

The role of the service - profit chain inside the interaction between the service supplying company and the client

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Abstract

The paper analyses the role of the service-profit chain inside the interaction between the service supplying company and the client. The service – profit chain proposes a relation connecting the profitability and the client's loyalty and satisfaction to the employees' satisfaction, capability and productivity

Keywords

service, profit, chain, satisfaction, customer

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One of the features which make services to be unique is the client's active participation to the services production process. Each and every “moment of truth” involves interaction between the client and the supplier of services, each of them playing a distinct role in a “play” directed by the services organisation¹. Bateson² considers that the meeting for the services supplying appears under the form of a triad containing the relationship among the service supplying organization, the contact staff and the client.

The managers of a profit-oriented service supplying organization are interested in supplying the respective service, as efficiently as possible, having in mind to protect the profit margin and to remain at a competitive level. The non-profit service supplying organizations should choose for effectiveness instead of efficiency, being obliged, in their turn, to operate within the limits established by the budget. In order to be able to control the service delivery, the managers tend to impose, to the contact staff, rules and procedures meant to limit their autonomy, in the moment they serve the client. The same rules and procedures try to limit the consumer's degree of non-satisfaction. The interaction between the contact staff and the client owns the element of control perceived by both parts implied. In order to make their own job easier and less stressing, the contact staff wants to control the client's behavior; at the same time, wishing to get a maximum of benefit, the client seeks to obtain the control of the meeting.

The service – profit chain proposes a relation connecting the profitability and the client's loyalty and satisfaction to the employees' satisfaction, capability and productivity. Profitability, as well as, the growth of income originates in the clients' loyalty. The clients become loyal as a result of their satisfaction, which, in its turn, is influenced by perceived value of the service. The satisfied, efficient, capable and attached employees will create the

¹J.Fitzsimmons, M.Fitzsimmons(2005), *Service Management*, TATA McGraw-Hill, p.198.

²J.E.Bateson, *Perceived Control and The Service Encounter*, în J.A.Czepiel., M.R.Solomon și C.F.Surprenant(eds.)- *The Service Encounter*, Lexington Books, Lexington, Mass.,1985,p.76.

value of the service. The employees' satisfaction and loyalty begin with their selection and training, but they need an investment in information technology and a support from the organization, which will also lead them to the decision to serve the consumers.

If we look attentively upon every link between the previously mentioned matters, we will be able to understand how the service-profit chain operates in its wholeness³.

The client's loyalty determines profitability and growth

In order to maximize the profit, the managers aimed at being the first, or, at least, being put on the first places, from the domain or from the industry they activate in. Recently, it has been discovered that the consumer's loyalty is the most important determinant of the profit.

Reicheld and Sasser⁴ estimate that a 5% improvement of the client's loyalty can determine growths of the profit of 25% up to 85%. The two authors believe that the qualitative market share (measured function of the clients' loyalty) is as important as the quantitative one.

The consumer's satisfaction determines his loyalty

The leading services supplying companies have constantly tried to quantify the consumer's satisfaction. For example, XEROX Corporation, using a five-point scale, has researched 480.000 consumers per year, measuring their satisfaction regarding the product or the services. The corporation has come to the conclusion that the relation between the scores and the loyalty differ a lot, function of the situation in which the consumer acknowledges himself as being very satisfied (number 5) or only satisfied (number 4). The consumers which have marked the number 5 had a six times greater probability to buy again, than those who have marked 4.⁵

The value determines the consumer's satisfaction

Nowadays consumers are strongly oriented towards value. The consumer's value is measured by means of comparing the results obtained with all the costs used to obtain the service.

The employees' productivity determines the value

For example, the clients of Southwest Airlines Company have a very high perception of value. The clients value the frequent flights, the services supplied in time and the friendly employees. The employees' capacity of obtaining a superior productivity involves a growth of the value delivered to the consumer.

The employees' loyalty determines the productivity

The traditional measures, regarding the losses due to the employees' fluctuation, focus only upon the costs of recruitment, employment and training of those who will replace the leaving employees. In many of the services sectors, the real cost of fluctuation is a slow down of productivity, as well as, a low satisfaction of the consumer.

