Salon /Business Management Part 2

This module will address the definition of small business and some of the challenges small business owners face. It also goes in-depth on aspects critical to small business success, such as marketing, advertising, and customer service.

Small Business Management:

A **small business** may be defined as a business with a small number of employees. The legal definition of "small" often varies by country and industry, but is generally under 100 employees. These businesses are normally privately owned corporations, partnerships, or sole proprietorships.

Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: small shops, hairdressers, tradesmen, solicitors, lawyers, accountants, restaurants, guest houses, photographers, small-scale manufacturing etc.

The smallest businesses, often located in private homes, are called **microbusinesses** or SoHos. The term "mom and pop business" is a common colloquial expression for a single-family operated business without any hired labor, e.g., "mom and pop store".

Small businesses often face a variety of problems related to their size. A frequent cause of bankruptcy is undercapitalization. This is often a result of poor planning rather than economic conditions - it is common rule of thumb that the entrepreneur should have access to a sum of money at least equal to the projected revenue for the first year of business in addition to his

anticipated expenses. For example, if the prospective owner thinks that he will generate $100,000 in revenues in the first year with $150,000 in start-up expenses, then he should have no less than $250,000 available. Failure to provide this level of funding for the company could leave the owner liable for all of the company's debt should he end up in bankruptcy court, under the theory of undercapitalization.

In addition to ensuring that the business has enough capital, the small business owner must also be mindful of gross margin (sales minus variable costs). To break even, the business must be able to reach a level of sales where the gross margin exceeds fixed costs. When they first start out, many small business owners underprice their products to a point where even at their maximum capacity, it would be impossible to break even. The good news is that cost controls or a price increase can often resolve this problem.

In the United States, some of the largest concerns of small business owners are insurance costs (such as liability and health), rising energy costs and taxes. In the United Kingdom and Australia, small business owners tend to be more concerned with excessive governmental red tape.

Building trust with new customers can be a difficult task for a new business trying to establish itself. Some organizations like the Better Business Bureau and the International Charter now offer Small Business Certification, which certifies the quality of the services and goods produced and can encourage new and larger customers. These services may require a few hours of work, but a certification may reassure potential customers. However, the most effective way to earn trust is through customer referrals.

Small businesses use several sources available for start-up capital:

- Self-financing by the owner through an equity loan on his or her home or other assets.
- Loans from friends or relatives
- Private stock issue
- Forming partnerships
- Venture capital, given sufficiently sound business venture plans

Some small businesses are further financed through credit card debt - usually a poor choice, given that the interest rate on credit cards is often several times the rate that would be paid on a line of credit or bank loan. Many owners seek a bank loan in the name of their business; however banks will usually insist on a personal guarantee by the business owner. In the United States, the Small Business Administration (SBA) runs several loan programs that may help a small business secure loans. In these programs the SBA guarantees a portion of the loan to the issuing bank, and thus relieves the bank of some of the risk of extending the loan to a small business.

The **Small Business Administration**, or **SBA**, is a United States Government agency that provides support to small businesses.

The SBA was established on July 30, 1953 by the United States Congress with the passage of the Small Business Act. Its function was to “aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns.” Also stipulated was that the SBA should ensure a “fair proportion” of government contracts and sales of surplus property to small businesses. This was accomplished primarily through the Small Business Innovative Research program and government “set-asides”.

The SBA also makes loans directly to businesses and acts as a guarantor on bank loans. In some circumstances it also makes loans to victims of natural disasters, works to get government procurement contracts for small businesses, and assists businesses with management, technical, and training issues.

The SBA has directly or indirectly helped nearly 20 million businesses and currently holds a portfolio of roughly 219,000 loans worth more than $45 billion making it the largest single financial backer of businesses in the United States.

The SBA has survived a number of threats to its existence. In 1996 the then newly Republican-controlled House of Representatives planned to eliminate the agency. It survived and went on to receive a record high budget in 2000. Renewed efforts by the Bush Administration to end the SBA loan program have met congressional resistance, although the SBA's budget has been repeatedly cut and in 2004 certain expenditures were frozen.

