

## **CONSUMERS' COMPLAINTS AND COMPLAINT HANDLING AS A CRUCIAL ASPECT OF GOOD MARKET FUNCTIONING**

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**Abstract.** Despite a generally high level of consumer protection guaranteed by the EU legislation, the problems encountered by consumers are still too often left unresolved. At the same time, the fact that consumers do complain when they experience problems is an important feedback mechanism for businesses, allowing businesses to improve their performance. Therefore, the paper presents the analysis of actual consumer behaviour in the EU and Latvia in case if a complaint is necessary to protect their as consumers' rights, the tendencies for the complaint submission and appeal to public authorities or consumer organizations, or to a seller/provider/manufacturer. The aim of the paper is to analyse the tendencies of complaint submission, the behaviour of consumers when complaint is necessary, and importance of complaining for good market functioning. The study is based on the review of legislation, the documents of the European Commission, and literature on consumer rights' protection and behaviour. In the study, the authors applied descriptive method and secondary data analysis. Complaints and complaint handling are crucial aspects for a good market functioning. If consumers do not complain when they experience a problem, redress is denied to them, and valuable feedback is lost by the business. A quarter of citizens do not complain when they have a problem. Therefore, both – the consumers and sellers/providers/manufacturers should be more active to solve the experienced problem. Consumers should complain, but sellers/providers/manufacturers – improve the process of complaint handling.

**Key words:** consumers' complaints, complaint handling, feedback, consumer behaviour.

**JEL code:** M390

### **Introduction**

The role of consumers increases owing to sophistication of retail markets. Confident, informed and empowered consumers are the motor of economic change, as their choices drive innovation and efficiency (Commission of the..., 2007). Despite the high level of consumer protection already achieved in the EU, it is still possible to improve fundamentally the situation for the EU consumers. While the technological means are increasingly in place, yet business and consumers' behaviour lags far behind. According to 2011 figures, 17% of the EU consumers reported that they had encountered problems when buying something in their country (same proportion as in 2010). In Accordance with the Empowerment Report of 2011, the overall financial loss incurred by European consumers due to their encountered problems was estimated at 4 % of the GDP of the EU (European Commission, 2012<sup>a</sup>).

Therefore, the Commission will work towards the following two specific objectives: 1) improving information and raising awareness of consumer rights and interests among both consumers and traders; 2) building knowledge and capacity for more effective consumer participation in the market (European Commission, 2012<sup>c</sup>). If consumers are able to play fully their role in the market, making informed choices, and rewarding efficient and innovative businesses, they contribute to stimulating competition and economic growth. On the other hand, markets, where consumers are confused, misled, find it hard to switch or have little choice will be less competitive and generate more consumer detriment, to the expense of the efficiency of the overall economy.

Therefore, it is important to identify, which parts of the market are not working well for consumers (European Commission, 2012<sup>b</sup>).

In this connection, the aim of the paper is to analyse the tendencies of complaint making, the behaviour of consumers when complaint is necessary, and importance of complaining for a good market functioning. In the framework of the research, the following tasks were undertaken: 1) to examine how often consumers encountered a problem with goods or services and their reaction to the experienced problem; 2) to analyse consumers' propensity to complain as a whole, and find out where they are ready to complain; 3) to understand the reasons for not complaining; 4) to analyse the level of consumers' confidence in their rights, trust, and satisfaction in the market; 5) to work out recommendations for better complaint handling taking into account the importance of complaint for a good market functioning.

The study is based on the review of legislation, the literature on consumer rights' protection, and behaviour as well as on statistical data available from the European Commission's Analytical Reports, the EU Consumer Conditions Scoreboard, and Consumer Markets Scoreboard conducted in 2009-2012. In the study, the authors applied descriptive method and secondary data analysis.

