

Unit-I: Functional Implementation Issues of Strategies

Service Profit Chain

American economists W. Earl Sasser Jr. & Leonard A. Schlesinger and American businessman James L. Heskett, published “*The Service Profit Chain – How leading companies link profit and growth to loyalty, satisfaction and value*” in 1997, including an explanation of the Service Profit Chain. The basic principle of the Service Profit Chain theory revolves around the fact that customer satisfaction starts with good staffing and treatment of ones own employees. Committed employees are sociable and convey this to the customer.

Successful companies remain at the top because they manage their Service Profit Chain well. Apparently, there is a link between service on the one hand and profit on the other. This connection consists of links; hence the name ‘chain’. Such companies have a quantifiable set of relationships that directly link profit and growth to the many aspects of service. The Service Profit Chain involves customer loyalty, customer satisfaction, employee loyalty, employee satisfaction and productivity. This way, strong links develop between:

1. Profit – Customer loyalty
2. Employee loyalty – Customer loyalty
3. Employee satisfaction – Customer satisfaction

Based on the concept of the service-profit chain, a company should establish a link between employees and customer experience on the one hand and create profit and growth on the other. The different relationships reinforce each other; satisfied customers contribute to employee satisfaction, loyal employees contribute to customer loyalty, and this customer loyalty will eventually result in profit.

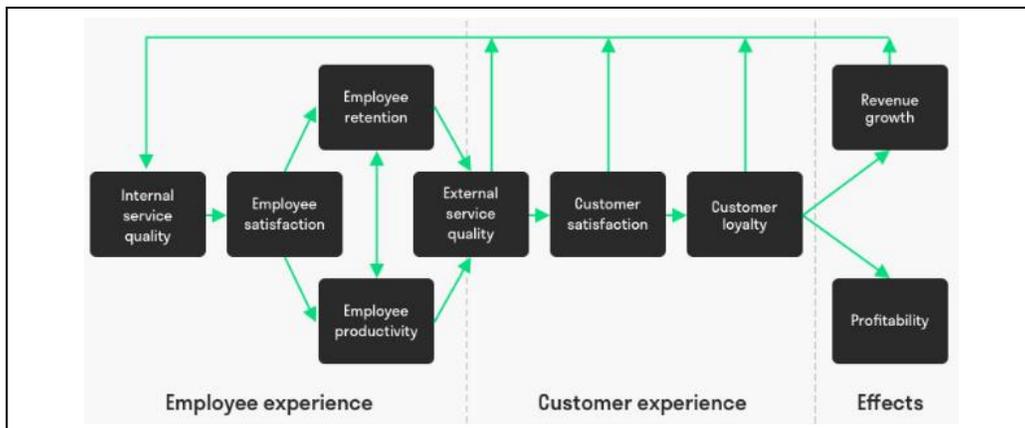


Fig.1: The Service Profit Chain Model

Steps

The Service Profit Chain shows that a company's profitability and growth are a result of customer and employee satisfaction. The model consists of sequential links that lead to success. Each link consists of so-called KPIs; Key Performance Indicators. In other words, these are crucial performance indicators; variables that are used to analyse the performance of a company, brand or product. The success of an organisation is measured with KPIs. These links can be compared to steps that need to be taken. The goal of these steps is to make a company successful. Each step can, as it were, be increased or decreased. A correct 'volume setting' will result in profit and growth for a company. It involves the following seven steps:

Step 1 – Internal: service quality

The first few steps of the Service Profit Chain involve employees. An organisation can only be successful if it invests in its own employees. This means that a safe work environment should be created, employees should be involved in the decision making process and should work together in a pleasant atmosphere. A company can achieve this by investing in their employees, to support, train and invest in the development of its employees. All to an extent that hiring, remuneration and development policy are important components of this first step. New employees with the right attitude, can contribute to the internal service quality. By rewarding employees, they are motivated to be actively engaged in the organisation. With training, education and course options, employees are in a better position to be fully committed to a company. The internal service quality will subsequently lead to employee satisfaction.