The most visible element of the administration are the loan programs that it administers. The way the program works is that the administration guarantees against default certain portions of business loans made by banks that conform to its guidelines.

Contrary to popular belief, these programs are not generally for persons with bad credit who can't get bank loans, nor are they primarily used for startup funding. Rather, the primary use of the programs is to make loans for longer repayment periods and with looser affordability requirements than normal bank loans. For example, the 7(a) program has a maximum repayment period of 7 years whereas most similar bank loans would have a maximum period of 5 years.

Also, a business can qualify for the loan even if the yearly payment would be the same as the previous year's profit, whereas most banks would want payment for a loan to be no more then two-thirds of the prior year's profits. The lower payments that result from the longer terms, combined with the looser affordability calculations, can allow businesses to borrow more money then they could have otherwise.

One of the most popular uses of SBA loans are for commercial mortgages on buildings occupied by a small business. These programs are chosen because most bank programs, while having similar payments and rates, require borrowers to refinance every five years.

Businesses applying for SBA loans are supposed to have previously been turned down by at least two banks. Designed to avoid direct competition with banks, this provision allows the most promising projects to be funded by the private sector leaving higher risk projects to be picked up by the government resulting in the government holding a higher share of non-performing loans. However, this is no longer the policy of the small business administration.

Others have attacked the SBA as a fount of corporate welfare. Franchisees may receive loans which are then transferred to large corporations such as McDonald's. Despite its expenditures, the SBA aids only 0.4% of the entrepreneurs in the United States.

One of the primary uses of SBA funding is for business owners to get a loan to buy the property their business occupies. Owning the property and having the business rent the property from the owner is a form of a tax shelter, so the SBA is criticized for aiding tax shelters.

Various banks are often criticized for offering or writing less SBA loans proportionally then other banks, which critics see as a sign of discrimination. However, others counter that SBA loans are many times equivalent or worse to what the banks offer themselves, so a customer of that bank might choose the normal bank product more often then their SBA product.

The SBA has most recently been criticized for the manner in which it disbursed loans earmarked for businesses directly affected by September 11th. Oversights resulted in widespread abuse of the program as the low-interest loans were awarded to unaffected businesses including "Dunkin' Donuts shops and florists...motorcycle dealers and chiropractors...a South Dakota country radio station, a Virgin Islands perfume shop and a Utah dog boutique." Many of them unaware of the special program.

The Importance of Marketing:

Marketing, as suggested by the American Marketing Association, is "an organizational function and a set of processes for creating, communicating and delivering value to customers, and for managing customer relationships in ways that benefit the organization and its stakeholders". Another definition, perhaps simpler and more universal, is the process of moving people closer to making a decision to purchase or repurchase a company's products. Simply, if it does not facilitate a "sale" then it is not marketing. Perhaps the simplest Western definition of all was that summarized by Philip Kotler in his earlier books as: "Marketing is human activity directed at satisfying needs and wants through exchange processes". On the other hand, Christian Grönroos, in the context of a move to relationship marketing, summarized a rather different European view

in his definition: “Marketing is to establish, maintain and enhance long-term customer relationships at a profit, so that the objectives of the parties involved are met. This is done by mutual exchange and fulfilment of promises”.

Courtesy of Wikipedia

However, the most widely accepted definition of marketing on a global scale comes from the Chartered Institute of Marketing (CIM) in the UK which is the largest marketing body in the world in terms of membership. The definition claims marketing to be the “management process of anticipating, identifying and satisfying customer requirements profitably”. Thus, operative marketing involves the processes of market research, new product development, product life cycle management, pricing, channel management as well as promotion. However, marketing is more of a process-oriented cross function, not a direct decision maker in these processes. It is one of the company's management tools to ensure that products and services are developed according to market requirements, and that they are profitable.