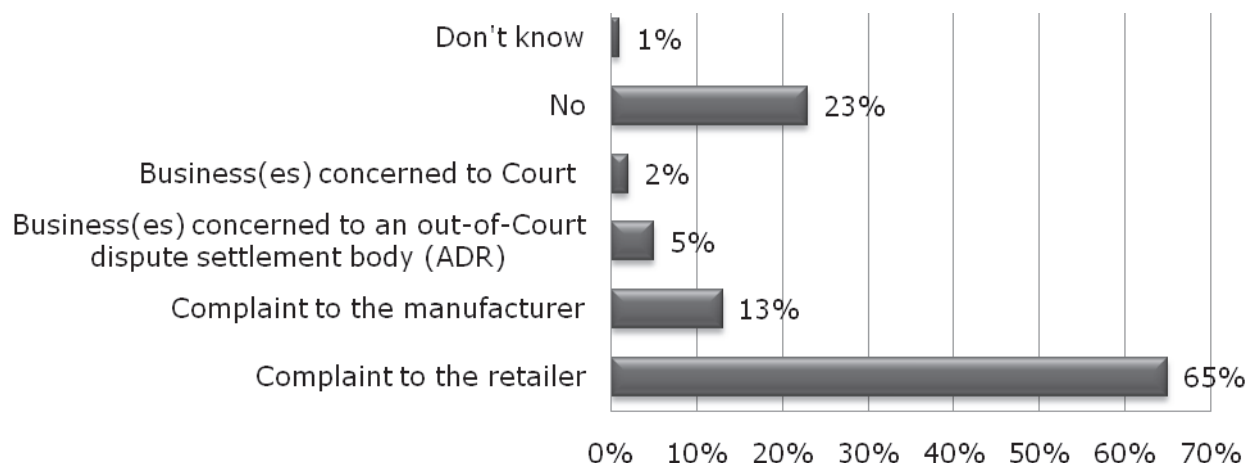
### **Research results and discussion**

Markets that respond more efficiently to consumer demand will perform better in competitiveness and innovation terms and will be more in tune with the lives

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Source: authors' construction based on TNS Opinion & Social, 2011

Fig. 1. Actions undertaken by consumers in response to experienced problem

and goals of the EU citizens. The outcomes for consumers in economic and non-economic terms are the ultimate arbiter of whether markets are failing or succeeding in terms of citizens' expectations. However, the final outcomes for consumers are based on consumers' real experience in the market.

According to the survey of consumers' opinion (TNS Opinion & Social, 2011), more than one in five respondents (21%) in the EU 27 had encountered a problem with a commodity, a service, a retailer, or a provider in the past 12 months, for which they had legitimate cause for complaint. In Latvia, the respondents had encountered a problem in 16% of cases. However, in some cases consumers might lack awareness what a "legitimate cause for complaint" implies. It is evidenced by the fact that most frequently the reply "have encountered any problem for which they had legitimate cause for complaint" was chosen by the respondents aged 25-39 (26%), the respondents with highest education levels, i.e. educated and older than 20 years (29%), and managers (32%). The respondents that reported the lowest incidence of such problems were among the oldest respondents aged 55 and older (16%) and the less educated who had left school at age 15 or younger (13%), retired persons (15%), and those who had never used a computer (10%). Consequently, those consumers, who knew their rights better, were the ones, who had more encountered a problem (TNS Opinion & Social, 2011).

More than three-quarters of consumers, who had experienced problems in the last 12 months, took some form of action in response to their problems (77%), while 23% took no action at all. Those who took action (multiple answers were possible) were most likely to respond in the form of making a complaint to the retailer or provider (65% of all experiencing a problem). Comparatively smaller number of consumers had made a complaint to the manufacturer (13%) (Figure 1).

