Seeing the Good in the Bad – Leveraging Customer Complaints for New Product Development

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Abstract

Customer complaints constitute an organizational reality. Extant research has examined how companies should deal with complaints to prevent customer defection, but the role of complaints for new product development is rarely explored. Focusing on this research gap, this study draws on organizational inertia theory to investigate whether and how companies process complaint messages for new product development. In a field experiment with 80 firms, we differentiate between complaint messages with and without innovative potential. While established theories in complaint management predict that companies differentiate between the two message types, we find support for our counter-intuitive hypothesis that companies react similarly to both types of messages. Our study extends prior research by considering the firm perspective on complaint management in the light of a theory which is new to this research field while using a field experiment, increasing the external validity of our insights.

Keywords: Customer complaint management, new product development, organizational inertia

Track: Innovation Management & New Product Development

1. Introduction

While companies develop products in the hope to meet customer needs optimally, it is impossible to fully satisfy each and every customer. Customers who are dissatisfied with their product experience react in different ways, switching to a competitor or staying loyal to the firm despite their dissatisfaction (Hirschman, 1970). Furthermore, customers often decide to voice their dissatisfaction to the responsible firm, i.e., they complain (Morel, Poiesz, and Wilke, 1997). It is crucial for firms to understand how to manage such customer complaints adequately (Homburg & Fürst, 2005).

Customer complaint management (CCM) research has been established in the marketing literature more than three decades ago. The term CCM has first been coined by the influential studies of Fornell and Wernerfelt (1987, 1988). Early research demonstrated the relevance of an organized CCM process for protecting the customer base (Fornell & Wernerfelt, 1987). One widely cited insight from this early CCM research is that companies should strive to maximize customer complaints, rather than avoid them (Fornell & Wernerfelt, 1987). The authors' reasoning lies in the fact that by maximizing the number of customer complaints, companies maximize the number of dissatisfied customers who actually communicate their dissatisfaction to the firm. As a result, companies increase their chance of keeping a customer, for example by providing adequate compensation (Gelbrich & Roschk, 2011).

However, the focus of CCM research on customer reactions to and satisfaction with complaint handling practices does not capture all organizational opportunities of CCM. Indeed, little attention has been devoted to complaining customers in the realm of new product development (NPD) (Schuhmacher & Kuester, 2012). Yilmaz, Varnali, and Kasnakoglu (2016) suggest considering the benefit of learning from customer complaints, which they label as the organizational learning path, in addition to the customer response path. In contrast to the widely researched customer response path, the organizational learning path has received little attention in CCM research until now. Our study contributes to filling this research gap by focusing on the NPD opportunities associated with customer complaints. The basic tenet of our research is that companies can leverage information contained in customer complaints in NPD to develop improved or entirely new products. Our claim is supported by exploratory research (Christiansen, Gasparin, Varnes, and Augustin, 2016), showing how a multinational FMCG company changed its product decisions as a result of online customer complaints.

As customer motives behind complaining differ, it would be naive to assume that all customer complaints are of equal value to a firm's NPD. Some customers solely want to vent

their anger by complaining (Tronvoll, 2011), others aim at a monetary compensation (Reynolds & Harris, 2005). However, some customers actually voice ideas for product improvements that have the potential to benefit the firm and other customers (Christiansen et al., 2016). In times of increasing numbers of customer complaints, it is critical for firms to leverage those complaints with valuable ideas within the large pool of incoming complaints. As the organizational learning path of CCM in NPD remains largely unexplored, our study addresses the following research questions: (1) Under *which conditions*, and *how promptly*, do companies respond to customer complaints? (2) *How* do firms leverage the ideas of complaining customers for NPD purposes?

To answer these questions, we run a field experiment and send complaint messages to firms in several consumer goods industries. We use organizational inertia theory to derive our expectations about company behavior in response to the messages. A combination of qualitative and quantitative elements of our approach to data collection results in valuable insights into the organizational learning path with regard to using customer complaints for NPD.

