How to Deal with Customer Shakedowns

by Jochen Wirtz

It’s one of the most basic aphorisms of business: The customer is always right. But when companies, especially large ones, try to rectify a service failure and satisfy an aggrieved customer, they face a risk many managers don’t think about: becoming a target for opportunists.

In my research, I define opportunistic customers as those who exploit companies’ compensation efforts for gain. Examples of this behavior exist in most service industries. One utility company received a claim from a customer for nearly $1,000 for food spoilage after a two-minute power outage. One travel company was asked for a full refund because a vacation hadn’t met unrealistically high expectations. One hotel faced off with a guest who insisted on a penthouse suite to compensate for a reservation error that had been immediately resolved.

All these over-the-top demands involved midsize to large companies. Janet McColl-Kennedy, of the University of Queensland, and I analyzed some 500 claims, both reasonable and opportunistic. Only five of the opportunistic claims were directed against small companies, which constituted 40% of our sample.

We think one reason opportunists prey on larger companies involves self-image and shame. Most people don’t want to feel like a bad guy—someone who would take advantage of a company that can ill afford a handout.

An opportunistic claim against a big company evokes little shame, because the customer can easily convince herself it won’t really harm the company. Still, many opportunists are aware they’re doing something wrong. We asked 40 people, “Have you ever asked for a refund or compensation that you thought was too much or unreasonable given the circumstances?” Seventeen admitted having done so within the past six months.

Another reason bigger companies are targeted probably has to do with the perception that because they have deep pockets, they’ll be quicker to offer compensation. Although we don’t have hard data on payouts, our research indicates that many midsize and large companies are, in fact, so focused on customer satisfaction and repeat patronage that they typically agree to opportunistic claims.

But companies aren’t helpless: They can reduce those claims by treating customers justly as soon as something goes wrong. Most people will respond in kind. There are three forms of justice that sway customers after a service glitch: the fairness of the compensation, the convenience of the claims process, and the company’s friendliness and level of concern.

And it’s the total of a company’s efforts in these areas that matters. A company can compensate for smaller payouts with a smooth claims process and a friendly response. Having a manager speak with the customer immediately may help minimize compensation beyond the specific loss. In a study of Taiwanese chain restaurants, Chen-Tsang Tsai, of National Taiwan Normal University, and Ching-Shu Su, of Jinwen University of Science and Technology, found that managerial attention produced the highest levels of customer satisfaction, beating out free food, discounts, coupons, and replacement items.

Finally, any compensation should be offered promptly. Customers who have to negotiate are more likely to make excessive demands—and their satisfaction remains low even after their claims are settled.

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