

# The importance of the service profit chain in luxury marketing essay



The boundary between products and services is blurring. Commoditization has driven manufacturers in search of profitability toward product-services. In parallel service firms are transforming advisory services into solutions. Increasingly, productization in professional services involves the transference of risk in return for a risk premium. Fixed fee consulting engagements represent a subtle shift towards productization; contingent (success) fees represent a modest shift; while business process outsourcing and the bundling of advisory services and products à la IBM and Accenture represent a dramatic shift. This solution shift creates the ideal opportunity for firms to leverage luxury concepts. The elements of a luxury strategy are essential for firms to create sustainable solutions and not fall into the service bundling trap. To be successful however, a luxury marketing strategy requires the re-evaluation of the actors and their roles in the entire service profit chain (SPC).

The SPC is superior to other models of service delivery; such as Return on Quality; since it maps the relationships actors have in creating customer value. A luxury marketing strategy must not be limited to the marketing department - each stakeholder in the SPC will be impacted. Leveraging the SPC, we delineate between a luxury operating model, creating luxury customer value and managing the results of the luxury marketing strategy.

### **Figure 1: Luxury Components of the Service Profit Cycle**

A luxury operating model encompasses all operational aspects of professional services according to luxury principles. This includes facilities management, recruitment, promotions, reward, and training, as well as the

implementation of sales, delivery support and practice management tools. All of which will be effected by the implementation of a luxury strategy.

Sales and marketing functions will have to undergo significant changes. Anti-marketing requires luxury firms to ignore the positioning aspects of their marketing, deliberately ignore some customers and focus on “not selling”. Sales staff must be prepared to lose customers that do not share the firm’s vision in the short term, in order to achieve longer term gains. Traditional reward mechanisms would have to change to reflect lifetime revenue from customers and growth not short term gains.

The role of luxury sales and marketing is to build a unique identity that defines the firm and its target clientele. Target clientele includes selected positions in an organization: CEO, CIO, and VPs as well as types of targeted companies. Sales and marketing must maintain the human touch in order to create luxury. They must market to the individual. To maximize luxury and avoid commoditization the professional service firm cannot be easily redacted and compared.

Employees are a vital component of professional services luxury. They are the face of the firm. Through their ongoing engagement with clients they build up valuable knowledge of the clients operations. The employee satisfaction-retention-productivity feedback loop is the basis on which the luxury firm’s knowledge is built. Employees must embody the firm’s values and uniqueness. They must uphold these values at all times. A luxury firm generates its revenues from repeat business. It is important to select and retain the best employees in order to continually over deliver.

## **Creating External Service Value**

Creating value for clients is the goal of service firms. It is from the creation of this value that fees are generated. Value and the perception of value are generated through the delivery of excellent engagements, and through market enrichment campaigns – such as disseminating knowledge or hosting events.

Every client interaction from proposal to engagement close must put the client at the centre. The right balance of client acquiescence and management must be found. The client should not completely dominate the relationship thereby limiting the ability of the firm to advise them. Every time the client interacts with the firm whether to check the status of a deliverable or pay an invoice they should be delighted and respected. Understanding customer needs is crucial to building solutions in which customers find utility.

Creating and communicating knowledge is crucially important for “ external market value” creation. Thus, the luxury professional services firm must instill the creation of knowledge in its employees. Knowledge management systems and processes should be utilized and their use rewarded. This knowledge should be shared with existing and selected numbers of potentially new clients. The luxury firm must intellectually dominate their clients. They should build close relationships with universities and centres of research. Enriching the client base encourages clients to come to firm without having to market directly. Direct marketing is synonymous with commoditized services.

## **Monitoring Results**

The luxury firm should resist the urge to increase headcount in buoyant times. It should turn work away. Headcount should be increased slowly and only when suitable candidates are found. Instead of responding to rising demand by growing (increasing headcount) - which adds overheads and risks future revenues; instead the luxury firm should increase their fees and make clients wait until resources are available.

The luxury firm should stay close to its customers and perform regular assessments of customer satisfaction. Practice management systems should support the monitoring of customer satisfaction, revenues and profitability. The combination of these will drive the direction the luxury firm takes in its markets and in developing its people.

## **The Luxury Firm's Ethics**

The luxury firm must maintain its independence. It should leverage existing client relationships to build new ones. Existing client references should be used to attract new clients. The luxury firm should be careful not to compromise its independence by being associated strongly with any individual or organization.

## **Limitations Of The Luxury Strategy**

Whilst a luxury strategy offers great opportunities there are limits. It is difficult to leverage a luxury strategy in competitive bidding scenarios. In this case utility is measured with a checklist and it is not always possible to explain the price to the customer. Often a high price can disqualify a firm despite being technical excellent. To borrow and example from another

luxury product – procurement will not differentiate between a Rolex and a Casio. Both provide the same level of utility. Thus, the luxury firm must focus on selling into the C-suite where they can demonstrate value.