

9.15: The Service-Profit Chain Model and the Service Marketing Triangle

Learning Objectives

By the end of this section, you will be able to

- Define and explain the purpose of the service-profit chain model.
- Describe the steps in the service-profit chain model.
- Explain the Services Marketing Triangle.

Definition and Purpose of the Service-Profit Chain Model

Just like goods-producing businesses, service firms use marketing to position themselves in selected markets. These businesses position themselves in the market through marketing mix activities (i.e., product, price, place, and promotion). However, different marketing approaches may be required because of the inherent differences between services and tangible products. Consider a product like a laptop or smartphone. The products are fairly standardized, so they can be produced and shipped to retailers and then sit on shelves in the store until purchased by a consumer. However, if you're a service business, it takes the interaction of the frontline employee and the customer to literally create the service. The interaction between the employee and customer is important in creating the value of that service.

The service-profit chain model, created by a group of Harvard researchers in the 1990s, establishes relationships between profitability, employee satisfaction, loyalty, and productivity. The concept is reasonably simple: happy workers make happy customers who keep coming back and telling their friends. The model itself is a little more complicated and states the following:

- Internal service quality (the support received by frontline employees from the rest of the organization) leads to employee satisfaction.
- Employee satisfaction results in loyalty, productivity, and the willingness to go that “extra mile” for the customer, creating value.
- Value contributes to customer satisfaction, resulting in customer loyalty.
- Customer loyalty translates to profitability and growth for the organization.

Perhaps the most critical aspect of this model is that all of these points link together, are equally important, and depend on one another. There are no shortcuts to increasing profitability. Didn't quite follow that? Refer to Figure 9.11.8 for a visual depiction.

