

**Dispute Resolution at the Earliest Stages:  
Internal Complaint Handling and Customer Refunds**

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**Presentation Of:**

Charles I. Underhill  
Senior Vice President

Dispute Resolution Division

Council of Better Business Bureaus, Inc.

And

Acting Chief Operating Officer, BBBOnLine, Inc.

4200 Wilson Blvd.

Arlington, VA 22201

I'd like to thank the conference organizers for their invitation to make a presentation here today and let you know that I'm honored to be representing the Council of Better Business Bureaus<sup>1</sup>, BBBOnLine<sup>2</sup> and the network of more than 150 local BBB offices serving every major market in the United States and Canada.

After a number of years of traveling to present at various conferences and workshops, I've devised my own rating system for the importance of those I'm invited to attend. Take the number of miles you travel to get to the conference and back and divide it by the number of minutes you will actually be presenting. The farther you travel and the shorter you speak, the higher the number will be in "miles traveled per minute spoken". So, it is a measure of the importance I've attached to this conference that my "miles per minute" is 717. But the "miles per minute" of those of us coming from the Eastern United States pale compared to those coming Australia, for whom a 20,000 mile trip and a 10 minute presentation result in a whopping 2,000 "miles per minute" speech. As for one of my colleagues on this panel, Alastair Tempest, whose 106 mile trip yields a meager 10.6 "miles per minute" -- well, I can only congratulate him on his wisdom in choosing to live in and work in Brussels, so close to the site of this conference.

Since this is a conference about the online world, I've prepared a one-page handout, available on the table, with links to many of the sites and documents I'll reference during the course of this presentation.

At the Better Business Bureau and BBBOnLine, we know a great deal about consumer complaints. When North Americans have complaints and are looking for third-party assistance to help get those problems resolved, we're the organization we most frequently turn to for help.

To give you some idea of the numbers involved in the BBB's current consumer complaint handling activity:

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<sup>1</sup> See: <http://www.bbb.org> or <http://www.adr.bbb.org>

<sup>2</sup> See: <http://www.bbbonline.org>

- BBB AUTO LINE<sup>3</sup> is the Bureau dispute resolution mechanism operating under Federal warranty legislation, FTC rules, state "lemon laws" and manufacturer guidelines. During 1999, BBB AUTO LINE handled nearly 33,000 cases; of those initial consumer contacts, 11,400 (34%) did not pursue their cases. There are several reasons for this--in some cases, the consumer was ineligible for the program. In a significant number of these cases, however, surveys reflected that consumers had received some offer of settlement from a manufacturer that they accepted prior to filing a formal case. Of the remaining 21,600 cases, over 5,700 (26%) were resolved through an arbitrator's formal, written decision. Approximately 15,900 of the cases (74%) were settled through a process of mediation. Over the life of the program (from 1982 through 1999), BBB AUTO LINE has handled an astonishing 1,633,900 individual consumer warranty disputes. As I just indicated, the majority of these cases were resolved to customers' satisfaction through a process of mediation; however, over 233,600 were resolved through formal hearings before BBB-trained volunteer arbitrators serving in local communities throughout the United States.
- Local BBB offices handle a massive volume of consumer complaint inquiries and formal complaint filings. During 1999, the BBB system handled slightly in excess of 3 million requests for complaint assistance, representing a 10% increase over 1998. These complaint contacts resulted in over 420,000 formal complaint cases handled by local BBBs (also a 10% increase over 1998). Of those, approximately 66% were resolved, 8% were answered but not resolved, 18% were not answered by companies after repeated requests from the BBB. Finally, 8% were not pursuable by the BBB for one of several reasons (company out of business, complaint not a type handled by the BBB, etc.). A complete summary of the 420,000 complaints received during 1999 -- sorted by category of business -- is available online.<sup>4</sup>

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<sup>3</sup> See: <http://www.bbb.org/complaints/BBBAutoLine.asp>

<sup>4</sup> See: <http://www.dr.bbb.org/news/comp-1999.cfm>

So, at the BBB we know a good deal about consumer complaints in North America. But while we're going to spend most of our two days here discussing various aspects of dispute resolution in the online environment, I think it is critically important to point out that the best "alternative dispute resolution" for all parties is no alternative dispute resolution at all. Not because formal, third-party mechanisms don't or shouldn't exist -- we'll certainly use them -- but because in most cases, their mere existence will help encourage more informal, more effective company complaint handling and facilitate informal efforts in conciliation and mediation.

In this context, I was reminded of a turn of phrase one U.S. judge used in deciding a false advertising case against a parent company and its franchisees. The franchisees were using an advertisement prepared and promoted by the parent company. I'm paraphrasing here, but in deciding against the parent company, the judge noted that if the problem were to be corrected at its "headwaters", there was no need to "seine the downstream tributaries" (a phrase I'm almost certain will give the conference translators some exercise).

