



For our valued customers only: Examining consumer responses to preferential treatment practices



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ABSTRACT

Preferential treatment is a prevalent relationship marketing practice of companies treating some customers better than others. Using two studies, the authors explore the practice of preferential treatment and show that preferential treatment influences both consumers who receive it and those who do not. Two underlying mechanisms for this effect are identified. When treated unfavorably, fairness concerns arise, negatively affecting consumers' subsequent behavioral response toward the firm. On the other hand, when treated favorably, consumers experience feelings of gratitude, which positively influence their purchase behaviors and word-of-mouth. However, a presence of others who do not get the same treatment leads to feeling of embarrassment, consequently reducing fairness perceptions. As a result, receiving preferential treatment does not always lead to positive attitudinal and behavioral consequences. Overall, fairness and gratitude represent two mechanisms underlying the effect of preferential treatment on consumer subsequent behaviors and each has its distinct antecedents.

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1. Introduction

Relationship marketing, which focuses on attracting, maintaining, and enhancing customer relationships, is one of the golden marketing principles with a proved positive impact on the business (Berry, 1995; Boulding, Staelin, Ehret, & Johnston, 2005). Implicit in the relationship marketing principle is that all customers should not be treated the same. Some customers are more profitable to serve than others, and companies strive to align the provided service with profitability (Homburg, Droll, & Totzek, 2008). Research advocates that companies aspiring to practice relationship marketing should identify and focus on delivering superior value to those customers who are most likely to be loyal (Reichheld, 1993). At the same time, consumers also increasingly acknowledge the benefits of maintaining a relationship with companies (e.g., Gwinner, Gremler, & Bitner, 1998; Henderson, Beck, & Palmatier, 2011).

From a consumer's perspective, preferential treatment is defined as a consumer's perception of the extent to which a firm treats and serves its regular customers better than its non-regular customers (Gwinner et al., 1998). Preferential treatment comes in different forms, including

loyalty programs (e.g., retail store loyalty cards, airline frequent flier programs), targeted promotion, and sometimes personalization. From practitioners' perspective, preferential treatment has also been termed as customer prioritization (Homburg et al., 2008) or differential customer treatment (Mayser & von Wangenheim, 2013). In this paper, these terms are used interchangeably and study the phenomenon from the consumers' perspective.

While some research examining the effects of loyalty programs exists, not much research has examined preferential treatment as a general business practice. How do consumers perceive the preferential treatment practice in general? What are the mechanisms that determine whether preferential treatment produces positive or negative effects?

The present research aims to examine these questions and contributes to the literature on preferential treatment in several ways. First, existing research on the phenomenon mostly examines factors related to specific types of preferential treatment, such as number of tiers in loyalty programs, while not much research has examined shared characteristics of preferential treatment as a general practice. The present research suggests that although preferential treatment practices vary in their form and context (e.g., frequent flyer programs for airlines, retail membership programs), they share certain characteristics (e.g., to what degree the treatment is structured and whether it is available to everyone). These differences should result in differential impact of preferential treatment on consumers' responses. Understanding the nature of preferential treatment in general offers managers a bag of tools and

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helps them to select and design appropriate preferential treatment programs that fit their product/service characteristics as well as their target markets. Second, existing research considers preferential treatment as a relational benefit and primarily focuses on examining its behavioral consequences. However, little has been done to examine the underlying mechanisms that lead to these consequences. This research identifies gratitude and fairness as two underlying mechanisms of the effect of preferential treatment. Examining the underlying mechanisms associated with preferential treatment is a key to understanding the differential impact of preferential treatment. Finally, this research also identifies factors leading to gratitude and fairness.

2. Literature review

Philosophically, Sheth and Parvatiyar (1995, p. 264) recognize that “implicit in the idea of relationship marketing is consumer focus and consumer selectivity—that is, all consumers do not need to be served in the same way”. Such differentiation and selectivity makes good business sense because by not differentiating, companies waste resources on over-satisfying or over-serving less profitable customers, while under-satisfying the loyal, more valuable customers (O'Brien, & Jones, 1995). On the other hand, preferential treatment is also a benefit to consumers, who generally perceive the attention and selectivity as a special benefit not typically provided to other customers (Bitner, 1995; Gwinner et al., 1998). Such selectivity and preferential treatment address consumers' basic human need to feel important (Barone & Roy, 2010; Peterson, 1995) and have a positive effect on consumer evaluation (Barone & Roy, 2010; Wagner, Hennig-Thurau, & Rudolph, 2009). Existing research reveals positive effects of preferential treatment, such as an increase in emotional and cognitive switching barriers (Jones, Mothersbaugh, & Beatty, 2002; Patterson & Smith, 2003), leading to increased consumer loyalty and commitment (Selnes, 1993).