Step 2 – Employee satisfaction

One step cannot be achieved without the other. To satisfy employees and keep them satisfied, the same amount of attention must be devoted to them as is devoted to customers. Engaged employees are more productive, enabling them to provide a better service. They pass on their enthusiasm, leading to a positive image. Their job satisfaction has a positive effect on attracting and retaining customers. This so-called customer value can only be generated by satisfied employees. This results in loyal and productive employees.

Step 3 – Loyal and productive employees

Committed employees are loyal to their company, department and colleagues. They feel closely involved in the organisation and its joint goal. Therefore, they are more productive and feel very responsible for any end result. In this context, every employee is an ambassador of the organisation

and passes this view on to the customers. The deeper need of each individual employee is important in order to make them even more loyal and productive, so they can perform their job with pleasure.

Step 4 – Value proposition for the customer

The external value proposition for the customer is also referred to as the customer value. Why does a customer choose a specific product or brand or to only do business with a company the customer is already familiar with? Of course, the product or service itself is important, however the customer value is mainly created by the employees of the company in question. They ensure a customer values the way he/she is assisted and addressed. Satisfied employees truly care about the company and are able to convey this to their customers in a good and honest manner. As a result, the service they provide will increase and their attention will be sincere. Customers appreciate this.

Step 5 – Customer satisfaction

Step 5 and 6 are related and are directly linked. Customer loyalty is a result of customer satisfaction; a dissatisfied client will not be loyal and will not place a new order. The more satisfied a customer, the greater the chance that the customer will return for repeat business or place larger orders. Satisfied customers are seen as free publicity; they are ambassadors of the company and can recommend products and/or service in their environment with full enthusiasm.

Step 6 – Customer loyalty

A customer is loyal if he/she goes to the same company for a subsequent purchase, irrespective of whether or not the product or service is provided cheaper by a competitor. The customer deliberately chooses to do so and wishes to be helped by the company he/ she is already familiar with and has had positive experiences with. This customer loyalty will subsequently result in more growth and a higher profit for the company. If all customers are assisted well and are provided with the right service, this would be an excellent investment for the future. Customers will continue to return by their own accord.

Step 7 – Profit and growth

Profit in the Service Profit Chain is not the goal, it is the result. As you can conclude from the previous steps, all additional purchases will ensure that the company will make a profit and grow. Satisfied customers have the strength of word of mouth advertising; they contribute to the positive image of the company.

Leadership

Each step in the Service Profit Chain is a condition that leads to profit. Your own employees are key to customer satisfaction and loyalty. Without the first step, there is no second step and without the second step there is no third step etc. Leadership plays an essential role in this chain. It is the manager's task to create a culture in which employee's are optimally facilitated and can flourish. On the other hand, managers are expected to focus on customer service and service provision. Every manager is responsible for being the link between employees and customers and to follow and monitor the entire process. Therefore, managers invest a lot of time in hiring the right employees and will do anything to include them in the decision making process and help them improve. In order to get committed employees, managers must look at everyone's individual role and encourage and support them in this respect. This way, the service-profit chain will have the potential to succeed.

Acknowledgement Source: Mulder, P. (2018). *Service Profit Chain*. Retrieved [insert date] from ToolsHero: <https://www.toolshero.com/strategy/service-profit-chain/>

More information

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Customer Value Proposition

What is Customer Value Proposition (CVP)?

A Customer Value Proposition (CVP) is a promise of potential value that an organisation delivers to its customers and stimulates customer engagement. In marketing, the term “*value proposition*” is elucidated from different angles. From the angle of an organization, this term focuses on creating an extra value, which is linked to the product and/or service as part of the **unique selling propositions (USP)**. From the (potential) customer’s perception, the term focuses on the extra value that a product and/ or service represents, as a result of which the customer’s needs are responded to and the customer will respond by making a purchase.