2. Study Background and Hypothesis Development

Customer dissatisfaction is a cost-effective predictor of the quality of customer ideas in the innovation process (Schuhmacher & Kuester, 2012). As the authors show in their analysis of lead user characteristics driving the quality of innovation ideas, dissatisfaction with existing solutions is a key determinant of idea quality, and is more decisive than other aspects such as experience (Schuhmacher & Kuester, 2012). Hence, companies should "utilize their complaint management database to identify […] dissatisfied users and invite them to participate in idea contests" (Schuhmacher & Kuester, 2012, p. 436). Similarly, Lüthje (2004) demonstrates that dissatisfaction with existing solutions increases the probability that a consumer engages in innovation efforts, and is a stronger predictor than commitment to the product category.

Customers who not only complain, but also voice their ideas for improvement, show high involvement with a company's products, making them attractive, brand-loyal customers (Leckie, Nyadzayo, and Johnson, 2016). When customers provide constructive feedback in addition to complaining, they go beyond the call of duty, thereby manifesting customer citizenship behavior (Groth, 2005). Thus, common sense predicts that companies will prioritize complaints with innovative potential over complaints without such potential. Commonly applied theories in CCM research, such as equity theory (Lapidus & Pinkerton, 1995), support these expectations. As the cost of complaining on the customer side, for example regarding cognitive effort, increases when customers voice improvement ideas, companies should

increase the payoff to customers to establish equity, for example by reducing response time.

However, we want to challenge this intuitive assumption by taking a different theoretical stance, applying the theory of organizational inertia. Organizational inertia theory states that due to a stability in processes, companies cannot flexibly allocate organizational resources (Hannan & Freeman, 1984; Zhou & Wu, 2010). Gilbert (2005, p. 741) labels this stability in processes "resource rigidity" – a "failure to change resource investment patterns". Firms have a tendency to stick to standard operating procedures that have been established over the years. These embedded templates for company processes facilitate smooth operations and lead to reliable outcomes, but impede deviations from the status quo (Hannan & Freeman, 1984).

Transferring this theoretical framework to CCM implies that companies have standard ways of dealing with customer complaints, such as response time goals (Strauss & Hill, 2001) or standardized responses (Istanbulluoglu, 2017). We hypothesize that these standard operating procedures are applied systematically when firms need to deal with customer complaints, leading to a lack of differentiation between innovative and non-innovative complaint messages. We postulate that firms' inability to allocate resources flexibly is reflected in similar response rates and response times for the two types of customer complaints. Hence, we argue:

Hypothesis 1: There is no significant difference in response rates to customer complaints with vs. without an explicit hint at improvement ideas.

Hypothesis 2: There is no significant difference in response times to customer complaints with vs. without an explicit hint at improvement ideas.

In exploring our hypotheses, we see a need to control for firm size and firm industry. Large, multinational firms generally possess professional complaint management systems, making it unlikely that complaints are not answered. Hence, we expect a higher response rate to complaints for large companies vs. small and medium-sized enterprises (SMEs). The effect of firm size on response time is more ambiguous. On the one hand, large firms employ more customer service employees. On the other hand, large companies receive significantly more customer complaints than SMEs. Furthermore, we account for firm industry in examining H1 because typical response times might differ between FMCG and consumer durables.

3. Method

In a first step, we conducted an explorative, qualitative pre-study to shed light on the use of customer complaints for NPD from a managerial perspective. This step was essential as prior literature questions the potential of customer complaints for NPD (e.g., Enkel, Perez-

Freije, and Gassmann, 2005). We conducted in-depth interviews with eight managers in different industries (e.g., FMCG, consumer durables) to examine our phenomena of interest and to explore how companies use customer complaints for NPD.

In a second step, we ran a field experiment to answer our research questions. We sent a generic e-mail complaint message to 41 consumer durable companies and 39 consumer non-durable companies across diverse product categories in Germany. The companies were randomly assigned to a complaint message with innovation potential or one without. The complaint message with innovation potential contained a hint at improvement ideas ("I have specific suggestions for how you could improve your product"), the other message did not. All messages requested a reply. The randomization resulted in 35 firms receiving a complaint message with innovation potential and 45 firms receiving a message without innovation potential. For the complaints containing a hint at improvement ideas, we recorded whether the firm asked for these ideas in its reply. When this was the case, we provided an improvement idea to the firm (one idea per category) and asked how the idea will be processed.