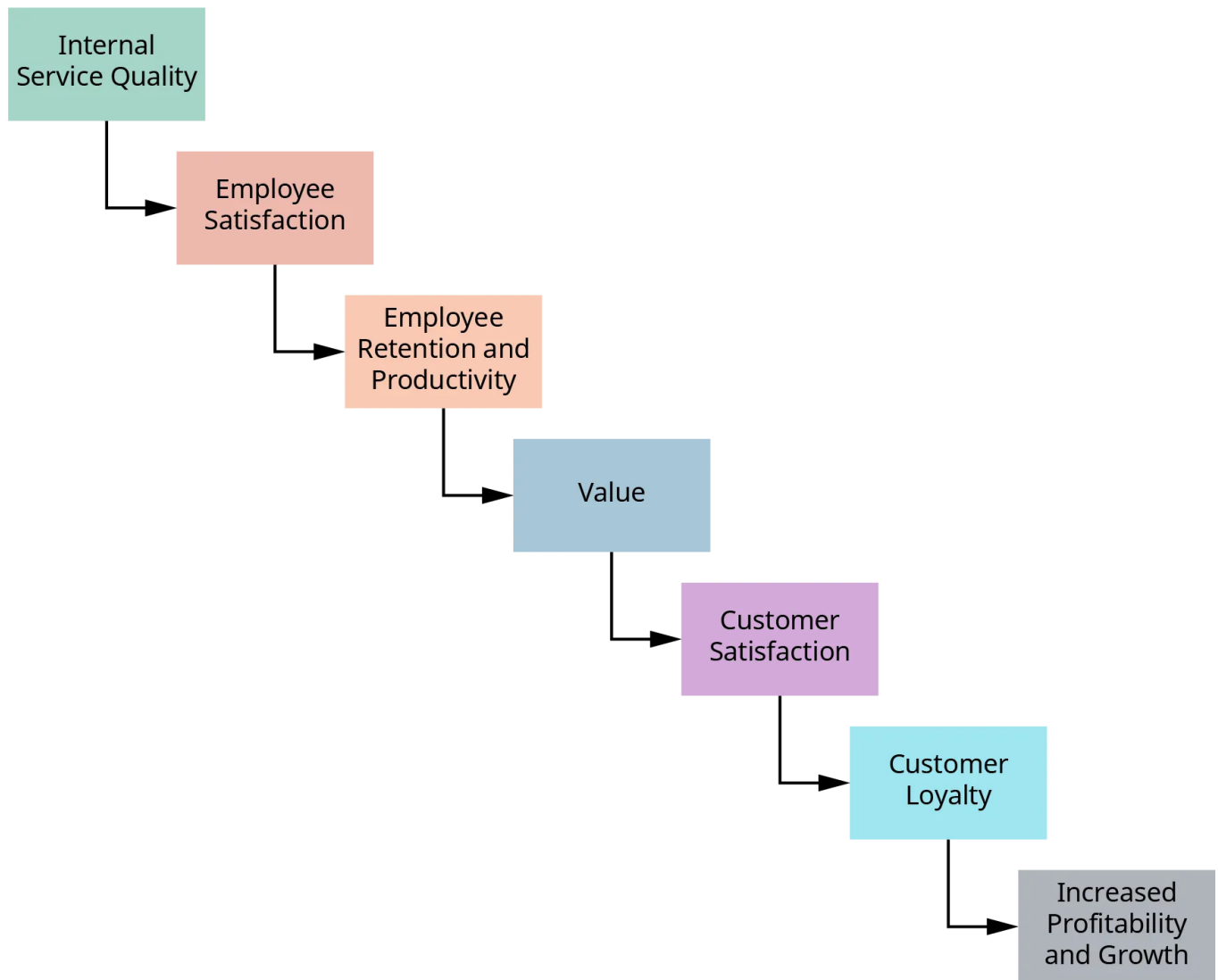


Figure 9.11.8 The Service-Profit Chain Model (CC BY 4.0; Rice University & OpenStax)

Steps in the Service-Profit Chain Model

The service-profit chain model connects the relationships between the different parts of a business. It impacts employee satisfaction and retention, customer satisfaction and loyalty, and profitability. Let's take a closer look.

Internal Service Quality

Internal service quality refers to the perceived satisfaction frontline employees experience when they are supported by effective policies and service from the organization. If you've ever worked in a restaurant, you'll be familiar with the terms "back of house" and "front of house." Front-of-house employees are "guest-facing" roles like hosts/hostesses and servers—those who intentionally interact with the customer. Back-of-house employees like bussers, dishwashers, and cooks typically don't directly interact with the customer. Rather, it's their work that supports the front-of-house employees. Even if your server may be friendly, attentive, and efficient, if your silverware is dirty or your steak isn't prepared as ordered, the overall dining experience is going to be less than optimal. In addition to customer dissatisfaction, server/employee satisfaction will also suffer due to the lack of support from the back-of-house staff.

Consider another example. Your flight was delayed, and it took forever to get your luggage and rental car. By the time you get to your hotel, you're tired and cranky and just want to check in and get some rest. The front desk clerk is cordial and efficient. However, your room isn't available because the housekeeping staff hasn't cleaned the room yet. Who gets the brunt of your anger? Imagine the lack of job satisfaction on the part of the front desk clerk who's tried to do everything right and was thwarted by the lack of support from housekeeping.

One of the ways that this problem can be alleviated within an organization is to create an employee feedback loop in which frontline employees can communicate problems that hurt productivity, satisfaction, and loyalty. The feedback loop is a critical element because, as consultant Sidney Yoshida reports in his study "The Iceberg of Ignorance," 4% of an organization's frontline problems are known by top management, 9% are known by middle management, 74% are known by supervisors, and 100% are known by employees (Ryder, 2019).

Employee Satisfaction

Employee satisfaction is the level of happiness or contentment employees have with their jobs and work environment. It's often the direct result of company policies and support services that empower employees to deliver quality products and services. If employees are satisfied with the company's policies, it's easier to facilitate a happy attitude that helps consumers have pleasurable experiences with the organization.

For several years, Zappos has made Fortune's list of "100 Best Companies to Work For." The late CEO Tony Hsieh focused so much on the happiness of his team and customers that he wrote a series of books about it, including *Delivering Happiness: A Path to Profits, Passion, and Purpose*. He recognized that the only person-to-person contact a customer would have with an online retailer would be with customer service personnel, so he encouraged his employees to go above and beyond for the customer (Schmidt, 2016).

Employee Retention and Productivity

Employee turnover is one of the most frustrating and recurring problems that organizations face. Turnover is costly whether it's involuntary (such as termination due to poor performance) or voluntary (such as employee-decided resignation or retirement). The conservative estimate from the Society of Human Resource Management (SHRM) is that it costs six to nine months of an employee's annual salary to replace that person (Enrich, 2016). That's why employee retention—keeping employees motivated so that they choose to remain with the company—is so critical.

The good news is that employee satisfaction is inversely related to employee turnover. In other words, an increase in employee satisfaction brings about a decrease in employee turnover. Perhaps even more importantly, studies have shown that low turnover leads to an increase in organizational productivity (the efficiency and output of employees) and performance. For example, some time ago, Taco Bell discovered that its restaurants with high employee retention had twice as many sales as other stores and had 55 percent higher profits than restaurants with high turnover. In response to these findings, the company enhanced its internal service quality by giving employees more latitude for on-the-job decision-making (Anigbogu, 2018).