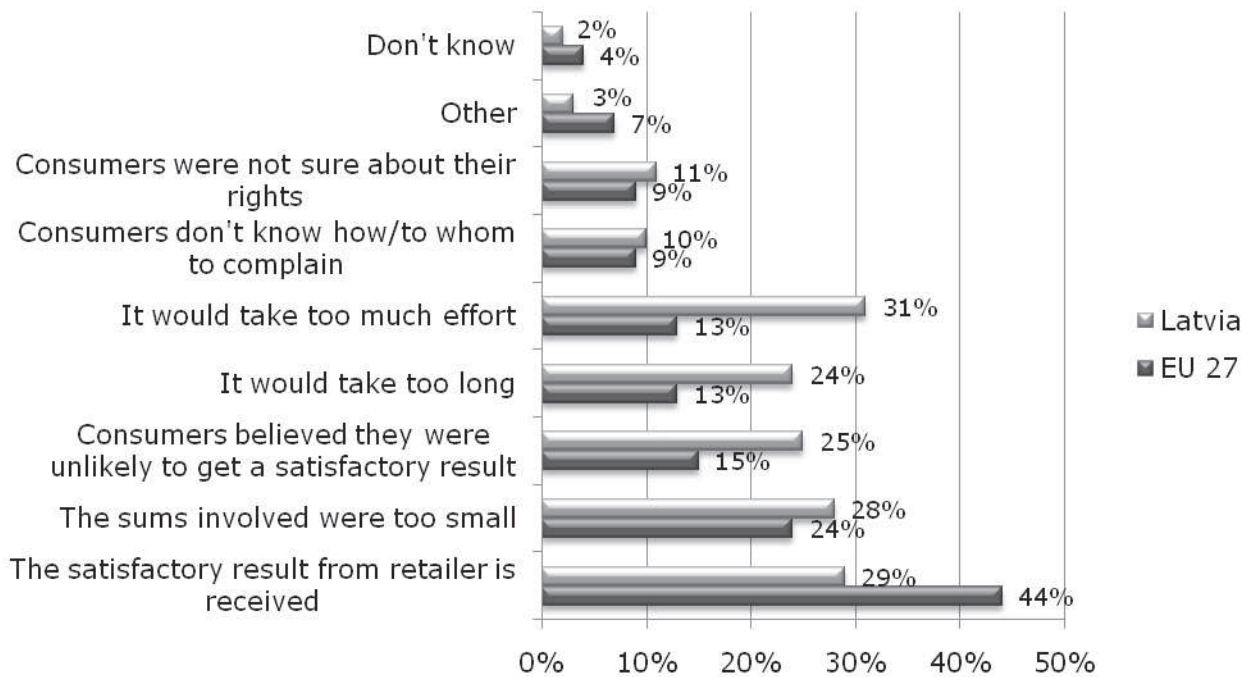
By contrast, consumers in Latvia were the least likely to take any action (only 55% took some form of action). That was the second lowest percentage of consumers, who were ready to take some actions in response to experienced problem in the EU 27.

According to the data of the Consumer Conditions Scoreboard (European Commission, 2012<sup>a</sup>), consumers, who encountered a problem after they had bought something, complained about it to the seller/provider/manufacturer in 80% cases in the EU 27 and in 58% of cases in Latvia. That demonstrates a huge difference between the EU 27 and Latvia: consumers in Latvia are much more passive, compared with the EU 27. Therefore, and especially in Latvia, it is important to encourage consumers to communicate their problems and to seek solutions, since complains benefits not only consumers themselves but also the market as a whole.

The indicator of complaints captures the severity of a problem, given that it takes more time and effort to complain to an official body than to family or friends. In another research, based on the annual market monitoring survey (European Commission, 2012<sup>b</sup>) it was detected that 76% of consumers who had encountered a problem complained about it to the company, the complaint body, friends, or family. Consumers' propensity to complain has considerably dropped both for goods and services' markets, as compared with 2011 (81%) and 2010 (79%).

