



Putting the Service-Profit Chain to Work

Key ideas from the [Harvard Business Review](#) article By James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser, Jr., Leonard A. Schlesinger

The Idea in Brief

What drives growth and profitability in a service business? Highly satisfied customers. And to keep those customers profitable, you need to manage *all* the aspects of your operation that affect customer satisfaction--what the authors call the **service-profit chain**.

Here's how the service-profit chain works: Employee satisfaction soars when you enhance *internal service quality* (equipping employees with the skills and power to serve customers). Employee satisfaction in turn fuels *employee loyalty*, which raises *employee productivity*. Higher productivity means greater *external service value* for customers--which enhances *customer satisfaction* and *loyalty*. A mere 5% jump in customer loyalty can boost profits 25%-85%.

To maximize your profits, strengthen all the links in your service-profit chain. For example, fast-food giant Taco Bell found that its stores with low workforce turnover (a key marker of employee loyalty) enjoyed double the sales and 55% higher profits than stores with high turnover. To boost profitability across stores, it enhanced internal service quality--for instance, by giving employees more latitude for on-the-job decision making.

The Idea in Practice

To optimize your profitability, the authors recommend these practices:

Understand the Links in the Service-Profit Chain

Starting with internal service quality, each link in the service-profit chain can directly strengthen--or weaken--the next:

This link affects this link	Example
Internal service quality	Employee satisfaction	Financial-services company USAA makes it easier for call-center reps to achieve results for customers by equipping them with state-of-the-art information systems. It also offers more than 200 courses in its employee development program.
Employee satisfaction	Employee loyalty	At Southwest Airlines, employee satisfaction levels are so high that at some of its operating locations, turnover rates are lower than 5% per year.
Employee loyalty	Employee productivity	An experienced broker who stays with a securities firm for five or more years may account for \$2+ million in revenue over several years.
Employee productivity	External service value	Thanks to Southwest employees' unusual productivity (including rapid deplaning and reloading), customer perceptions of service value are very high—even though Southwest doesn't assign seats or offer meals.
External service value	Customer satisfaction	Insurance provider Progressive creates service value for customers by sending teams to the scene of major accidents and providing support services like transportation and housing. By processing and paying claims quickly and reducing policyholder effort, the company enhances customer satisfaction.
Customer satisfaction	Customer loyalty	Xerox found that customers who rated their satisfaction level with the company with a "5" ("very satisfied") on a scale of 1 to 5 were six times as likely to demonstrate loyalty—by repurchasing Xerox equipment—as those who rated their satisfaction level with a "4" ("satisfied").
Customer loyalty	Growth and profitability	By regularly taking steps to improve customer loyalty, Banc One achieved a return on assets more than double that of its competitors.

Measure--and Manage--the Relationships in Your Service-Profit Chain

To enhance profitability, measure the relationships between links in your company's service-profit chain. Then fashion strategies for strengthening them.

To assess the relationship between **internal service quality** and **employee satisfaction**, Taco Bell: 1) Monitors **internal service quality** through a network of 800 numbers created to answer employees' questions, field their complaints, remedy situations, and alert top-level management to potential trouble spots. 2) Conducts periodic employee roundtable meetings, interviews, and companywide surveys to measure **employee satisfaction**. The results of this work prompted Taco Bell to design an employee satisfaction program that features a new selection process, improved skill building, and automation of unpleasant "back room" labor.

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Further Reading

Articles

Why Satisfied Customers Defect

Harvard Business Review

June 2001

by Thomas O. Jones and W. Earl Sasser, Jr.

For the service-profit chain to work, your customers must be *highly* or *completely* satisfied--not just satisfied. Otherwise, they're ripe for defection to rival companies. The authors dispel the common belief that the company-customer relationship is strong with any customer who describes him- or herself as "satisfied." And they show how efforts aimed at creating highly satisfied customers are worth far more than their expense. Finally, Jones and Sasser explain ways to implement such efforts--for example, how to listen to customers and measure their loyalty.

Loyalty-Based Management

Harvard Business Review

November 2000

by Frederick F. Reichheld

This article focuses on employee and customer loyalty--two essential links in the service-profit chain. Companies that win employees' and customers' loyalty activate a virtuous cycle: Greater customer loyalty provides enhanced profitability, which can fund better pay that attracts and retains the best workers, whose performance boosts productivity and improves customer service, which wins still-higher profits and greater customer loyalty. Reichheld explains how to identify, cultivate, and retain loyal customers; structure offerings that foster loyalty by meeting customers' ever-changing needs; and attract, recruit, and retain loyal employees.

The Service-Driven Service Company

Harvard Business Review

September 1991

by Leonard A. Schlesinger and James L. Heskett

Customer satisfaction and loyalty--key links in the service-profit chain--hinge on a service-driven logic, which stresses giving customers what they say they value. This article describes several exemplars of the service logic and identifies their distinguishing characteristics. Such firms shape their entire business to support workers who have direct contact with customers--enabling them to do what's best for customers. For example, at Taco Bell, the emphasis is always on food, service, and physical appearance: "everything else is non-value-adding overhead."

The Four Things a Service Business Must Get Right

Harvard Business Review

April 2008

by Frances X. Frei

Besides enhancing satisfaction and loyalty among employees and customers, you must manage two additional tasks to deliver services profitably: 1) *Develop the right offering*. Determine how customers define "excellence" in your offering: convenience? friendliness? choices? price? Identify what you will (and won't) do to deliver that excellence. 2) *Fund the excellence you want to provide*. Think about how you'll pay for any increased cost of the excellence you're seeking to deliver. For example, Starbucks customers value lingering in a coffeehouse setting. To fund this inviting atmosphere, Starbucks charges more for its coffee.

About the Authors

James L. Heskett is a Baker Foundation Professor, Emeritus, of Harvard Business School, in Boston, and a coauthor, with W. Earl Sasser, Jr., and Joe Wheeler, of *The Ownership Quotient: Putting the Service-Profit Chain to Work for Unbeatable Competitive Advantage*, forthcoming from Harvard Business Press.

Thomas O. Jones is the president of eLanes, in Andover, Massachusetts.

Gary W. Loveman is the CEO of Harrah's Entertainment, in Las Vegas.

W. Earl Sasser, Jr., is a Baker Foundation Professor at Harvard Business School.

Leonard A. Schlesinger has been named the 12th president of Babson College, in Babson Park, Massachusetts.

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