Customer Value Proposition

By placing the (potential) customer at the centre of the business, added value is created. The products and/ or services do not represent this added value as such, but because they are used, Customer Value Proposition is created. There are different categories that a customer considers to be important and that lead to the development of the customer value proposition:

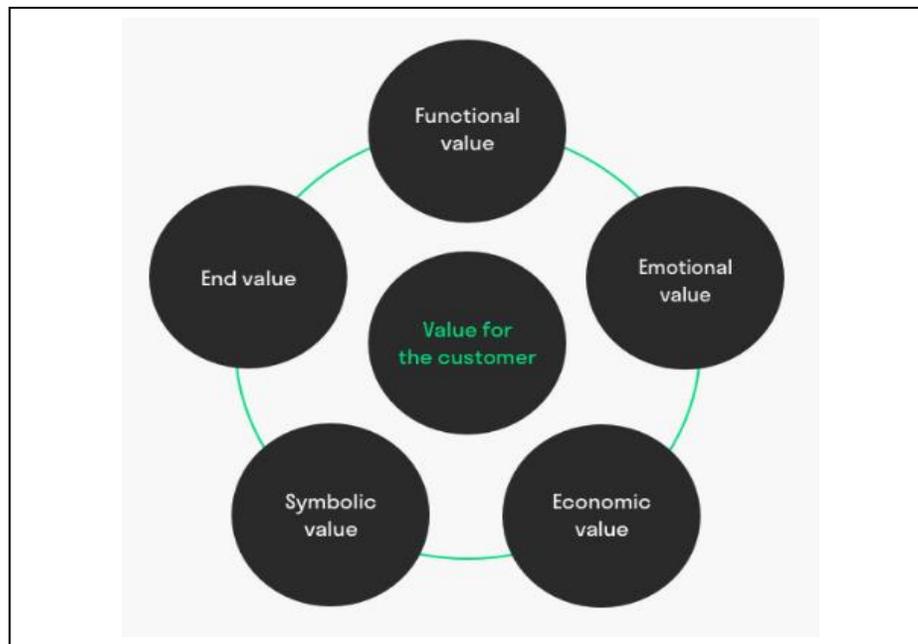


Fig.-1: Customer Value Proposition (CVP)

1. Functional Value

The product / service focuses on convenience, has a problem-solving ability, is better, easier to use and is more comprehensive than other products/services.

2. Emotional Value

The product / service is pleasant or attractive. The customer is attached to the product/service because of nostalgic reasons, tradition or the advice of other people.

3. Economic Value

The product / service offers a financial advantage, promotes energy conservation, saves time or is innovative.

4. Symbolic value

The customer attaches value to the status that the product/ service gives. This status may be oriented towards social responsibility or may be derived from a brand.

5. End value

In the end value the above-mentioned categories are represented. What image does the product /service convey?: health, prosperity, youth, independence, etc. Moreover, customers it is very important to take customers very seriously. An excellent service, a clear explanation and an airtight guarantee are factors that will contribute to high levels of customer satisfaction. In turn, these will lead to the end values of a product/service.

Customer Value Proposition and Customer Insight

In order to create a good customer value proposition, companies need to obtain a good customer insight. But can companies obtain information about their customers' needs and expectations? Market research and trend watching enable companies to quickly discover what these needs and expectations are. It is also very important to keep an open communication with customers themselves and to study their feedback seriously. This feedback may be obtained from complaints made, customer panels, reviews on the Internet and social media.

Customer Value Proposition and Added Value

Added value can also create a unique customer value proposition. This could be achieved by adding something extra to the product/ service, which is perceived by the customer as valuable. This is how a company can distinguish itself from its competitors. An added value does not have to be complicated. The recipe cards in the fruit and vegetable section of a supermarket are an example of this.

Communication

But how can you make your customer value proposition clear to customers. Marketing distinguishes four strategies:

1. Emphasize the benefits

All the benefits a customer receives are mentioned in which quantity plays an important role.

2. Emphasize the favourable differences

A company mentions all favourable points with which they distinguish themselves from the competition. These differences are called USPs.

3. Emphasize the critical value factors

The company mentions no more than two buying advantages with which it is successful.

4. Emphasize the threshold removers

Possible purchase thresholds are removed as a result of which the customer is convinced to choose for the product/ service.

From USP to UBR

A Unique Buying Reason (UBR) gives a customer a reason to buy a product / service. This buying motive addresses the product benefits and the emotional benefits (Values). This is why it is important for companies to work hard at the Unique Selling Proposition / Points (USP's) or product characteristics in combination with the added values. By placing the customer at the centre of the business, the value proposition can increase. A good value proposition is valuable this enables a company to distinguish itself from its competitors.