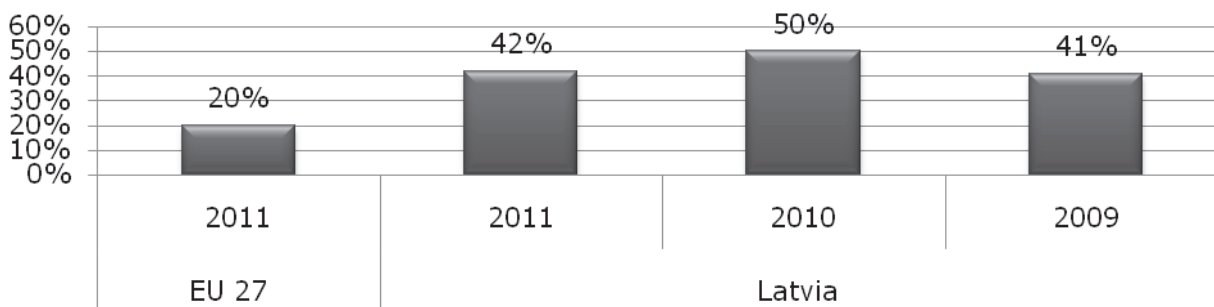
For all goods and services' markets, by far the most likely party to be addressed is the seller of the product or the provider of the service, i.e. the immediate and known point of contact (approached by 60% of respondents who encountered a problem). Only 5% of those, who had a problem, addressed their complaint directly to a manufacturer. Complaints addressed to a third party such as a public authority or consumer organisation remained rare (7%) and were more likely to occur in services' markets (9% as against 4% in goods markets). Finally, almost a third of consumers (31%) shared their problems with friends and family, confirming the importance of „word-of-mouth" in reporting bad experiences.

Having established the fact that very few consumers after having experienced problems had made a complaint to a public authority or a consumer organisation, the surveyors asked those consumers who had not taken any action to explain the reasons for not taking their complaint to the relevant bodies. The most frequently cited reason (multiple answers were possible) for not



Source: authors' construction based on TNS Opinion & Social, 2011

Fig. 2. Reasons for not taking complaint to consumer organization



Source: authors' construction based on the European Commission, 2012<sup>A</sup>

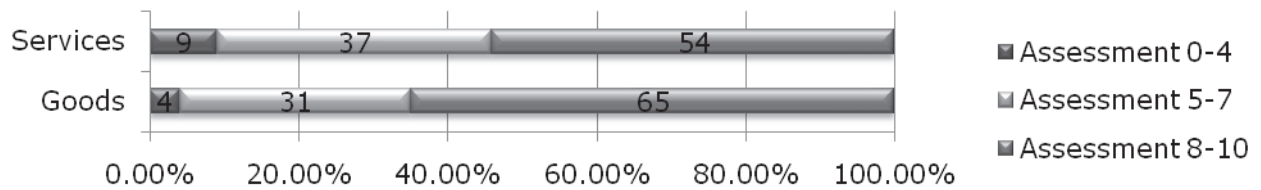
Fig. 3. Consumers who felt they had a reason to complain, but didn't, %

making a complaint to a public authority or consumer organisation was the fact that the person had already received a satisfactory result from the retailer/provider of the good/service (44%) (Figure 2.) In Latvia, this percentage is much lower compared with the EU 27, only 29% of consumers had received a satisfactory result from the retailer/provider of the good/service. The retailers and providers in Latvia are not so loyal to consumers and their problems as in the EU 27.

The next most common reason, mentioned by close to a quarter of respondents, was that the sums involved were too small (24%), in Latvia – 28%. Obviously, relatively few respondents did not perform this procedure due to their expectations of an unsatisfactory response or outcome. For example, only 15% believed they were unlikely to get a satisfactory result, and similar number of respondents replied that in their opinion it would take too long or take too much effort (13% each). Whereas, 19% of respondents answered that either it would take

too long or it would take too much effort. The reasons mentioned by Latvian consumers were even more important – 25% believed they were unlikely to get a satisfactory result, 24% answered that in their opinion it would take too long, and 31% thought it would take too much effort. It means that consumers in Latvia are less confident in their rights than in the EU 27 (Figure 2).