Prior to the advent of market research, most companies were product-focused, employing teams of salespeople to push their products into or onto the market, regardless of market desire. A market-focused, or customer-focused, organization instead first determines what its potential customers desire, and then builds the product or service. Marketing theory and practice is justified on the belief that customers use a product/service because they have a need, or because a product/service has a perceived benefit.

Two major aspects of marketing are the recruitment of new customers (acquisition) and the retention and expansion of relationships with existing customers (base management).

An emerging area of study and practice concerns internal marketing, or how employees are trained and managed to deliver the brand in a way that positively impacts the acquisition and retention of customers.

Once a marketer has converted the prospective buyer, base management marketing takes over. The process for base management shifts the marketer to building a relationship, nurturing the links, enhancing the benefits that sold the buyer in the first place, and improving the product/service continuously to protect her business from competitive encroachments.

Marketing methods are informed by many of the social sciences, particularly psychology, sociology, and economics. Anthropology is also a small, but growing, influence. Market research underpins these activities. Through advertising, it is also related to many of the creative arts.

In popular usage, "marketing" is the promotion of products, especially advertising and branding. However, in professional usage the term has a wider meaning that recognizes that marketing is customer centered. Products are often developed to meet the desires of groups of customers or even, in some cases, for specific customers. E. Jerome McCarthy divided marketing into four general sets of activities. His typology has become so universally recognized that his four activity sets, the Four Ps, have passed into the language.

The Four Ps are:

Product: The Product management and Product marketing aspects of marketing deal with the specifications of the actual good or service, and how it relates to the end-user's needs and wants.

Pricing: This refers to the process of setting a price for a product, including discounts.

Promotion: This includes advertising, sales promotion, publicity, and personal selling, and refers to the various methods of promoting the product, brand, or company.

Placement or distribution refers to how the product gets to the customer; for example, point of sale placement or retailing. This fourth P has also sometimes been called *Place*, referring to "where" a product or service is sold, e.g. in which geographic region or industry, to which segment (young adults, families, business people, women, men, etc.).

These four elements are often referred to as the marketing mix. A marketer can use these variables to craft a marketing plan. The four P's model is most useful when marketing low value consumer products. Industrial products, services and high value consumer products require adjustments to this model. Services marketing must account for the unique nature of services. Industrial or B2B marketing must account for the long term contractual agreements that are typical in supply chain transactions. Relationship marketing attempts to do this by looking at marketing from a long term relationship perspective rather than individual transactions.

As a counter to this, Morgan, in *Riding the Waves of Change* (Jossey-Bass, 1988), adds "Perhaps the most significant criticism of the 4 P's approach, which you should be aware of, is that it unconsciously emphasizes the inside–out view (looking from the company outwards), whereas the essence of marketing should be the outside–in approach". Even so, having made this

important caveat, the four P's offer a memorable and quite workable guide to the major categories of marketing activity, as well as a framework within which these can be used.

As well as the standard four P's (Product, Pricing, Promotion and Placement), there are also sometimes considered an extra three, totalling seven and known together as the extended marketing mix. These are:

People: Any person coming into contact with customers can have an impact on overall satisfaction. Whether as part of a supporting service to a product or involved in a total service, people are particularly important because, in the customers' eyes, they are generally inseparable from the total service. As a result of this, they must be appropriately trained, well motivated and the right type of person.

www.sxc.hu

Process: This is the processes involved in providing a service and the behaviour of people, which can be crucial to customer satisfaction.

Physical evidence: Unlike a product, a service cannot be experienced before it is delivered, which makes it intangible. This therefore means that potential customers perceive greater risk when deciding whether or not to use a service. To reduce the feeling of risk, thus improving success, it is often vital to offer potential customers the chance to see what a service would be like. This is done by providing physical evidence, such as case studies, or testimonials.

For a marketing plan to be successful, the mix of the four "P's" must reflect the wishes and desires of the consumers in the target market. Trying to convince a market segment to buy

something they don't want is extremely expensive and seldom successful. Marketers depend on marketing research, both formal and informal, to determine what consumers want and what they are willing to pay for. Marketers hope that this process will give them a sustainable competitive advantage. Marketing management is the practical application of this process. The offer is also an important addition to the four P's theory.

