

Competitive Advantage through efficient Service Profit Chain Management – A Study on Indian Auto Industry

Introduction

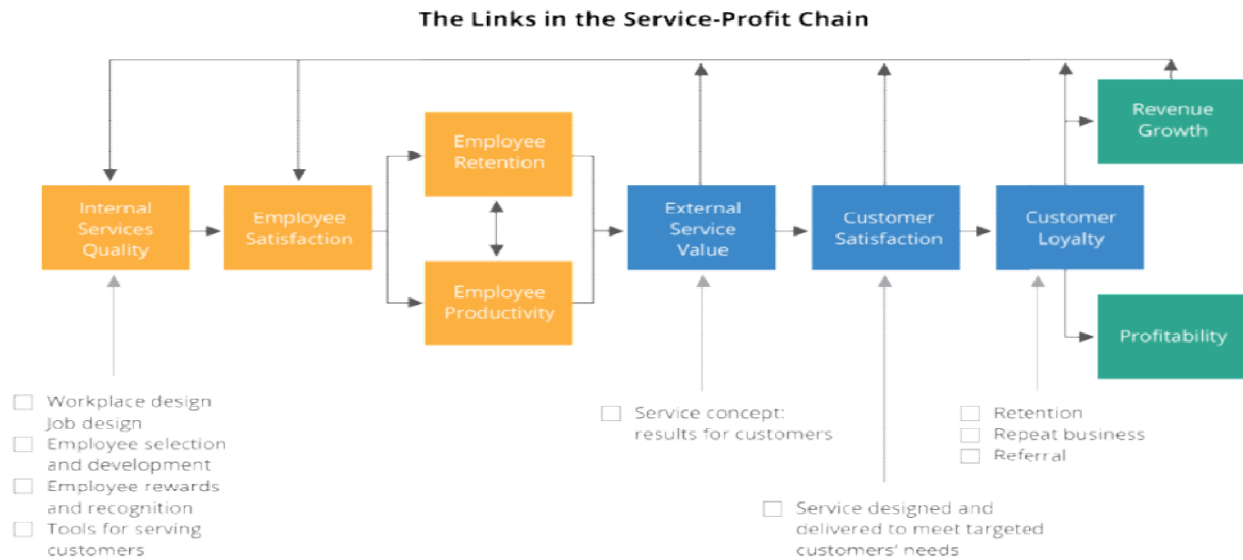
In Indian automobile industry, differences in technical features of competing products within a particular price band has narrowed, prompting manufactures to shift their focus from product alone to the associated services. Like many industries, automobile industry too caters to their customers through channel partners (Dealers), who directly has a bearing on the effectiveness of efforts of parent organizations, due to their ability and willingness to perform. Many organizations have realised that to achieve their objective of satisfying or delighting customers, the complete downstream chain need to be managed properly.

Service Profit Chain (S-PC) is the latest and most widely used framework to study Employee, Customer and Profitability relationship (Bhaskar & Khera, 2013). Many studies have been conducted to assess individual links within the S-PC, but the findings were found to be mixed (Anderson & Mittal, 2000), (Silvestro & Cross, 2000), (Silvestro R. , 2002), (Bulgarella, 2005), and (Evanschitzky, Wangenheim, & Wunderlich, 2012).

As quoted by Porter (1980 & 1985), approaches to differentiation can take many forms: design, technology, features, customer service, dealer network or any other dimensions growing out of a firm's Value Chain. Through this study, we will examine -- *Whether better managing the elements of Service Profit Chain can be a Differentiator to gain Competitive Advantage through higher Retentions, Repurchases and Referrals and subsequently revenue and profitability.*

A brief review of the work already done in the field

Quest for Customer Satisfaction have become a strategic imperative for most firms. Over last few decades, Service Management literatures have acknowledged the importance of it and research on various antecedents and consequences has been carried out. Impact of Employee satisfaction and Customer satisfaction on critical Business outcomes caught more attention for obvious reasons. Service-Profit Chain (S-PC) in particular, created a lot of enthusiasm as different researchers and practitioners attempted to validate or generalise this concept in totality or partially and ended up with mixed outcomes.