Moreover, Latvian consumers most likely admitted that their main reason for not complaining to a public authority or a consumer organisation was their opinion that this process would take too much effort. Moreover, the situation was similar in case of complaining to a seller/provider/manufacturer. The study of the Consumer Conditions Scoreboard (European Commission, 2012<sup>A</sup>) shows that even those consumers who felt they had a reason to complain to a seller/provider/manufacturer, did not do that in 20% of cases in the EU 27 and in 42% of cases in Latvia (Figure3).



Source: authors' construction based on the European Commission, 2012<sup>b</sup>

Fig. 4. Consumers' satisfaction level in EU 27

The data in Figure 3 reveal a dramatic difference between the EU 27 and Latvia in reaction on suspicion that consumers had reasons for complaining to a seller/provider/manufacturer. Therefore, consumer empowerment seems poor, since 42% of consumers did not complain despite having a reason to do so; it is the second highest rate in the EU. It approves the fact that consumers in Latvia are not confident and do not believe in a positive result of complaining.

The analysis of consumer confidence shows that those interviewees, who feel confident and those who feel protected by consumer law, less often say that taking a complaint to a public authority or a consumer organisation would take too much effort than those, who do not feel that way. Consequently, the lack of awareness undermines the ability of consumers to uphold their rights by not complaining since it would take too much effort, and it is due to consumers' lack of confidence and poor level of knowledge about consumers' rights.

The two relatively rarely cited reasons for not initiating a complaint procedure were lack of knowledge to whom to complain to (9% in EU 27 and 10% in Latvia) and lack of confidence in one's as consumer's rights (9% in EU 27 and 11% in Latvia). Therefore, the study leads to a conclusion that there are some problems at the EU 27 level connected with not complaining to a public authority or a consumer organisation, whereas consumers in Latvia are less confident, and retailers are less loyal to consumers and their problems compared with the EU 27.

According to the European Consumer Centre (ECC) data (European Consumer, 2012), year after year the pattern of complaints remains basically the same: more than half of them relate to a purchase on the internet and 20% by distance selling. The major concerned sectors are transport, especially by air, recreation and leisure, hotels, and restaurants (respectively, 31.9%, 20.3%, and 11.7% of all complaints). The problems are relatively highly distributed among the product/service itself, the delivery, the price and payment, and the contract terms (respectively 34.1%, 28.6%, 11.1%, and 10.2% of all complaints).

Sellers, providers and manufacturers are not interested in situation, when complaints are submitted directly to consumer organizations. The first reason is that they could be imposed by penalty. The second reason is that they lose a valuable feedback from consumers. They should create their own relationships with consumer for long-term collaboration, based on satisfying of needs and trust.

The trust component measures the extent to which consumers feel confident that businesses comply with

consumer protection rules (European Commission, 2012<sup>b</sup>). Consumer trust is fundamental to well-functioning markets – as Kenneth Arrow observed, "virtually every commercial transaction has within itself an element of trust" (Kenneth A., 1972). Proper enforcement of consumer legislation is also of crucial importance to protect reputable businesses from unfair competition. Consumers' trust in suppliers' compliance with consumer protection rules has seen a slight but steady increase over the past three years (European Commission, 2012<sup>b</sup>). In 2012, less than half of the EU 27 respondents (47%) expressed a high level of trust, while 13% were not confident of businesses' compliance with consumer protection rules. Trust is evaluated higher in Western and Northern European countries, while in Eastern European countries it is assessed below the EU27 average.