The employees' satisfaction determines loyalty

A study performed in 1991, in USA, has revealed that 30% of the non-satisfied employees intended to leave the company. This percentage regarding the potential ratio of fluctuation is three-times greater than in case of the satisfied employees.

The inside quality determines the employees' satisfaction

The inside quality of the working environment and condition has the greatest contribution to the employees' satisfaction. This inside quality is measured by the employees' feelings regarding their work, their colleagues and company. At the same time, the inside quality is characterized by the employees' attitudes one towards another, as well as, by the manner they serve one another in the organization.

³ Isac, F.L. (2009), *Management în servicii*, Ed. Mirton, Timișoara, p.204-206.

⁴ F.Reicheld, W.E.Sasser Jr., *Zero Defections: Quality Comes To Services*, Harvard Business Review, octombrie 1990.

⁵ James Heskett, T.O. Jones, G.Loveman, W.E.Sasser și L.A. Schlesinger, *Putting the Service-Profit Chain to Work*, Harvard Business Review, martie-aprilie 1994.

An audit of the service – profit chain helps the company to establish what determines their profit and to suggest actions which might lead to a long-term profitability. With this view, the managers of the service supplying companies should have responses for the following questions:

1. How shall we define the loyal clients?
2. Which is the ratio of expenses and incentives directed towards the preservation of the existent clients?
3. Why are our clients giving up the services of the company?
4. Are the information about the clients' satisfaction collected in an objective, consistent and periodic manner?
5. Which are the instruments used for obtaining the feedback from the organisation consumers?
6. How is the information about the consumers' satisfaction used with the view of solving the clients' problems?
7. How is the external value of the services measured?
8. How is the information about the clients' perception of value disseminated towards those who are responsible for the projection and design of the products or of the services?
9. Do the organization efforts for improving the external quality of the services reinforce the recovery of the previous errors?
10. How is the employees' productivity measured?
11. In what degree the measures for productivity identify changings regarding the quality and quantity of the service obtained per entry unit?
12. How is the employees' loyalty obtained?
13. Did we make enough efforts in order to determine the level of preserving our employees?
14. Is the employees' satisfaction such a way measured as to allow a connection with similar measures regarding the consumer's satisfaction?
15. Are the employees' selection criteria adjusted function of the clients' perception about what is important?
16. In what degree are the measures for consumer's satisfaction and loyalty used in order to recognize the employees' merits and to reward them?
17. Do the employees know who are their clients?
18. Are the employees content with the technological and personal support they receive at their working place?

Finally, we present, here, a synthesis of some empirical records regarding the service – profit chain.

Table 1. Empirical records regarding the service-profit chain

Year	Study	Description	Source of sample	Size of sample	The main findings
1994	Heskett et al	Relationship between the employees; satisfaction and loyalty, the value of the service and the consumer' satisfaction and loyalty	Organizations and services	20	A model of service – profit chain is proposed
1995	Jones & Sasser	A study upon the relation between	Companies	30	Satisfaction is positively correlated

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		consumer's satisfaction and loyalty, in five domains of services			with loyalty
1996	Hallowell	Empirical study regarding the relation among the satisfaction, loyalty and performance, in a commercial bank	Divisions of commercial banks	59	There is a relation between the consumer's satisfaction and loyalty and the profitability
1998	Loveman	Empirical study testing the service – profit chain, in retail branches of a regional bank	Branches of a regional bank in USA	450	Positive relation between the consumer's satisfaction and loyalty
1998	Rucci et. Al	Empirical study regarding the relationship between the employees' attitudes and satisfaction and the financial performance, at Sears	Sears shops	800	A model of the relation employee – client – profit is proposed
2000	Spinelli & Canavos	Empirical study regarding the relationship between the employee's and the client's satisfaction, in hotel industry	Hotels in USA	6	The employee's satisfaction is positively correlated with the client's one
2002	Silvestro	Study of the relation between the employee's satisfaction, loyalty and productivity and the profit, in supermarket with several locations	Locations of a supermarket in Great Britain	15	The employee's satisfaction and loyalty are negatively correlated with the profit

(Source: processed after Yee, R.W.Y., Yeung, A.C.L., Cheng, T.C.E., Lai, K.H. – The service – profit chain: A review and extension, Total Quality Management, vol. 20, no. 6, June 2009, pages 621 – 623)

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