Link to Learning: The Great Resignation

You may be aware of the Great Resignation, in which employees are leaving their jobs in large numbers. Because of the cost of hiring, training, and retaining employees, employee retention is a major concern for organizations. There are many reasons why this is happening, and there are ways companies can improve to help them retain their employees. Read these articles from the [Pew Research Center](#), [Forbes](#), and [Mashable](#) about this shift in employee thinking.

There are corporate strategies companies can take to counteract this resignation trend. Learn about these strategies from [LinkedIn](#).

External Service Value Proposition

Customer value is also known as external value proposition. It's the promise of value that a customer expects a business to deliver (Coleman, 2024).

Think about your last haircut. Why did you choose to get your hair cut at that particular salon versus a competitor? Certainly, the quality of the haircut itself was important, but the customer value you experienced from your stylist played a role. What else factored into your experience? How about the other behind-the-scenes employees who made it easy for you to book an appointment or who checked you in efficiently, the person who kept the salon clean and attractive, and the person who made it easy for you to pay and perhaps book another appointment when you were leaving?

That's why employees (both frontline and behind the scenes) play a major role in ensuring customer value. Satisfied, motivated employees generally (and genuinely) care about the company and the services it provides and can convey this to consumers in an honest, positive manner (Mulder, 2024).

Customer Satisfaction

The next two steps (customer satisfaction and customer loyalty) in the service-profit chain model are related and directly linked. A dissatisfied customer will not be loyal and will likely not do business with the company in the future. Conversely, customer loyalty—the ongoing positive relationship between a customer and business—results from customer satisfaction—or the measure of how happy customers are with the company's products, services, and capabilities.

The greater the satisfaction from a customer, the more likely they will return. Additionally, satisfied customers often serve as unofficial “ambassadors” of the company and will spread the word about their positive experiences (Mulder, 2024).

Customer Loyalty

The definition of customer loyalty is when a person goes to the same company for subsequent services, even if that service is more expensive than that of the competitor. The customer makes a deliberate choice to do repeat business with a company with which they have had positive experiences, resulting in growth and higher profits for the company (Mulder, 2024).

Profit and Growth

In the service-profit chain model, profit isn't the goal; it's the result. The formula is quite simple:

- Happy employees result in happy customers.
- Happy customers mean repeat business and spreading the word about your organization.
- Repeat (and new) business means profit and growth for the organization.

The key is to keep employees happy because it leads to company profits.

Link to Learning: Putting the Service-Profit Chain to Work

Learn from this [Harvard Business Review](#) article about the connectivity of the service-profit chain links.

Interested in understanding how the model works in other industries? Read this [Hospitality News and Business](#) article about why the service profit chain is important in the hospitality industry.



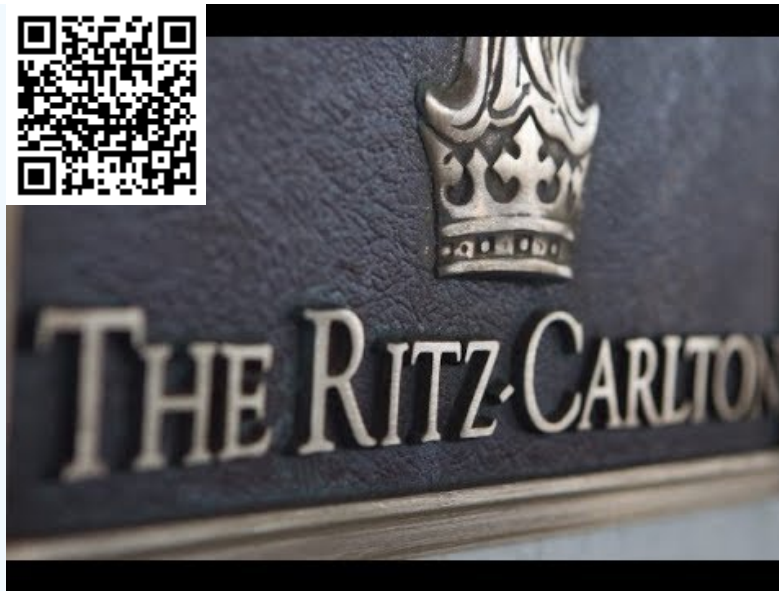
Figure 11.9 The Ritz-Carlton Hotel directly impacts its service-profit model by empowering its employees to provide a positive experience for customers. (credit: "Cannes" by Fred Romero/flickr, CC BY 2.0)

Employee empowerment is one of those buzzwords that has become popular over the last few decades. It's defined as the ways in which an organization provides its employees with some autonomy and freedom to make decisions and have some control in their day-to-day activities. For example, a supermarket may empower its cashiers to match competitors' ads without approval from a manager for up to a certain dollar amount.