Most companies today have a customer orientation (also called customer focus). This implies that the company focuses its activities and products on customer needs. Generally there are two ways of doing this: the customer-driven approach and the product innovation approach.

In the consumer-driven approach, the consumer wants are the drivers of all strategic marketing decisions. No strategy is pursued until it passes the test of consumer research. Every aspect of a market offering, including the nature of the product itself, is driven by the needs of potential consumers. The starting point is always the consumer. The rationale for this approach is that there is no point spending R&D funds developing products that people will not buy. History attests to many products that were commercial failures in spite of being technological breakthroughs.

The *next big thing* is a concept in marketing that refers to a product or idea that will allow for a high amount of sales for that product and related products. Marketers believe that by finding or creating the next big thing they will spark a cultural revolution that results in this sales increase.

In a product innovation approach, the company pursues product innovation, then tries to develop a market for the product. Product innovation drives the process and marketing research is conducted primarily to ensure that a profitable market segment(s) exists for the innovation. The rationale is that customers may not know what options will be available to them in the future so

we should not expect them to tell us what they will buy in the future. It is claimed that if Thomas Edison depended on marketing research he would have produced larger candles rather than inventing light bulbs. Many firms, such as research and development focused companies, successfully focus on product innovation. Many purists doubt whether this is really a form of marketing orientation at all, because of the ex post status of consumer research. Some even question whether it is marketing.

Diffusion of innovations research explores how and why people adopt new products, services and ideas.

A relatively new form of marketing uses the internet and is called **internet marketing,** or more generally e-marketing, affiliate marketing or online marketing. It typically tries to perfect the segmentation strategy used in traditional marketing. It targets its audience more precisely, and is sometimes called personalized marketing or **one-to-one marketing**.

Some aspects of marketing, especially promotion, are the subject of criticism. It is especially problematic in classical economic theory, which is based on the assumption that supply and demand are independent. However, product promotion is an attempt coming from the supply side to influence demand. In this way producer market power is attained as measured by profits that would not be realized under a free market. Then the argument follows that non-free markets are imperfect and lead to production and consumption of suboptimal amounts of the product.

To some critics, the ability of marketers to alter consumer behavior is powerful and frightening. Critics acknowledge that marketing has legitimate uses in connecting goods and services to the

consumers who want them. Critics also point out that marketing techniques have been used to achieve morally dubious ends by businesses, governments and criminals. Critics see a systemic social evil inherent in marketing (see *No Logo*, Bill Hicks, Marxism or Commercial Alert). Marketing is accused of creating ruthless exploitation of both consumers and workers by treating people as commodities whose purpose is to consume.

Most marketers believe that marketing, like any other technology, is amoral. It can be used for good or evil purposes, but the technique itself is ethically neutral.

Advertising:

Advertising, generally speaking, is the promotion of goods, services, companies and ideas, usually performed by an identified sponsor. Marketers see advertising as part of an overall promotional strategy. Other components of the promotional mix include publicity, public relations, personal selling, and sales promotion.

The impact of advertising has been a matter of considerable debate and many different claims have been made in different contexts. During debates about the banning of cigarette advertising, a common claim from cigarette manufacturers was that cigarette advertising does not encourage people to smoke who would not otherwise. The (eventually successful) opponents of advertising, on the other hand, claim that advertising does in fact increase consumption.

According to many media sources, the past experiences and state of mind of the person subjected to advertising may determine the impact that advertising has. Children under the age of four may be unable to distinguish advertising from other television programs, whilst the ability to determine the truthfulness of the message may not be developed until the age of eight.

With the dawn of the Internet have come many new advertising opportunities. Popup, flash, banner, advergaming, and email advertisements (the last often being a form of spam) abound.

Each year, greater sums are paid to obtain a commercial spot during the Super Bowl. Companies attempt to make these commercials sufficiently entertaining that members of the public will actually want to watch them. Particularly since the rise of "entertaining" advertising, some people may like an advert enough that they wish to watch it later or show a friend. In general, the advertising community has not yet made this easy, although some have used the internet to widely distribute their adverts to anyone wishing to see or hear them.

