

# Getting the service-profit chain up and running in the Greater Bay Area

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In 2021, the Chinese government released a new plan for the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone which made developing South China's modern service industry a priority. By 2025, Qianhai is projected to boast more than 300 global service providers, with an added value of over 100 billion RMB. In the process, it will help build the service industry in the Guangdong-Hong Kong-Macao Greater Bay Area and become one of the most important production-related service industry centres in Asia.

At 53% of the country's GDP, China's service industry is becoming a major driver for economic growth. Nevertheless, China's service industry still comprises the lowest proportion of total GDP when compared with the 15 biggest economies in the world. Therefore, China's service industry still has a lot of room to grow.

In my view, service excellence will be the next development engine for Chinese companies. Before we can provide service excellence, however, we first need to define it. And, second, we need to build a service-profit chain.

Many companies claim they provide services free of charge and create added value for consumers. Typically, consumers are willing to pay for services as long as we know their needs and design and provide them accordingly. At the same time, culture should be the fertile soil from which to cultivate service excellence. The hospitality industry, for example, may believe service should be heart-warming and make consumers feel at home. Meanwhile, the high-end manufacturing industry may believe that it is more important to respond quickly and deliver products on time. Either way, only those companies which have the capabilities and which employ staff



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who are aware and willing can provide service excellence.

There are four important features of the service industry which pose challenges to management. First, production and consumption of services happen simultaneously; secondly, service cannot be saved and vanishes once the need is gone; thirdly, service is invisible and consumers often have different feelings about the same service; and, lastly, different customers have different demands for services. Moreover, since needs are highly personalised, operations, marketing and human resources must all learn to deal with clients.

So, we need to pay attention to a few key elements: In which service aspects do we have unique competitive advantages? How can we make our service generate profit, instead of only being added value for clients? How can we improve

the efficiency of our staff management systems? How can we enhance employee willingness and capabilities to provide service excellence? And, how can we educate our clients about what is reasonable service?

### How to build the service-profit chain

The first link of the service-profit chain is the internal operational strategy and service delivery system. At the core of this chain lies the service providers – our employees. For companies to pursue good service quality, employees must have good capabilities, be satisfied with their job and be loyal to the company.

The second link is service philosophy. This embodied in the process of providing the service. Our philosophy also defines our value proposi-



tion (i.e. what the clients need and we are good at).

The third link is the external client market. How can we satisfy our clients so as to increase their loyalty (and increase our profitability)?

Finally, how can we make these links work smoothly and set the service-profit chain to run efficiently? First, assuming we have limited resources, providing service becomes a process of trade-offs. If we are not delivering on service attributes which are important for our clients, we need to invest resources to improve these areas. If we fail in an area that clients do not care about, it should be considered optional and we may reduce our investment or simply ignore it. If we deliver in an area that is not important to our

clients, then we may need ask if it really creates value and whether or not we should reallocate resources to focus on more important areas. Only those attributes which clients value and which we can work well on make up our core competitive advantages. We must adopt our clients' perspective to discover these advantages (instead of simply benchmarking ourselves against peer companies).

Second, the service-profit chain is dynamic. Client demands change and we need to innovate services. Employees also change. Their abilities, satisfaction and loyalty vary at different stages. There is also what we refer to as a 'satisfaction mirror.' When employee satisfaction is high, clients experience this. If we allow employees to make up for failures in service, they will be more inclined to listen to client complaints; and clients, in turn, will be more willing to let us know where we need to improve.

Last but not least, the service-profit chain has a leverage effect. The value a service creates for clients depends on the results we deliver, the quality of the process, the price, and the cost of the service. If we can improve results and the quality of the process, while lowering costs, the value created for the client will increase, creating a kind of cycle.

In a nutshell, service excellence is a profit strategy that can lead to new services and more clients. Reducing client loss can prevent price competition and create more premium space. Service excellence is never easy and requires attention to detail and a consistent attitude.