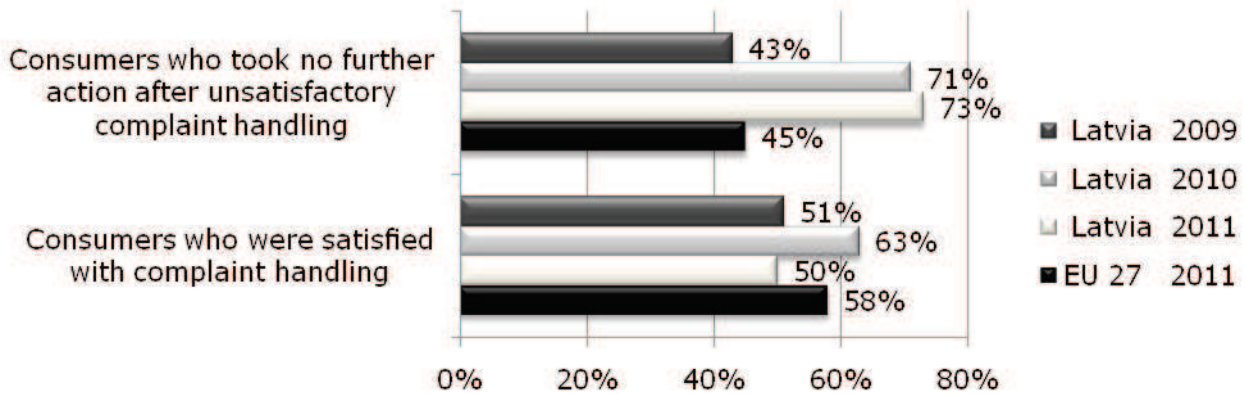
According to data of the Consumer Conditions Scoreboard (European Commission, 2012<sup>a</sup>), more than six out of ten respondents in 2011 (same proportions as in 2010) believed that public authorities protect their as consumers' rights (62%) and that retailers (65%) respect these rights.

The "satisfaction" component measures the extent, to which different markets meet consumers' expectations. Nearly 60% of the EU 27 consumers stated that, overall, the markets surveyed live up to their expectations (score 8-10) (Figure 4). The average score for this component (7.5) has been stable over the past three years.

Goods' markets score better on this component (as with all other components) than services' markets with average scores of 7.8 and 7.3, respectively. Consumers in Eastern European countries are considerably less likely to think that markets "deliver" to the desired level, while consumers in Western Europe are more positive in this regard. These regional differences are most striking for the banking and insurance markets.