In the context of this conference, we might say that if consumers have few complaints -- and if those that arise are quickly and effectively resolved at their source directly by merchants -- there will significantly less need to worry about costlier third-party mechanisms, and the public interest will be better served.

Online merchants certainly should have powerful incentives both for providing excellent customer service and in effectively handling complaints. Here are some general observations about consumer complaints in the offline environment. Some of the most recognized research in this area in the U.S. can be traced to several key studies by an organization known as TARP, an acronym for "Technical Assistance Research Program". TARP -- now known as E-Satisfy -- conducted a seminal study completed in 1979 for the

United States Office of Consumer Affairs and entitled "Consumer Complaint Handling in America". TARP also conducted a second "update" study for USOCA on the same subject in 1986.<sup>5</sup>

The TARP studies drew a number of key conclusions. I'm going to summarize them here from [an article by TARP President John Goodman](#), published in *Competitive Advantage* in June 1999<sup>6</sup>:

- On average, 50% of consumers will complain about a problem to a "front line person".
- But only 1 - 5% of consumers will escalate a complaint to a local manager or corporate office, although for higher ticket items, the percentage of complainants is greater.
- On average, twice as many people are told about a bad experience than they are about a good experience.
- It is five times as expensive to win a new customer as to keep a current customer.
- Finally -- and perhaps surprisingly -- TARP found that customers who complain and are subsequently satisfied are up to 8% more loyal than if they had never had a problem at all.

But will these survey results, reflecting consumer attitudes and perceptions in 1979 and 1986, still have validity in this new, online marketplace?

It is my educated guess that, given the "one click" ease with which consumers can bring a dissatisfaction to someone's attention, more consumers will do so. I'm also convinced that many more consumers will find ways to escalate unresolved disputes -- either to companies or to third parties. Finally, I'm absolutely convinced that TARPs statistics regarding the impart of a negative customer experience (remember, " twice as many

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<sup>5</sup> TARP recently merged with an Internet-related consulting organization, Customer Insites, to form a new organization: e-Satisfy (<http://www.esatisfy.com>)

<sup>6</sup> See: <http://www.e-satisfy.com/pdf/basicfacts.pdf>

people are told about a bad experience than they are about a good experience") is almost certainly outdated as consumers post their dissatisfactions in chat rooms for the world to see and create websites specifically dedicated to giving global exposure to the facts of their individual complaint.

Recognizing that the online marketplace has created a quite different medium, the folks at eSatisfy teamed with the International Customer Service Association (ICSA) to conduct a benchmarking study of electronic customer service<sup>7</sup>. Some of the results:

- Online customers have higher expectations than "offline" customers for the time it takes for companies to respond to -- and resolve -- their concerns;
- Companies are not currently meeting online customer expectations;
- Only 36% of online customers are completely satisfied with the electronic contacting experience;
- Only 40% of online contacts are resolved with one online contact and almost half require a telephone call from the customer to resolve the problem;
- Poor handling of online contacts creates at least 30% lower customer loyalty among the two-thirds of online contacts who are not satisfied;
- Poor handling of online contacts results in a high level of negative word-of-mouth.

We believe it is one of our major obligations to make the obvious clear to merchant's -- it is in their best interests to perform at high levels, to capture those consumer complaints that do arise at the very earliest stages and to settle them quickly and professionally.

Recognizing this responsibility, BBBOnLine embarked on a major project to develop and implement a Code of Online Business Practices. The first draft of the BBB Code was released in November, 1999 and placed online for comment. More than 1,000 comments were received from government, business and consumer organizations and individuals.

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<sup>7</sup> For additional information, see: <http://www.e-Satisfy.com/pdf/icsa.pdf>

A second draft was released in early 2000. The final version of the Code was approved by the BBB and BBBOnLine boards in May of 2000 and the 130 local offices of the BBB system overwhelmingly approved the code in July and August. The Code will be applicable to the more-than 9000 web sites that carry the BBBOnLine Reliability seal after September 8, 2001. You can find a copy of the Code, in English, French, Spanish and German, at the *BBBOnLine* website<sup>8</sup>.

While the Code covers a number of critically important areas such as truthful and accurate communications, consumer disclosures, information practices, security and special practices for children, the one I'm going to touch on here involves the broad area of customer satisfaction. In this regard, the Code states that ". . . online merchants should seek to ensure their customers are satisfied by honoring their representations, answering questions, and resolving customer complaints and disputes in a timely and responsive manner."<sup>9</sup>

If you want to engage in a very-often-futile exercise, look at most web sites and try to find a place where you can actually file a complaint against the company. I searched 20 or so major sites this week; I can assure you, no one in the marketing department at any of these 20 companies apparently wanted to admit that there even is such a word as "complaint" or "problem" in the English language. So it is very difficult for them to steer you to a place where you could formally express your dissatisfaction with the company's products or services.