The S-PC proposition is as follows: *Profit and growth are stimulated primarily by customer loyalty. Loyalty is direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees. Employee satisfaction in turn, results primarily from high quality support services and policies that enable employees to deliver results to customer* (Heskett, Jones, Loveman, Sasser, & Schlessinger, 1994).

Mittal, Ross, & Baldasare (1998) observed that, satisfaction ratings to repurchase-intent ratings and repurchase behaviour are not only asymmetric but also non-linear in automotive industry and further added that, overall satisfaction displays diminishing sensitivity to attribute level performance. Customers evaluate performance on the basis of relative performance rather than absolute performance changes. Anderson & Mittal (2000) further supported these observations.

Almost during the same period, Anderson, Fornell, & Lehman (1994) shared their findings from Sweden that, there is a positive impact of quality on customer satisfaction, and in turn profitability. An annual 1 point increase in customer satisfaction has a net present value of \$4.7 million over 5 years for a typical firm in Sweden. However, another performance parameter i.e. market share behaved differently i.e. with increasing market share customer satisfaction came down.

Since S-PC is complex, it is vulnerable to being disproved at many points. Silvestro R. (2002) observed that, there is an inverse correlation between employee satisfaction and the measure of

productivity, efficiency and profitability. Also, employee loyalty, measured in terms of length of service, also appears to be inversely correlated with productivity and profitability. [Pritchard & Silvestro \(2005\)](#) too observed little support between employee and customer satisfaction and loyalty and link between customer loyalty and financial performance. He contended that, the Service-Profit chain cannot be applied generically to services, but that managers should undertake the development of context-specific models of their organizations. Further, [Evanschitzky, Wangenheim, & Wunderlich \(2012\)](#) highlighted how the complexity of service profit chain can cause managers to make suboptimal decision and brought in the dimension of time lags and feedback loops through his longitudinal study.

While S-PC is conceptually sound, the implementation complexity increases when business is through channel partners. Channel not only link a producer of goods to the goods buyers, but also provides the means through which an organization implements its Marketing Strategies ([Kerin & Peterson, 2000](#)). Thus, their ability and willingness plays an important role. It is the dealer proprietors who are thus responsible for giving their employees a conducive climate to perform well.

[Shah \(2014\)](#) claimed, culture influences employee satisfaction which further impacts organizational performance. This aspect is critical, because of the general belief that only a satisfied employee can satisfy a customer. [Bloemer & Lemmink \(1992\)](#) vouched that customer satisfaction with product, sales, service will have influence on brand loyalty and dealer loyalty. Also, [Goff, Boles, Bellenger, & Stojack \(1997\)](#) concluded that, a salesperson's selling orientation-customer orientation (SOCO) will affect not only customer satisfaction with the sales person and dealer, but indirectly, satisfaction with the product or manufacturer. Interestingly, [Silvestro R \(2002\)](#) countered in his study that, interaction between customer and employees is not a key driver of customer satisfaction.

[Anderson, Fornell, & Lehman \(1994\)](#), demonstrated the economic benefit of increasing customer satisfaction, but interesting also concluded that, increasing market share actually might lead to lower customer satisfaction. Also, [Keiningham, Aksoy, Daly, & Perrier \(2006\)](#) concluded that, the relation between customer satisfaction and purchase intention as highly variable, thus weakening the case of S-PC.

In the practitioner's domain, professional consultants have shared encouraging statistics. [Arussy \(2014\)](#) from Strativity Group, in his white paper shared a US survey result in Car Industry showing how engaged employees have delivered higher customer satisfactions. Their analysis also indicated improved business results. Similar positive correlation was quoted by [Bulgarella \(2005\)](#) in GUIDESTAR Research white paper from an example of Sears Roebuck Co showing a 5 point improvement in employee attitude led to 1.3 point rise in customer satisfaction which in turn generated 0.5 % increase in revenue.