Another significant trend to note for the future of advertising is the growing importance of niche or targeted ads. Also brought about by the internet and the theory of The Long Tail, advertisers will have an increasing ability to reach narrow audiences. In the past, the most efficient way to deliver a message was to blanket the largest mass market audience possible. However, usage tracking, customer profiles and the growing popularity of niche content brought about by everything from blogs to social networking sites, provides advertisers with audiences that are smaller but much better defined, leading to ads that are more relevant to viewers and more effective for companies marketing products.

Sales Promotion:

In marketing, **sales promotion** is one of the four aspects of promotion. (The other three parts of the promotional mix are advertising, personal selling, and publicity/public relations.) Sales promotions are non-personal promotional efforts that are designed to have an immediate impact on sales. Sales promotion is media and non-media marketing communications employed for a pre-determined, limited time to increase consumer demand, stimulate market demand or improve product availability. Examples include:

- coupons
- discounts and sales
- contests
- point of purchase displays
- rebates
- free samples (in the case of food items)
- gifts and incentive items
- free travel, such as free flights

Sales promotions can be directed at either the customer, sales staff, or distribution channel members (such as retailers). Sales promotions targeted at the consumer are called **consumer sales promotions**. Sales promotions targeted at retailers and wholesale are called **trade sales promotions**. Some sale promotions, particularly ones with unusual methods, are considered gimmick by many.

Common Promos:

- Price deal: A temporary reduction in the price, such as happy hour
- Loyalty rewards program: Consumers collect points, miles, or credits for purchases and redeem them for rewards. The two most famous examples are Pepsi Stuff and AAdvantage.
- Cents-off deal: Offers a brand at a lower price. Price reduction may be a percentage marked on the package.
- Price-pack deal: The packaging offers a consumer a certain percentage more of the product for the same price (for example, 25 percent extra).
- Coupons: coupons have become a standard mechanism for sales promotions.

- Loss leader: the price of a popular product is temporarily reduced in order to stimulate other profitable sales
- Free-standing insert (FSI): A coupon booklet is inserted into the local newspaper for delivery.
- On-shelf couponing: Coupons are present at the shelf where the product is available.
- Checkout dispensers: On checkout the customer is given a coupon based on products purchased.
- On-line couponing: Coupons are available on line. Consumers print them out and take them to the store.
- Rebates: Consumers are offered money back if the receipt and barcode are mailed to the producer.
- Contests/sweepstakes/games: The consumer is automatically entered into the event by purchasing the product.

Point-of-sale displays:

- Aisle interrupter: A sign the juts into the aisle from the shelf.
- Dangler: A sign that sways when a consumer walks by it.
- Dump bin: A bin full of products dumped inside.
- Glorifier: A small stage that elevates a product above other products.
- Wobbler: A sign that jiggles.
- Lipstick Board: A board on which messages are written in crayon.
- Necker: A coupon placed on the 'neck' of a bottle.
- YES unit: “your extra salesperson” is a pull-out fact sheet.

Relationship Marketing:

Relationship marketing is a form of marketing that evolved from direct response marketing in the 1960s and emerged in the 1980s, in which emphasis is placed on building longer term relationships with customers rather than on individual transactions. It involves understanding the

customers' needs as they go through their life cycles. It emphasizes providing a range of products or services to existing customers as they need them.

The origins of relationship marketing observes: “What is surprising is that researchers and businessmen have concentrated far more on how to attract customers to products and services than on how to retain customers”. The initial research was done by Len Berry at Texas A&M (Berry, L. 1982) and Jag Sheth at Emory, both of whom were early users of the term “relationship marketing”, and by marketing theorist Theodore Levitt at Harvard (Levitt, T. 1983) who broadened the scope of marketing beyond individual transactions.