That's why the BBB Code requires that "online merchants provide an easy-to-find and understandable notice of how a customer can successfully and meaningfully contact the business to expeditiously resolve complaints and disputes related to a transaction." Further, the code requires merchants to ". . . have an effective and easy to use internal mechanism for addressing complaints and correcting errors."

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<sup>8</sup> See: <http://www.bbbonline.org/intl/code.asp>

<sup>9</sup> See: <http://www.bbbonline.org/code/principle4.asp>

Finally, directly to the subject of this conference, the BBB Code states that " . . . in the event the customer's complaint cannot be resolved, online merchants shall also offer a fair method for resolving differences with regard to a transaction by offering either an unconditional money-back guarantee or third-party dispute resolution." The Code goes on to state that if an online merchant offers third party dispute resolution, it should use a trusted third party that offers impartial, accessible, and timely arbitration that is free to consumers or at a charge to consumers that is not disproportionate to the value of goods or services involved in the dispute. Further, the Code states that merchants should provide customers with easy-to-find and understandable contact information for such third parties, including a link (or similar technology) to any third party sites used for such means.

Internal company complaint handling is critically important, and the BBB Code -- coupled with other similar Code efforts -- will certainly help businesses better understand their responsibilities in this new world of e-commerce.

However, for these to develop and flourish, we believe that unprecedented educational effort, with both merchants and consumers, will be required to ensure that cross-border electronic commerce develops its fullest potential.

To advance that objective in North America, the Better Business Bureau and BBBOnLine announced a major alliance with Visa U.S.A. three weeks ago.<sup>10</sup> Within the framework of that alliance, Visa will use its very significant reach throughout the U.S. merchant community to help BBBOnLine educate merchants about the Code, the BBBOnLine program and security and data protection issues. As a first step in educating consumers about the Visa/BBB alliance, Visa and BBBOnLine jointly sponsored a series of 4 full-page "safe holiday shopping" advertisements in the newspaper *USA Today*. The 4<sup>th</sup> ad is appearing in today's paper. Other projects will roll out during the two years of the alliance.

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<sup>10</sup> See: <http://www.bbb.org/alerts/BBBVisa.asp>



A second major initiative is being announced today through a joint release in Boston and New York. PricewaterhouseCoopers and the Better Business Bureau system (CBBB) are announcing an alliance aimed at helping businesses build more successful and trusted online customer relationships.

This alliance will leverage the substantial expertise, capabilities and resources of these two highly respected organizations, including PricewaterhouseCoopers' BetterWeb unit and the Council's BBB*OnLine* subsidiary. It will address several broadly recognized barriers to success online, including increasing the volume and reliability of customer transactions through a new approach to resolving customer problems online -- the very subject of this conference. The alliance will also initiating a series of efforts to provide insights, best practices, and enhanced capabilities to the online businesses community.

As I alluded earlier, current research suggests that four of five online customers will encounter difficulty completing an online transaction in the next 12 months.

PricewaterhouseCoopers and the BBB system have designed a powerful new approach to Web-based problem resolution that will help consumers address these issues and businesses manage them proactively. It will provide:

- A simple means for customers to communicate, monitor, and resolve an issue before it becomes a complaint and potentially a dispute;
- A vehicle for businesses to proactively manage these customer contacts quickly and effectively, preserving goodwill, building loyalty, and improving productivity;
- A centralized system for businesses to track issues, record contact volume and evaluate the root cause, manage productivity in addressing customer issues, and address customer concerns across multiple locations;
- A platform for third-party dispute resolution providers that supports their involvement as needed.

The BBB/PwC alliance will select one or more strategic development partners to develop and advance this breakthrough system and related services in the coming year. The Better Business Bureau (BBB) system, as one of the world's most experienced third-party

consumer dispute resolution providers, will adopt this approach to manage its own large problem resolution caseload. We also plan to make this new technology and design available to trustmark organizations throughout the world with which we expect to partner in the near future.

The second major initiative of the alliance will be a series of workshops, executive business roundtables and an annual conference focused on helping businesses build successful online relationships. These include providing businesses with guidance and information about addressing customer concerns about security, privacy, problem resolution, online service, and reliability -- including information about the BBB Code of Online Business Practices. The alliance also will conduct surveys and research about building more successful online relationships.

Combining the BBB's strength in dispute resolution and years of experience fostering ethical business practices -- in both the traditional and online marketplace -- with PricewaterhouseCoopers' experience in online relationship management is bound to impact significantly the strength and satisfaction of e-commerce transactions.

I want to reemphasize the global nature of both the Visa and PwC alliances and close by suggesting that we fully expect that other major international corporations will come forward to join Visa and PwC in their separate support for the goals and objectives of the Better Business Bureau system -- self regulation through meaningful standards of performance -- fast, fair, effective information and formal dispute resolution processes -- and a recognized mark to help consumers find these responsible companies.