PUTTING ‘SERVICE-PROFIT CHAIN’ TO WORK

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INTRODUCTION

- Article tells about Profitability in a service business.
- Old management mantra.
- Today’s new economics of Service.
- Factors that drives Profitability.
- These factors leads to ‘Service-Profit Chain’.
- Patina of spirituality.
- Linkage between Employee & Customer.
ELEMENTS OF THE ‘SERVICE-PROFIT CHAIN’
- Importance of each employee and each Customer.
‘SERVICE-PROFIT CHAIN’

Operating Strategy and Service Delivery System

Internal Service Quality
- Employee Satisfaction
- Employee Productivity
- Employee Loyalty

External Service Value
- Employee Loyalty

Customer Satisfaction
- Customer Loyalty

Customer Loyalty
- Revenue Growth

Profitability

- Workplace Design
- Job Design
- Tools for serving customers
- Employee rewards and recognition
- Employee selection and development

Service Concept: Result for Customers
- Service designed and delivered to meet targeted customers need

Retention
- Repeat Business
- Referral
‘SERVICE-PROFIT CHAIN’ WORKING

- Internal Service Quality
- Employee Satisfaction
- Employee Loyalty and Productivity
- External Service Value
- Customer Satisfaction and Loyalty
- Profitability
‘SERVICE-PROFIT CHAIN’

**Internal Service Quality**
- Employee Satisfaction
  - Employee loyalty
    - Employee Productivity
  - External Service Value
- Customer Satisfaction
  - Customer loyalty
    - Revenue Growth
    - Profitability

**Operating Strategy and Service Delivery System**
- Workplace Design
- Job Design
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**Service Concept**
- Result for Customers
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**Retention**
- Repeat Business
- Referral
Quality & productivity improvements yield higher service quality and lower cost.
‘SERVICE-PROFIT CHAIN’

- Special kind of Leadership.
- CEO of exemplary companies emphasizes importance of each employee and Customer.
- Looking things on Factors – misses heart of the business (Customers).
FUNCTIONING OF ‘SERVICE-PROFIT CHAIN’
CUSTOMER LOYALTY DERIVES PROFITABILITY AND GROWTH

Operating Strategy and Service Delivery System

- 3 R’s of Customer loyalty.
- Customer Loyalty is most important determinant of Profit.
- Its 5% increase results 25-85% increase of Profit.
- Quality of market shares = Quantity of market shares.
- Banc One’s sophisticated system.
CUSTOMER SATISFACTION DRIVES CUSTOMER LOYALTY

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- Leading service companies trying to quantify customers satisfaction like XEROX.
- Xerox analysis led it to extend its efforts to create *apostles*.
- Profitability is to avoid *terrorists*. 
Apostles vs. Terrorists
Term coined by Scott D. Cook

A highly satisfied customer is loyal and derives Profitability & growth
- Satisfied Customers are not loyal.
- Feedbacks must not be manipulated.
VALUE DRIVES CUSTOMER SATISFACTION

Today Customers are **Value** Oriented (like in *Insurance*).

- Value depends on Perceptions of service delivered & Customer expectations.

- Providing employee with latitude to customize service to individual need.
EMPLOYEE PRODUCTIVITY DRIVES VALUE

Operating Strategy and Service Delivery System

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- Service Concept: Result for Customers

- Quality measured by Customer Satisfaction.

- Employee productivity = Quality + Quantity of work.
EMPLOYEE LOYALTY DRIVES PRODUCTIVITY

Operating Strategy and Service Delivery System

- Traditional losses incurred by employees turnover.
- Results in less productivity & so on.
- Turnover Costs.

- Service Concept: Result for Customers

- Revenue Growth
- Profitability
Employees turnover is related to Customer satisfaction.

Customer auditing.
EMPLOYEE SATISFACTION ➔ PROFITABILITY

- Employee Satisfaction
- Employee Loyalty
- Customer Satisfaction
- Customer Loyalty
- Comp Sales

- Recommend to Work
- Recommend to Buy From
- Customer Satisfaction
- Likelihood to Return
- Likelihood to Recommend
- Comp Sales
INTERNAL SERVICE QUALITY DRIVES EMPLOYEE SATISFACTION

Operating Strategy and Service Delivery System

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    - Employee Productivity
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        - Customer loyalty
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- Internal Quality of Working environment.
- Feelings and attitude towards each other.
- Rewards and Incentives.
CONCLUSIONS

- Industry success lies in the ‘Service-Profit Chain’.
- Front Line Employees and Customers - Paramount.
- Chain must flow smoothly.
REFERENCES

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Questions ??
THANK YOU