However, some research questions whether preferential treatment is indeed consistent with the principle of relationship marketing (Lacey, Suh, & Morgan, 2007). Preferential treatment may deter a (perhaps large) group of non-targeted customers, potentially jeopardizing long-term customer relationships and endangering the service provider's profitability (Hennig-Thurau, Gwinner, & Gremler, 2002). Further, research has long pointed out the importance of business ethics (Reidenbach & Robin, 1991; Robin, Reidenbach, & Forrest, 1996). Fournier, Dobscha, and Mick (1998) question whether the preferential treatment practice is ethical. Relatedly, a *Businessweek* (2000) delineates the dark side of the practice by pointing out that preferential treatment to high profile customers comes at the expense of less profitable customers and decreases consumers' overall satisfaction with services. Empirical studies also document cases of non- or negative effect of preferential treatment, for example, Gwinner et al. (1998) show that among the various relational benefits, special treatment is the least correlated with loyalty, word of mouth, and satisfaction. Lacey et al. (2007) find a positive effect of preferential treatment on relationship commitment and purchase behavior, but no significant effect on positive word of mouth. Hennig-Thurau et al. (2002) find no effect of preferential treatment on satisfaction and relationship commitment. Lastly, Odekerken-Schröder, De Wulf, and Schumacher (2003) identify a negative effect of preferential treatment on perceived retailer customer orientation.

While these inconsistencies may be partly due to the differences in preferential treatment conceptualizations, measures of consequences, and service contexts, the discrepancies may also be due to the nature of the practices and the multitude of consumer emotional and cognitive responses to preferential treatment. To reconcile the existing discrepancies, it is important to study consumer responses and investigate the underlying mechanisms of preferential treatment. Next, an exploratory study sheds light on what consumers consider as preferential treatment as well as the emotions and cognitions associated with obtaining or not obtaining preferential treatment. Based on the exploratory results, the

research then develops a framework and analyzes consumers' response to preferential treatment and the underlying mechanisms.

3. Study 1

3.1. Method

An exploratory study served as a means of collecting reports of consumers' experiences with preferential treatment to examine: what consumers consider as preferential treatment, where and how these incidents occur, and how consumers react when they are treated preferentially or witness others being treated preferentially. The researchers collected data from Amazon Mechanical Turk, a cloud computing service that has been identified as a viable data collection vehicle (Barone & Jewell, 2013; Mason & Suri, 2012; Parker & Lehmann, 2011).

Respondents received a brief explanation of preferential treatment (i.e., companies treat some customers, such as loyal customers, better than other customers). They were then asked to recall and describe an incident where they received a treatment different than other customers (either favorable or unfavorable) and report their subsequent thoughts and feelings. While customer loyalty was used to illustrate the idea of different treatment for the participants, participants' recall of incident was not limited solely to this basis for the preferential treatment. The researchers collected 397 valid critical incident reports.

3.2. Results

To analyze the data, the researchers employed content analysis. They first reviewed the critical incidents and identified the following recurring themes: outcome of preferential treatment (advantaged or disadvantaged — i.e., receiving or not receiving the special treatment), service context (different industries), whether the benefit obtained was monetary/financial or non-monetary, and thoughts and feelings associated with the treatment. Based on these basic components in the description, they then developed a categorization schema and used it to organize the reported incidents. Two graduate assistants coded the incidents independently and the results were then compared. Discrepancies were resolved through discussion.

Among the incidents, 63% describe an advantaged scenario in which the respondent was on the receiving end of preferential treatment. Results show that preferential treatment is a prevalent practice, which occurs in a variety of service contexts, including retail and grocery stores (32%), restaurants (25%), and professional services (e.g., banks, travel agencies, airlines, hotels, 31%). Second, preferential treatment comes in a variety of forms, either monetary (e.g., discounts, deals; 30%), token rewards (e.g., points, free samples; 19%), or non-monetary (51%). For example:

“Kohl's provides discounts to “loyal” customers, those who spend over a certain amount per year on their charge card. You get extra discounts and bonus shopping days. When I went to check out, the associate reminded me I had an extra savings of 15% because of my loyalty to Kohl's.”

Many non-monetary benefits fit into the customization benefits, which typically involve customized products and selective access to special services. Some sample incidents:

“I have been a frequent flyer with Delta. They once allowed me to skip ahead of the line to get my tickets before other customers because the seats on the plane were getting full.”

“Once, while at a restaurant with my significant other, we noticed that the server was treating the customers next to us much differently. They had obviously been to the place before and knew the

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