If you were a business owner, how much latitude would you give your employees in helping customers? A lot? A little? None? The Ritz-Carlton, considered a gold standard for hospitality (see Figure 11.9), allows its employees to spend up to \$2,000 to solve customer problems without manager approval (Toporek, 2017).

You might be shaking your head right now, trying to understand this. Two thousand dollars seems like a lot of money to be left to employee discretion, doesn't it? But you may not realize that the average Ritz-Carlton customer will spend approximately a quarter of a million dollars with the hotel chain over their lifetime. When you consider that the customer lifetime value (CLV) of a Ritz-Carlton guest is \$250,000, that \$2,000 doesn't seem hard to believe, does it (Toporek, 2017)?

For more information about Ritz-Carlton and its commitment to customer service, watch this brief video with Ritz-Carlton founder Horst Schulze and Yahoo! Finance where he discusses the importance of and value in caring for customers.



The Service Marketing Triangle

The Service Marketing Triangle is a visual image of a model that speaks to the importance of people in a company's ability to keep its service promises (see Figure 9.11.10). It might help to imagine the Service Marketing Triangle as a three-legged stool. Take out one of the legs, and the stool won't stand for long. That's the premise and the importance of the Service Marketing Triangle—all three aspects must be achieved or exceeded for the customer to be delighted.

