

CHAPTER 1

BACKGROUND

1.1 Background

At the present time, companies realize that they are entering the world of a never ending competition. They do differentiation in marketing strategies, product development and customer service to keep up with changes. This is happening because customers are now getting more well-informed and be more critical in choosing what they are going to purchase. Customer service may seem less popular function amongst all; nevertheless, it plays a role for a company to retain their customers.

According to a popular theory of Six Sigma by Philip Crosby, attaining zero defects may not be possible and does not mean that a company never makes mistakes (Crosby, 1970). It means that a company should not have allowances or sub-standard targets with mistakes or defects in their expectation. As a zero-defect product or service is not possible to achieve, a dissatisfied customer is a normal thing for a company to get. Even more, complaints are expected to come as if it is not, it would be an “early warning signal” for a company (Fornell, 2007). This is where customer

service plays its role in pooling customers' feedback and handling complaints.

There are stages of customer behavior in purchasing something: need recognition, information search, and evaluation of alternatives, purchase decision and post purchase behavior (Kotler and Armstrong, 2013, p. 178-180). The post-purchase behavior talks about the stage of the buyer decision process in which consumers take further action after purchase based on their satisfaction or dissatisfaction with a purchase (Kotler and Armstrong, 2013, p. 178-180). Given this fact, companies should see that the competition they face doesn't end when the customer finally purchase the product, but continue to after the customer purchase the product.

There are consumers' expectations and product's perceived performance as determinant factors of whether a customer is dissatisfied or satisfied with the product (Kotler and Armstrong, 2013, p. 178-180). In the event that the product doesn't meet customer's expectation, they will disappoint; in the event that it meets their expectation, they are satisfied; in the event that it exceeds expectation n, they are delighted. The question for the majority of the companies now is how to make disappointed customers happy and come back to them.

A customer who disappoint with a product will then send a complaint to the responsible company. Complaint is a part of

negative expression that resulted because there is a gap between customer's expectation and the actual condition (James, 2006). Because of the gap, customers may feel dissatisfied and resulted in a complaint to the responsible company or organization. That statement is also supported by Bearden and Teel (1983) that suggest that consumer complaints are actions resulting from the emotions of dissatisfaction. Complaint from dissatisfied customers is considered as an indispensable tool to learn the Voice of Customer and becomes increasingly important in many business contexts (Crask et al, 1995). When a customer places a complaint, this is the chance of when a company could use to make their customers satisfied and bring them back. Complaints are not always bad and if it is treated and handled well by the organization, it can bring benefits for them. Therefore, an effective complaint handling service is needed.

Complaint handling is the act of the responsible company to soothe customer's anger, disappointment or dissatisfaction, investigate the source of the problem and come up with a solution for the customer. It is important, however, for a company to view complaints as gifts from customers. Because actually a complaint is a media for a company to know what went wrong in their operation and performance and a chance to improve in order to be better. Working in the same way as suggestions from customers, Fornell (2007) suggests that complaints provide firms with

valuable way to learn the true quality of products and services, as well as customers' dissatisfaction, thus may serve as "early warning signal".

According to George et al (2007), there are principles of a good complaint handling service; it must have highly visible procedures, easy and free access, effective company protocols, fairness and consistency, responsiveness and organizational ownership and commitment. ISO 10002 also stated that a good complaint management system has several characteristics: Visibility, Accessibility, Responsiveness, Objectivity, Confidentiality, Customer-focused approach, and Accountability as well as continual improvement.

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. Hence, the author concludes that there is a relation between complaint handling service and customer retention. This research, however, focuses on the complaint handling process because the author would like to know how strong does an effective complaint handling service in retaining customer, especially in Company X.

According to Fornell and Wernerfelt (1984), there are two kinds of marketing strategies: offensive and defensive marketing

strategy, one to gain new customer, the other to retain customer loyalty. “Companies have focused especially on offensive marketing that is on attracting new customers. In ever more competitive world, companies should focus also on defensive marketing”. Therefore, customer retention can be seen as a strategic process to keep or retain existing customers and prevent them to switch to competitors.

Company X is one of the examples of a market leader in foodstuffs industry. As a market leader in the industry, their product quality is surely trusted by customers. They have already sustained from generation to generation. They supply businesses and households not only in Indonesia, Company X is also pretty well-known in Southeast Asia and they export their products too to several countries. Currently, Company X has two locations of manufacturing plants in Indonesia which are Surabaya and Jakarta. They have customers from all level of society and all types of demography. The production capacity per day of Company X is also huge and it is well-known because its products performance.

A big company like Company X, however, is also likely to be exposed to many errors just the same with other companies in all size. A more professional way, is expected in a big and established company like Company X in terms of handling

complaints. However, as Philip Crosby and his theory about Six Sigma had said that there is no such thing as zero defects in businesses. Customer service and complaint handling management is no exception. There are mistakes here and there and customers' disappointment because of the unexpected result or out of their expectation of Company X's complaint handling service. This phenomenon then triggered the author to have this study on the effectiveness of complaint handling service in Company X. Company X is a market leader in their industry as stated above, and aside from being a market leader which the products already trusted by many generations, do their complaint handling service also take part in retaining customers? If that so, how effective is the complaint handling service in retaining customers? Those questions are about to be answered in this study.

This study, therefore, will give a descriptive analysis of the effectiveness of complaint handling service in Company X in retaining customers. Hence, the title of this study is "The Descriptive Study on the Effectiveness of Complaint Handling in Company X in Retaining Customers".

1.2 Significance of the Study

This study is conducted because of the need of academic world to be better over time and to answer management questions especially in complaint handling service area. Therefore, this study will give significances to both academic and practical world as follows:

1.2.1 Practical Significance

To give useful illustration and information for companies especially Company X in regards to the effectiveness of their complaint handling service in order to retain customer.

1.2.2 Academic Significance

As reference and information to the other researchers who want to do further research about the effectiveness of complaint handling service in retaining customers, case in Company X.

1.3 Purpose of the Study

To gain a better understanding in how effective is the complaint handling service in Company X in retaining their customers.

Complaint handling may seem less popular amongst all business function, yet very important in gathering information about customers and retaining customers. However, few studies have been performed on how effective the complaint handling service is in a company in retaining customers. This became the

main motive for the present study. Hence, the purpose of this study is as described above.

This research also aims at helping companies to answer questions related to marketing and complaint handling service.

1.4 Research Questions

To reach the purpose of this study, the following research questions shall be addressed:

How effective is the complaint handling service in Company X in retaining customers?

Complaint handling may seem less popular amongst all business function, yet very important in gathering information about customers and retaining customers. However, few studies have been performed on how effective the complaint handling service is in a company in retaining customers. Thus, the purpose of this study is to gain a better understanding in how effective is the complaint handling service in Company X and how well their understanding in customer complaint behavior in retaining their customers is.

1.5 Outline of the Thesis

This thesis consists of five chapters including the background, literature review, research methodology, findings

and discussion and conclusion and suggestions. The summary of each chapter are here below.

Chapter 1 Background

This chapter will explain the background of this study, purpose of the study, significance of the study and the outline of the thesis.

Chapter 2 Literature Review

In this chapter, existing studies, theories and hypothesis will be included.

Chapter 3 Research Methodology

The way of how this study conducted will be explained in this chapter. It contains: research design, data and source of data, research technique of analysis, and research instrument.

Chapter 4 Analysis and Discussion

This chapter will provide information about Company X, data from observation and analysis and discussion.

Chapter 5 Conclusion and Suggestion

This will be the last chapter that contains of conclusion from the analysis and discussion, as well as suggestions which also can be used as feedback and reference for the next studies.