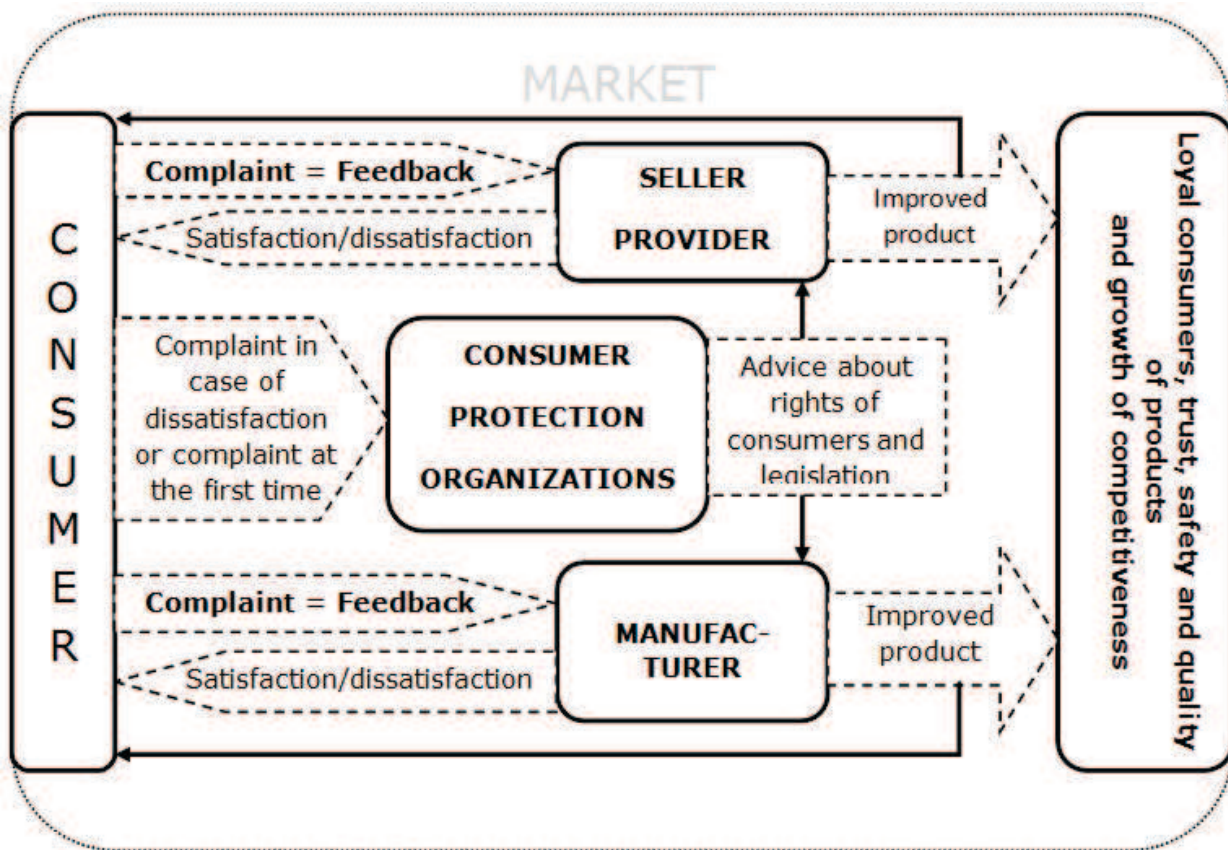
At the same time, the fact that consumers do complain when they experience problems is an important feedback mechanism for businesses, allowing them to improve their performance and provides useful information for authorities indicating, where policy intervention might be necessary (Figure 6). Dissatisfied consumers can directly address the retailer and/or a third-party organisation dealing with consumer complaints – national authorities, consumer organisations etc. Consumer organisations play an essential role in improving consumer information and knowledge, and identifying market problems, thus, they could provide information to sellers, providers, or manufacturers about consumers' legislation if the problem arises or some advice is needed for better market functioning. Such help is essential for effective complaint handling and good market functioning since





Source: authors' construction based on the European Commission, 2012<sup>a</sup>

Fig. 5. Consumers' satisfaction level with complaint handling and decision about further action in Latvia and the EU 27, %



Source: authors' construction based on Consumer Rights...1999; Procedures for...,2006; Blackwell R. D., Miniard P.W., 2007.

Fig. 6. Importance of complaint as an aspect of a good market functioning

previous research showed that some problems would also arise when sellers and providers are not informed about their obligations according to consumer legislation. For example, the retailer Eurobarometer survey in 2011 found that only 26% of retailers knew the exact period during which consumers have the right to return a defective product. (Spakovica E., Moskvins G., 2012)

Responsibility for the product quality helps to guarantee that sellers, providers, and manufacturers will satisfy their clients, it will strengthen the trust between parties, and could increase repeated purchases (Blackwell R. D., Miniard P.W., 2007). Similarly, poor complaint handling by companies is both a source of harm to consumers and a missed opportunity to

reinforce consumer loyalty. At the same time, in line with previous years, only around half of those consumers who complained to companies were satisfied with the result (European Commission, 2012<sup>A</sup>) (Figure 5).

The data in the figure demonstrates that in 2011 the level of consumers satisfied with complaint handling was low – in the EU 27 (58% of consumers). However, in Latvia, this level was even lower – 50% in 2011, and it has decreased compared with 2010. It means that situation has not improved during these years. In addition, being not satisfied with how their complaint was handled, most consumers gave up and took no further action (73% of consumers – the highest in the EU). In the EU, the percentage of consumers, who were not ready to take further actions was much lower – 45% (Figure 5).

