Approach to estimate the cost of a customer complaint:

Every organization should know how much a customer complaint cost. It is surprising how much a dissatisfied customer is costing the organization. To figure out the average cost of a customer complaint, conduct a study and follow several representative complaints (minor issues, major issues). Then add up the out-of-pocket costs and internal productivity and equipment cost. To do this effectively, one must visualize how the organization would function if all customers were always satisfied. Here are some suggestions for collecting product complaint costs. A product complaint, by our definition, has to deal with a specification or performance issue.

Complaint Cost Collection Plan
1. Flowchart the apparent complaint process
2. Review complaint records
3. Interview customer service, the complaint coordinator, and inventory clerk to verify process and actions for various complaints.
4. Interview the marketing and product management personnel to verify the process and actions for specified complaints. The business area should also know the cost structure and scope of the complaint program.
5. Trace several complaints to include a minor complaint and a major complaint (use complaint records).
6. Then calculate the full cost (hourly rate, benefits, and overhead allocations) of the following resources:
   - Customer service and complaint coordinator
   - Cost of entering data into the computer (data entry charge out rate needed to pay for the computer hardware, software and maintenance)
   - Technical service cost to review and to conduct tests
   - Follow-up sales call
   - Marketing department/ manager cost (time)
   - Product manager cost, tracking cost
   - Calls to the plant, cost
   - Calls to Plant QC and retesting cost
   - Conference calls
   - Special customer instruction cost
   - Price adjustments or other customer give-a-ways
   - Special trip cost for top management to visit customer

Then you can do the same thing for distribution function (e.g. late shipments, damage in transit, etc.). Don't be surprised if the average complaint cost is several thousand dollars. However, one must remember that customer complaint costs will vary from organization to organization due to the type of product, services and market.