In practice, relationship marketing originated in industrial and b-2-b markets where long-term contracts have been quite common for many years. Academics like Barbara Bund Jackson at Harvard re-examined these industrial marketing practices and applied them to marketing proper (Jackson, B.B. 1985).

According to Len Berry (1983), relationship marketing can be applied: when there are alternatives to choose from; when the customer makes the selection decision; and when there is an ongoing and periodic desire for the product or service.

Fornell and Wernerfet (1987) used the term “defensive marketing” to describe attempts to reduce customer turnover and increase customer loyalty. This customer-retention approach was contrasted with “offensive marketing” which involved obtaining new customers and increasing customers' purchase frequency. Defensive marketing focused on reducing or managing the dissatisfaction of your customers, while offensive marketing focused on “liberating” dissatisfied customers from your competition and generating new customers. There are two components to defensive marketing: increasing customer satisfaction and increasing switching barriers.

Traditional marketing originated in the 1960s and 1970s as companies found it more difficult to sell consumer products. Its consumer market origins molded traditional marketing into a system suitable for selling relatively low-value products to masses of customers. Over the decades, attempts have been made to broaden the scope of marketing, relationship marketing being one of these attempts. Marketing has been greatly enriched by these contributions.

The practice of relationship marketing has been greatly facilitated by several generations of customer relationship management software.

Customer Focus:

A **marketing oriented** business (also called **market orientation**, the **marketing concept**, **consumer focus**, or **customer focus**) is one that allows the wants and needs of customers and potential customers to drive all the firm's strategic decisions. The firm's corporate culture is systematically committed to creating customer value. The rationale is that the more a company understands and meets the real needs of its consumers, the more likely it is to have happy customers who come back for more, and tell their friends. This process can entail the fostering of long term relationships with customers. In order to determine what the customer wants, the company usually needs to conduct some form of marketing research. Overall, the marketer expects that becoming marketing oriented, if done correctly, will provide the company with a sustainable competitive advantage.

The concept of marketing orientation was developed in the late 1960s and early 1970s at Harvard University and at a handful of forward thinking companies. It replaced the previous sales orientation that was prevalent between the mid 1950s and the early 1970s, and the production orientation that predominated prior to the mid 1950s. Since the concept was first introduced in

the late 1960s, it has been modified, repackaged, and renamed as “customer focus”, “the marketing philosophy”, “market driven”, “customer intimacy”, “consumer focus”, “customer driven”, and “the marketing concept”.

Market Research:

Market research is the process of systematic gathering, recording and analyzing of data about customers, competitors and the market. Market research can help create a business plan, launch a new product or service, fine tune existing products and services, expand into new markets etc. It can be used to determine which portion of the population will purchase the product/service, based on variables like age, gender, location and income level. It can be found out what market characteristics your target market has. With market research companies can learn more about current and potential customers.

The purpose of market research is to help companies make better business decisions about the development and marketing of new products. Market research represents the voice of the consumer in a company.

A list of questions that can be answered through market research:

- What is happening in the market? What are the trends? Who are the competitors?
- How do consumers talk about the products in the market?
- Which needs are important? Are the needs being met by current products?

With market research you can get some kind of confirmation that there is a market for your idea, and that a successful launch and growth is possible.

The Importance of Customer Service:

A company can outperform rivals only if it can establish a difference that it can preserve. Customer service can be such a difference. It is very difficult to control, and therefore difficult to imitate. It is difficult to control because of its variability. The level of service may vary greatly between two providers in the same organization. It may also vary from one moment to another, even as delivered by the same provider. The difficulty is compounded in multi-unit operations; and in addition to variability within units, there is also variability among units.

That is both the challenge and the opportunity. The consistent delivery of superior service requires the careful design and execution of a whole system of activities that includes people, capital, technology, and processes. The few companies that can manage this system do stand out, and are sought out. This is the foundation of their sustainable competitive advantage.

Acculturation is the principal means by which an organization develops an ability to deliver outstanding customer service. The quality of a customer's experience cannot be sustained by a command and control system; it cannot be produced by fiat. The senior management of an organization does not have the power to directly control each customer's experience. That power is possessed by the people who deal directly with the customers – the organization's front line.