As dependent variables, we recorded whether the company replied to the complaint and how long it took the firm to reply. We assumed a 5-day week with customer service operating from 9 a.m. to 5 p.m. Based on this restriction, we then used the number of hours passed between sending the initial complaint and receiving the reply as our measure of response time.

Since response rate is captured by a binary variable (either the firm replied, or not), logistic regression models were calculated to test H1. For testing H2, we used classical regression analysis (or, equivalently, ANOVA), as response time is a continuous variable. Given that a Levene test did not disconfirm the prerequisite of homogenous variances in the two treatment groups ($F = 1.607$, $p > .1$) and response time was approximately normally distributed after a log transformation ($W = 0.968$, $p > .05$), critical prerequisites are met.

4. Findings

The overall response rate to our complaint messages was high, with 85% of the complaints being replied to within ten working days. Non-response to customer complaints is not a widespread phenomenon in our German sample. In terms of response time, we observed some variation. The median response time was 4:45 hours, but there were even cases of replies within 10 minutes. The maximum response time of 66:24 hours is equivalent to an answer after more than eight days. Overall, the distribution of response times was highly right-skewed, which is why we log transformed this variable for our analyses.

H1 predicted that there will be no significant difference in *response rates* to customer

complaints containing vs. not containing a hint at improvement ideas. In the basic logit model, the binary response variable was regressed on the binary variable *innovative potential of complaint*. As expected, the main effect is insignificant ($b = -0.693$, $p > 0.1$), showing that the inclusion of an idea indicator in a complaint message does not increase the log odds of receiving a reply. This result is unchanged when controlling for *firm size* and *industry*. The two controls are not significantly related to response probability either. Overall, the data do not contradict the expected null effect of the *innovative potential of a complaint* on the *response rate*.

According to H2, *response time* will not differ significantly between the two treatment conditions. [1] First, a linear regression with only the control variable *firm size* was calculated, revealing that *firm size* has a significant positive effect on *response time* ($b = 1.021$, $p < .05$), i.e., large companies tend to take longer to respond to customer complaints. Second, our manipulation *innovative potential of complaint* was added as a predictor. The impact of this variable on *response time* was non-significant ($b = 0.608$, $p > .05$). Hence, our results are in line with the expected null effect of the *innovative potential of a complaint* on *response time*.

As we did not find an impact of the innovative potential of a complaint on response probability or time, we aimed to find out if companies in our sample are interested in the improvement ideas. We analyzed the cases where companies replied to a complaint message that contained a hint at an improvement idea ($n = 28$). 19 of these companies (68%) explicitly showed interest in the mentioned idea, for example by stating that they look forward to hearing about the ideas. Thus, the majority of companies actually see the potential in customers' improvement ideas which come with a complaint. However, there are notable industry differences. A logistic regression of the binary indicator *interest in customer idea* on *industry* (and *firm size*) shows that the *likelihood of expressing interest in the idea* is much higher for companies in the consumer durables industry ($b = 2.619$, $p < .05$).

After providing the idea to interested firms and asking how it will be processed, qualitative data was collected regarding how firms process customer ideas in a complaint. Almost all of the interested companies stated that the ideas will be passed to product management. One firm showed its interest by sending an invitation to join a crowdsourcing NPD contest online. Furthermore, we contacted companies who had not reacted to the prospect of product improvement ideas in the initial complaint e-mail, but who had replied to the complaint ($n = 5$). These companies were asked why they did not show interest in the ideas. While two of the companies underlined their interest in customer ideas and provided a channel for commu-

[1] The maximum value for response time is a clear outlier. We ran models including response time with and without the outlier, and we did not find any substantive deviation in the results.

nicating the suggestions, two other firms stated that they cannot or do not want to integrate customer ideas in their NPD. One firm from the food industry explained that only internal teams are involved in product development, while customer ideas are not considered. By contrast, a firm from the durables industry argued that customers' strong preferences for a particular product formula impede the use of complainants' ideas for product adaptations.

5. Conclusion

Our study provides a positive conclusion from both the customer and the company perspective: Companies care about customer complaints. A response rate of 85% to our messages within ten working days shows that the practice of "seeing no evil, hearing no evil, speaking no evil" (Homburg & Fürst, 2007) with regard to customer complaints is not common. Most companies reply to all complaints, no matter if the messages seem particularly constructive or not. This is in line with organizational inertia theory and constitutes a positive insight for customers. Addressing our research questions, our study provides three specific contributions.