Recently researcher [Myrden & Kelloway \(2015\)](#) applied S-PC as a daily test, while [Bressolles & Durrieu \(2015\)](#) applied it in an e-commerce context studying e-service quality dimensions, online customer value dimensions, e-satisfaction and e-loyalty showing the popularity and relevance of S-PC even today for research.

Objectives/ Hypothesis of the proposed Research

The objective of this study is to assess the efficacy of Service Profit Chain in the context of Indian Auto Industry and to provide experimental evidence of whether managing the elements of Service Profit Chain in a better way can be a differentiating factor leading to Competitive Advantage.

MAJOR HYPOTHESIS –

H₀: Better managed Service Profit Chain elements is not necessarily an antecedent for Customer Loyalty and subsequent Revenue growth & Profitability

H₁: Better Internal Service Quality/ Service Climate does not necessarily mean Satisfied Customer Touch point Employees.

H₂: Satisfied Customer Touch-Point Employees does not necessarily lead to Satisfied Customers.

H₃: Satisfied Customer does not necessarily mean Customer Retention, Repurchases and Referrals.

H₄: Customer Loyalty does not necessarily mean Revenue Growth & Profitability.

H5 /H6/ H7 etc

Proposed Methodology of the Research work

The study will be carried out across various automobile dealers in few selected cities in India eliciting information from Customer Touch- Point Employees and Customers.

Selection of Cities & Dealers: Preference will be given to those cities where multiple outlets of same brand are available so that customers do have a chance of being disloyal to a dealer while maintaining loyalty to a particular brand.

Dealer selections will be request-based, those who will agree to voluntarily participate in this research study.

Selection of Employees: Amongst dealer's Customer Touch-Point Employees – Sales Managers, Sales Consultants, Finance/Insurance Executives, Service Advisors etc will be considered.

Selection of Customers: Customers who have experienced both sales & service will be considered. Mix of within warranty period and beyond warranty period will be considered so that whether differential treatment is being served can also be ascertained.

Sampling will be done for approximately 10 Dealers, ~60 Customer Touch Point Employees and ~500 Customers through Judgemental and Quota technique of selection.

We will have two different questionnaires one for assessing ISQ/Service Climate & Employee Satisfaction and second one for Customer Satisfaction. Questions will be derived from the Scales already available, Reports and reviewed literatures, and my personal professional experience.

Customer Touch-Point Employees will be assessed from the perspective of Service Climate/Internal Service Quality that has been provided to them to establish their Satisfaction level.

Finally, Customer Satisfaction will be assessed from the perspective of Product and Non-Product attributes that are delivered through Customer Touch Point employees and subsequently their intention to repurchase or to refer to others. Unlike some independent studies of Sales Satisfaction Index, Service Satisfaction Index etc, we will establish a single consolidated **Customer Satisfaction Index.**

Face to face interview will be primarily used. Support of e-mails, web links and post may also be used, if required, to elicit responses. Appropriate tools for Quantitative data analysis and Hypothesis Testing will be used.

Expected Outcome of the Proposed Work

Outcome of this research will help us to understand the dynamics involved in this Chain in the context of Indian Automobile Industry. Many other Minor Hypotheses will also get answered.

In case our proposition is proved right i.e. - When all elements of this chain are TRUE it leads to more Referrals & Repurchases and subsequently Revenue & Profitability as compared to other Scenarios, we can pass our judgement that – ***Better Managing the elements of Service Profit Chain can act as a Differentiator and lead to a Competitive Advantage.***

We will also come to know several other interesting insights like, the influence of -- Location, Gender of touch-point employee, Customer profile, Dealers profile to name a few.

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