For an organization's members to deliver superior service consistently, they must be acculturated, i.e. instilled with the values, traits, patterns, and behaviors associated with a service culture. The mechanisms of this acculturation include recruitment, training, empowerment, and accountability, within the framework of an organization's ideology of service.

Delivering customer service begins with understanding what customers want. And this understanding begins with the understanding that they do not always know what they want, or

why the want it. Traditional market research assumes that they do. Newer methods recognize that as much as 95% of our decision making is subconscious.

Common research methods (e.g. surveys and focus groups) more often reveal what customers *think* their motivations are, rather than what their motivations truly are. When respondents do not comprehend their true motivations, they tend to state how they think they *ought* to be motivated. Recent progress in neuroscience and in observational technologies have yielded more reliable, less biased results.

Regardless of how they arrived at their findings, most researchers agree on the several, basic factors. Suppliers that meet these requirements are likely to give their customers a satisfactory experience.

In a competitive environment however, satisfaction may not be enough. To stay in business, firms must be at least as satisfactory as their competitors. Moreover, firms that aim to gain profitable growth must increase the number of their customers, while reducing the cost of customer acquisition. This is particularly true of companies that compete in mature industries. The objective then is not merely to satisfy customers, but to convert them into promoters (customers who recommend a company to others). Promoters serve to increase a firm's clientele, without increasing its cost of acquisition – i.e. with no additional marketing or promotional expense.

But customers do not make recommendations lightly. When they make a recommendation, they put their own reputations on the line. Companies must earn that recommendation through the consistent delivery of outstanding customer service.

Organizations often view customer complaints as an unwanted annoyance. In the extreme case, some internet-based companies have been so determined to prevent negative customer feedback, they prevent any means by which customers can make a complaint. However, customer complaints should serve as a valuable tool of assessing organizational weaknesses as well as ways to improve customer service. An organization's attention to customer complaints can be useful for a variety or reasons:

- While some negative feedback from customers may be classified as 'frivolous', a complaint typically signifies, at least in the eyes of the customer, a failure in the organization's standards of high quality. Whatever the complaint, the organization should be interested in exactly what went wrong, so that, if possible, it can be fixed.
- How an organization deals with complaints may be viewed by customers (and their many personal, social, and professional network contacts) as the true litmus-test of the organization's commitment to customer service and support. In addition, it serves to positively reinforce the organization's own staff as to the importance of these issues.
- Last but not least, complaining customers are generally loyal customers. Those who are less loyal will usually not take the time to complain but simply switch their allegiance to another company. And, these customers will often continue to by loyal as long as their complaint is taken seriously and handled satisfactorily and in a timely manner.

It is essential that an organization monitors the satisfaction level of its customers. This may be, all else failing, at the global level; as measured by market research. Preferably, though, it should be at the level of the individuals or groups - especially where this is easy to achieve in the case of e-commerce, by simply asking customers, after they have used the service, how satisfied they are. IBM, at the peak of its success, conducted a survey every year of all its direct customers. The results were not just analysed to produce overall satisfaction indices, though that was done

(and senior management viewed any deterioration with alarm), but they were also provided to field management so that they could rectify any individual problem situations - where the customer was dissatisfied with any aspect of the IBM service and the IBM representative (presumably in 97% of the occasions if the above results - of the numbers who do not complain - hold true in this field) did not realise this to be the case! Much the same can be done with individual e-commerce customers - something which is much more difficult in conventional marketing.

There are a number of advantages to conducting satisfaction surveys (particularly where any individual problems highlighted can be subsequently dealt with) for e-commerce as much as in traditional markets:

- Like complaints, they indicate where problems lie; for rectification
- If they cover all customers, they allow the 97% of non-complainers to communicate their feelings; and vent their anger
- They positively show, even the satisfied customers, that their supplier is interested in the customer, and their complaints - which is at least half way to satisfying those complaints
- They help persuade the supplier's staff to take customer service more seriously.