, making them powerful destroyers of customer engagement.

For leaders, these findings underscore the importance of knowing a company's unique strengths and weaknesses and implementing targeted problem resolution strategies. Retail companies, for example, can benefit from protecting their biggest weakness -- high problem incidence -- with more intensive problem prevention practices.

Importantly, leaders should not attempt to develop tailored problem resolution tactics alone. Problems (and their contributing factors) are complex, and no two companies are alike -- meaning leaders need advanced analytics expertise and industry-leading insights to optimize their problem resolution strategies.

Problem Severity

The severity of customers' problems is a pivotal predictor of satisfactory resolution experiences, accounting for about 10% of the variance in problem resolution satisfaction. Not surprisingly, customers who experience minor problems with a company are far more willing to do business with them again than are customers who experience moderate, major or disastrous problems. In fact, even when highly severe problems are isolated incidents, they are far more disengaging than recurring minor problems are.

Companies should identify and thoroughly investigate their most severe problems. Often, the causes of major problems cannot be traced to a single employee or faulty product. Rather, severe problems are often far-reaching and may be attributable to shortcomings in a company's policies, culture or processes.

By identifying and addressing operational weak points, companies can better prevent major problems that destroy customer engagement.

Drivers of Resolution Satisfaction

Among customers who were satisfied with the resolution of a problem, 93% were satisfied because they felt valued and trusted, the organization took ownership, the problem was resolved rapidly and employees communicated genuine regret. In contrast, just 7% of customers reported they were satisfied because they received restitution and compensation. In other words, customer-centric processes and employees are pivotal to customer satisfaction -- far more so than monetary compensation.

So some leaders may wonder: What should customer-centric problem resolution look like? Quite simply, it looks like whatever customers prefer.

Typically, customers want to speak with empowered service representatives who go above and beyond to resolve their problems. They also want simple problem resolution experiences. For example, customers are more likely to be satisfied with problem resolution if they only spoke to one employee, contacted the company once, used one channel or did not need to repeat information about their problem.

To maximize customer centricity, leaders should leverage a data-driven approach to discover what their customers want and build a culture that consistently exceeds customers' expectations.

Problem Resolution Channels

Although 75% of customers say they prefer to report problems in person or via telephone, whether they actually *use* their preferred channels to report problems explains less than 1% of the variance in problem resolution satisfaction.

Further, Gallup found that a perfect problem resolution experience via a nonpreferred channel is far more engaging than is subpar service via a preferred channel. This spotlights companies' need for customer centricity: Resolving problems in a customer-focused fashion is essential to creating satisfactory resolution experiences.

Bailey Nelson contributed to this article.

The next article in this series will show how customers who love a brand are more sensitive to problem resolution experiences with that company -- for better or worse.

Sign up for the "[Silver Lining of Customer Problems](#)" webinar, during which Gallup experts will share more insights and best practices on how to turn customer problems into drivers of engagement.

SURVEY METHODS

Results are based on a Gallup Panel web study completed by 13,125 national adults, aged 18 and older, conducted from July 27, 2016, to Aug. 15, 2016. The Gallup Panel is a probability-based longitudinal panel of U.S. adults whom Gallup selects using random-digit-dial phone interviews that cover landlines and cellphones. Gallup also uses address-based sampling methods to recruit Panel members. The Gallup Panel is not an opt-in panel, and Panel members do not receive incentives for participating.

For results based on this sample, the margin of sampling error is ± 1.1 percentage point at the 95% confidence level. Margins of error are higher for subsamples. In addition to sampling error, question wording and practical difficulties in conducting surveys can introduce error or bias into the findings of public opinion polls.

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CONTACT: Gallup World Headquarters, 901 F Street, Washington, D.C., 20001, U.S.A
+1 202.715.3030

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