First, we found some support for our hypothesis that companies do not respond more promptly to complaints with a hint at improvement ideas than to complaints without such an indication. In fact, our data show a marginally significant positive effect of the innovative potential on response time after controlling for firm size ($b = 0.608$, $p = 0.085$), suggesting that companies tend to take longer for replying to innovative complaints. This insight is an interesting contribution, as it contradicts classically applied theories in CCM research. One reason could be that innovative complaints represent a departure from the usual for customer service departments, leading to less standardized complaint processing, which requires more time. Notwithstanding the above, response time can be explained well by firm size, with large companies taking more time to answer than SMEs. The higher number of customer service employees in large firms does not seem to compensate for the higher inflow of complaints.

Second, we showed that when it comes to the likelihood of a company expressing interest in the ideas mentioned by the complaining customer, industry is a relevant predictor. Consumer durables companies were significantly more likely to explicitly ask for customer ideas than FMCG firms. This is a novel insight for the research field, which has not focused on industry differences in the level of interest in customer ideas until now. There are several possible explanations for this tendency: First, the relationship between customer satisfaction and loyalty has been found to be weaker in industries characterized by short purchase cycles (e.g., FMCG) compared to industries with longer purchase cycles (e.g., durables) (Pan, Sheng, and Xie, 2012). Thus, companies in the consumer durables industry might have a higher incentive

to increase customer satisfaction by integrating customers' improvement ideas in order to ensure their continued loyalty. Second, FMCG companies generally have a larger customer base than consumer durable firms. Hence, it is likely that FMCG firms receive significantly more complaints than companies selling consumer durables. As a result, FMCG companies might be swept with customer complaints and might therefore face an information overload regarding customer ideas for product improvements, leading to a lower interest in customer ideas.

Third, we found that most companies indicating interest in customer ideas in complaint messages forward these ideas to product development, which implies a potential integration of the suggestions in NPD. Nevertheless, an alarming managerial contribution of this research lies in the finding that some of the companies explicitly stated that they are not willing to consider customer ideas for product changes. This speaks for a lack of responsive market orientation (Narver, Slater, and MacLachlan, 2004), which can have detrimental effects on new product and overall firm performance (Atuahene-Gima, Slater, and Olson, 2005).

5.1 Implications for research and practice

Our research contributes to the literature by providing insights into companies' response behavior to customer complaints for the purpose of NPD (Christiansen et al., 2016). To the best of our knowledge, this is the first field experiment in the context of CCM with companies as experimental subjects. Moreover, this research constitutes the first application of organizational inertia theory in the field of CCM. As evidenced by this experiment, the theory might be a promising lens for analyzing company responses to different types of complaints.

For practitioners in the FMCG and consumer durables industries, it is worth noting that not only do firms almost universally respond to customer complaints, but they mostly reply within only two days. This can be seen as a benchmark for firm handling of complaints. Inviting complainants to join idea crowdsourcing platforms is an approach chosen by only few of the firms in our sample. This is concerning, as research has shown that dissatisfaction with existing solutions is positively related to the quality of ideas for new offers (Schuhmacher & Kuester, 2012). We believe that companies should pursue this strategy as a default rather than as an exception. Moreover, we advise companies to refrain from telling complainants that their ideas will not be considered, as this might make customers feel powerless and cause additional anger, which can lead to negative word of mouth for firms (Gelbrich, 2010).

5.2 Limitations and future research avenues

With a sample size of 80 companies, the statistical power of our hypotheses tests is limited, which makes it difficult to provide incontestable support for our hypotheses stating a

null effect. On the other hand, the data from the field experiment do not contradict our hypotheses in any way, which makes a future project with an extended sample size desirable.

Moreover, it might be interesting to consider firm age as a predictor in future studies. Based on organizational inertia theory, one can argue that young firms are more flexible in reacting to complaints and more interested in customer ideas (Hannan & Freeman, 1984).

Finally, our study is limited to products sold in the German market and German language complaint channels. The research should thus be transferred to further European and international markets. In this way, one could probe for country-specific differences in companies' response behavior to customer complaints with and without innovative potential.

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