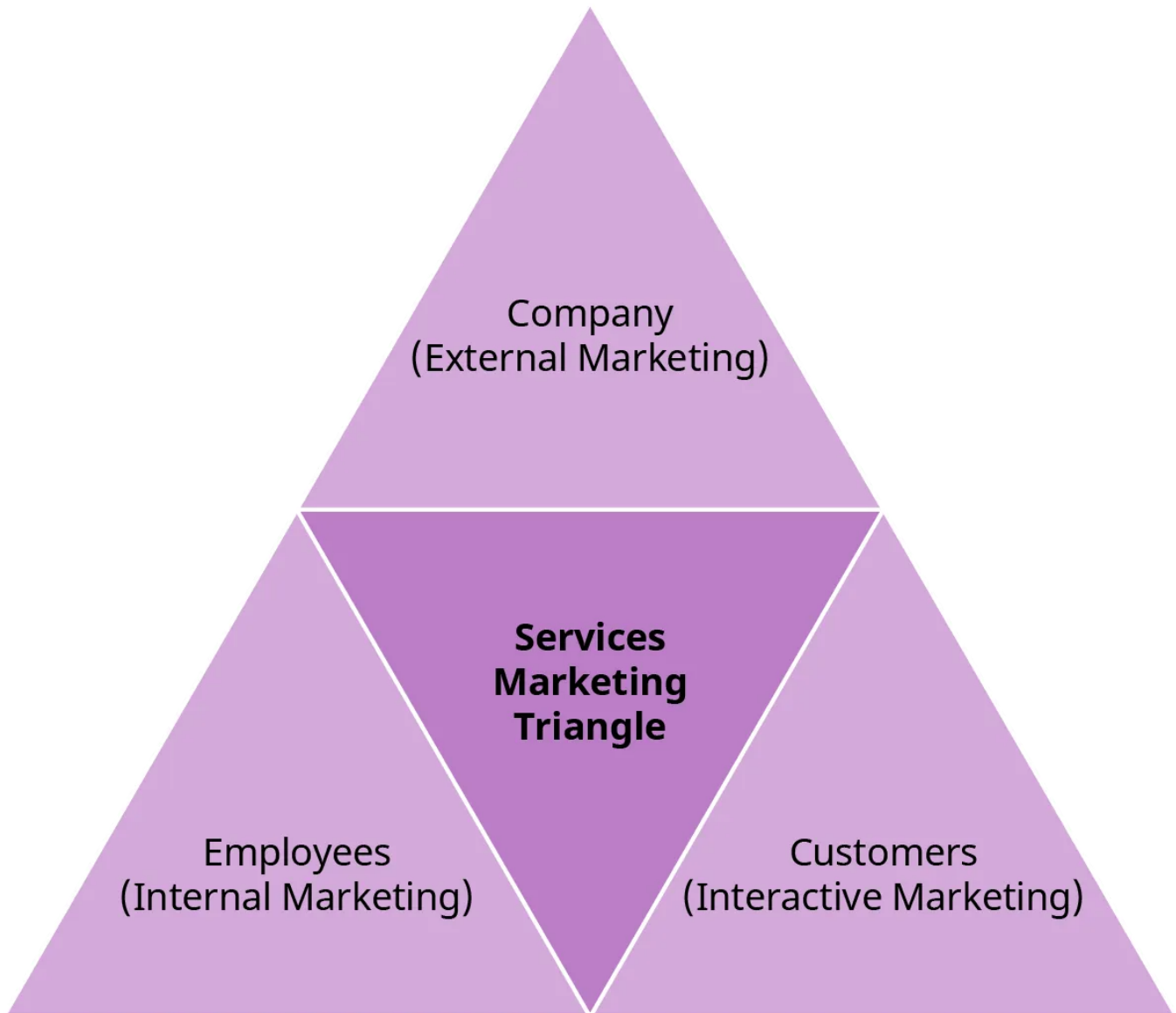


Figure 9.11.10 The Services Marketing Triangle (CC BY 4.0; Rice University & OpenStax)

External Service Marketing—Making Promises

External service marketing refers to the promotion of an organization's services in an external environment where the company promotes its services to customers through various traditional techniques like pricing, advertising, direct marketing, public relations, and personal selling. These marketing techniques are intended to achieve multiple aims, such as creating and increasing awareness, setting price expectations, and setting expectations for the level of service to be delivered (Minute Tools Content Team, 2018).

Internal Service Marketing—Enabling Promises

In a service business, employees are seen as “internal customers.” As you’ve seen from the discussion on the service-profit chain model, if a company wants to better serve its customers, it has to start with satisfying its employees so that they’re committed to delivering the best service possible to external customers. That’s the essence of internal service marketing.

Internal service marketing is the process of motivating employees to deliver customer value and ensure customer satisfaction by acting as a team. While that is obviously true for frontline employees who interact with the customer, it is equally applied to all employees, including those behind-the-scenes employees who support the frontline employees. In other words, all employees of an organization need to be empowered to deliver great customer service.

Key components of internal service marketing include motivating employees, training them in customer satisfaction techniques, ongoing communication of company goals and objectives, and (of course) good pay and working conditions (Minute Tools Content Team, 2018).

Interactive Service Marketing—Keeping Promises

Interactive service marketing is the communication between the service provider and the customer, called a service encounter. The service encounter is where external marketing promises are either upheld, exceeded, or broken by employees.

Interactive service marketing is critical because it sets short-term and long-term customer satisfaction. In its simplest terms, when a customer is happy in the short term, they are more likely to be happy over the long term (Minute Tools Content Team, 2018).

Let’s review the elements of the Service Marketing Triangle with an example of a fine-dining restaurant in a major metropolitan area. The three “parties” involved in the Service Marketing Triangle are the restaurant owner, the restaurant employees, and the diners. As part of *internal marketing*, the owner may offer training to servers about pairing certain dishes on the menu with wines offered by the restaurant or hold a “huddle” at the beginning of each shift to train servers about daily specials and wine pairings. As part of *external marketing*, diners might be lured to the restaurant through the restaurant’s Facebook page, which touts its extensive list of wines and the fact that servers are experienced in recommending wines to enhance the flavor of the menu items. Finally, as part of interactive marketing, servers are encouraged to give diners full descriptions of all menu items and daily specials and recommend which wines to pair with their food choices, leading to a more satisfying dining experience (Ahmed, 2021).

Link to Learning: Service Marketing Triangle

Check out this brief video about the Service Marketing Triangle model to gain a better understanding.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

According to the service-profit chain model, what drives organizational profitability and growth?

- a. Internal service quality
- b. Employee satisfaction
- c. Customer loyalty
- d. Value

2.

The extent to which employees are happy or content with their work environment is known as which of the following in the service-profit chain model?

- a. Employee satisfaction
- b. Internal service quality
- c. External value proposition
- d. Customer loyalty

3.

Which two steps in the service-profit chain model are related and directly linked?

- a. Internal service quality and value
- b. Value and customer satisfaction
- c. Customer satisfaction and customer loyalty
- d. Internal service quality and increased productivity and growth

4.

In the Service Marketing Triangle, _____ occurs when employees and customers associate and communicate.

- a. internal marketing
- b. external marketing
- c. interactive marketing
- d. customer satisfaction

5.

In the service-profit chain model, there is a(n) _____ relationship between employee satisfaction and employee turnover.

- a. behavioral
- b. equivalent
- c. parallel
- d. inverse

This page titled [9.15: The Service-Profit Chain Model and the Service Marketing Triangle](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [Elisabeth Dellegrazie](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- **11.2: The Service-Profit Chain Model and the Service Marketing Triangle** by OpenStax is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-marketing>.