In case, when consumers complain first to the seller/provider/manufacturer, but not to consumer organizations, it is possible to react on consumers' dissatisfaction about quality of goods or services, improve it, and prevent consumers' decision to address complaint to the consumer organization (Figure 6).

Basing on the survey analysis and requirements of legislation, the authors conclude that sellers/providers/manufacturers should play more active role in the process of complaint handling, for example, they should undertake some steps when they receive a complaint:

- 1) to analyse the situation, requirements of legislation, ask for advice from consumer organizations, and analyse causes of consumer's dissatisfaction;
- 2) to work out a complaint handling mechanism for quick and effective reaction on consumer's complaint;
- 3) to analyse who was at fault for non-qualitative goods or services. In case, if it was a manufacturer or supplier's fault, the seller or provider should change its supplier. Whereas, if that was a seller or provider's fault, then they need to take into account consumer's opinion, respect it, and to be grateful for the feedback since it gives possibility to detect problems with goods or services and improve their problematic points.

The detection of problematic points based on complaints and complaints' handling system, helps to increase consumers' level of satisfaction and provide stable communication and relationship between a consumer and a seller, a provider, or a manufacturer. Moreover, it gives possibility to react more quickly to the challenges of global supply chains and to get timely information about emerging product safety risks for improving quality and safety of goods, services, and competitiveness in the market.

## **Conclusions, proposals, recommendations**

1. More than one in five respondents (21%) in the EU 27 has encountered a problem with a good, a service, a retailer, or a provider. More than three-quarters of consumers, who have experienced problems in the last 12 months, took some form of action in response to their problems (77%), while 23% took no action at all.

2. The seller of the product or the provider of the service is by far the most likely party to be addressed by the consumer. Complaints addressed to a third party such as a public authority or consumer organisation remain rare (7%). Consumer organisations play an essential role in the improving consumer information, knowledge, and identifying market problems. Yet, Latvian consumers (31%) are more inclined to consider that complaining to a public authority or a consumer organisation would take too much effort, and Latvia is the only exception in the EU 27 in choosing this substantiation as the main reason for not complaining to a public authority or a consumer organisation.
3. Consumers in Latvia are much more passive compared with the EU 27. One of the reasons is that consumers in Latvia are not confident and do not believe in a positive result of complaining. The second reason is that retailers and providers in Latvia are not so loyal to consumers and their problems as in the EU. Only 29% of consumers received a satisfactory result from the retailer/provider. In addition, being not satisfied with how their complaint was handled, most consumers give up and take no further action (73% of consumers – the highest in the EU). In the EU, the percentage of consumers, who are not ready to take further actions, is much lower – 45%.
4. The lack of awareness undermines the ability of consumers to uphold their rights: not complaining since it would take too much effort is influenced by consumer's lack of confidence and poor level of knowledge about consumers' rights.
5. Sellers/providers/manufacturers are not interested in situation, when complaints are submitted directly to consumer organizations. The first reason is that they could be imposed by penalty. The second reason is that sellers/providers/manufacturers lose a valuable feedback from consumers, preventing them from improving their performance. Similarly, poor complaint handling by companies is both a source of harm to consumers and a missed opportunity to reinforce consumer loyalty. At the same time, in line with previous years, only around half of those consumers who complained to companies were satisfied with the result.
6. On basis of the survey analysis and requirements of legislation, it was concluded that sellers/providers/manufacturers should play a more active role in the process of complaint handling and create relationships with consumers for a long-term collaboration, based on satisfaction of needs and trust. Detection of problematic points based on complaints and complaints' handling system gives possibility to react more quickly on the challenges of global supply chains and get timely information about emerging product safety risks for improving quality and safety of goods, services, and competitiveness in the market. It is also important to encourage consumers to communicate their problems and seek solutions, since their activities provide benefits not only for consumers themselves, but also for the market as a whole.

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