Journal of Business Research 68 (2015) 2477–2483

Contents lists available at ScienceDirect

Journal of Business Research

Because I'm worth it: The impact of given versus perceived status on preferential treatment effectiveness☆

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ARTICLE INFO

Article history:
Received 1 February 2012
Received in revised form 1 April 2014
Accepted 1 April 2014
Available online 2 July 2015

Keywords:
Preferential treatment
Perceived status
Self-categorization
Perceived spending level
Perceived seniority
Need for distinction

ABSTRACT

Prior research shows that preferential treatments offered by companies to their best customers do not always contribute to enhanced satisfaction and may even elicit negative consequences. Most studies link this dissatisfaction to the type or level of benefits offered; this article investigates another cause, namely, a targeting mismatch, such that the wrong customers receive the rewards designed for the best customers. Two quantitative studies involving more than 600 customers (one conducted with a leading European service company and one conducted with an external market research firm panel) demonstrate that better explanations of the perceived legitimacy of preferential treatment and satisfaction stem from the consumer's own perceptions of his or her status rather than from the objective status that the company grants to the consumer. Three antecedents of perceived status (perceived spending level, perceived seniority, and need for distinction) offer insights for companies that seek to refine their efforts to target their best customers with special marketing efforts.

1. Introduction

Meeting customers' needs is marketers' most central concern, as well as a prerequisite of successful offerings (Joshi & Sharma, 2004). Therefore, firms collect post-consumption data about consumers' overall satisfaction, likelihood to repurchase, and likelihood to recommend (Morgan & Rego, 2006), though post-consumption experiences likely cannot identify or clarify unfulfilled latent desires (Narver, Slater, & MacLachlan, 2004). To uncover individual needs and wants, organizations must interact frequently with customers to probe their personal views (Hauser, Tellis, & Griffin, 2006). In practice, to foster relationships with their best customers, most companies rely on criteria such as recency, frequency, monetary value (RFM) or customer lifetime value to identify the more relevant targets, then provide those customers with special rewards (Meyer-Waarden, 2012). The preferential treatments (e.g., discounts, free gifts, personalized services, automatic upgrades) offer tokens of recognition and encouragement to continue the relationship. Yet not all such practices match customers' needs and preferences. Thus, relationship management efforts do not consistently contribute to enhancing satisfaction (De Wulf, Oderkerken-Schroder, & Iacobucci, 2001) but instead may lead to negative emotional or cognitive effects (Kivetz, 2005; Stauss, Schmidt, & Schoeler, 2005; Wendlandt & Schrader, 2007). The variance in the effects of such preferential treatment likely stems from two features of the firm's reward strategy: the choice of benefits to offer and the selection of whom to reward (Byung-Do, Mengze, & Kannan, 2001). Customers who receive preferential treatment might express dissatisfaction due to the nature of the benefits offered or because of a lack of fit between the persons who receive the rewards and their expectations of special treatment. This study focuses on the latter issue of targeting mismatch.

Targeting mismatch rarely appears in prior literature, though real-life examples are abundant. In the financial services industry, banks usually reserve preferential treatment for their most profitable customers at a given moment; customers instead may believe that a loyal, long-standing relationship should be a sufficient criterion for receiving special benefits. If long-term customers never receive any benefits, because they do not fit into the firms' profit criteria, frustration likely results, which could even lead to relationship termination (Wendlandt & Schrader, 2007). Conversely, some consumers might receive recognition from the firm as among the best customers, even though they do not perceive themselves as such, leading to potential misunderstandings. In particular, customers who do not perceive a justification for their privileged status may consider the special benefits part of the firm's standard treatment, which increases their overall

☆ The authors thank Priya Ragubir (NYU Stern) for her helpful comments on earlier versions of this paper.

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http://dx.doi.org/10.1016/j.jbusres.2015.06.034
0148-2963/

expectations. Preferential treatment then has no positive effect on satisfaction and even might have a detrimental effect, because any decrease in rewards represents a service decrement to these consumers (Haisley & Loewenstein, 2011). If customers recognize the special treatment but wonder why they have received additional benefits, they might assume that companies are trying to manipulate them and worry that they will have to reciprocate to maintain a balanced relationship (Sherry, 1983).

In this sense, rewards might not benefit customer relationships. Failing to reward customers who expect some recognition may lead to early relationship termination; rewarding customers who do not expect anything may lead to wasted marketing resources and greater customer suspicion. Both companies and customers instead would benefit if firms better listened to their customers' expectations in order to grant preferential treatments that match these customers' preferences (Gopaldas, 2015–in this issue). Therefore, this study investigates the potential gap between the status that companies grant to their customers and the consumers' perception of their own status. In showing that customers' perceptions might not match organizations' reward assignments, this research does not just offer another way to segment customers but seeks to help companies align relationship marketing efforts with customers' needs.

Study 1, conducted in partnership with a service company, identifies the gap between customers' given status (GS, as assigned by companies to customers) and their perceived status (PS, or an individual assessment of own deserved status). This study also shows that PS is a better predictor of customers' perceptions of the legitimacy of preferential treatment than is GS. Study 2 replicates these results and further identifies three antecedents of PS: customers' perceived seniority and perceived spending level with the company (which may differ from objective behaviors measured by the company) and their need for distinction, which is a stable individual trait. This article concludes with a discussion of the main theoretical and practical implications of these findings.

2. Study 1: the gap between given and perceived status

2.1. Hypotheses

Status refers to a socially recognized ranking, which entails prestige, power, or entitlement (Drèze & Nunes, 2009). In customer relationship management, companies often grant preferred or elite customer status, to provide exclusive benefits to consumers who exceed a certain spending level (Wagner, Hennig-Thurau, & Rudolph, 2009). In practice, customer status thus refers to a position in the company's hierarchy, assigned by companies to a selection of buyers, according to objective measures (Homburg, Droll, & Totzek, 2008). However, this status might not parallel consumers' perceptions of their positions in the company segmentation. For example, the specific relationship that some consumers have with a company's employees may play a role in shaping their perceived loyalty and status (Aksoy et al., 2015–in this issue).

As noted, examples of discrepancies between GS and PS are widespread. Customers sometimes do not belong to a company's privileged group, even though they believe themselves to be among the firm's most loyal customers. Conversely, many consumers receive corporate messages with headers such as, “Dear loyal customer” or “To thank you for your loyalty,” even though the customers cannot remember the last time they bought from the company. Both discrepancies may raise concerns regarding the privileges granted by companies to selected customers.

Equity theory (Adams, 1963, 1965) describes how people form fairness perceptions. Namely, the perceived equity of an exchange relies on two comparisons: between the individual's outcomes from the exchange and her or his perceived inputs (internal equity) and between the individual's outcome/input ratio and the ratios of significant others (external equity). If the outcome/input ratio is imbalanced or unequal to significant others, a feeling of inequity arises. The greater the inequity, the more distress the individual feels. If customers believe that they contribute more, they expect better treatment (Morrisson, 2010), at least in part to maintain relationship equity (Martin, Ponder, & Lueg, 2009; Robbins & Miller, 1994). In turn, perceived fairness is a main determinant of satisfaction (Goodwin & Ross, 1992; Kau & Loh, 2006; Smith, Bolton, & Wagner, 1999). Customers who perceive themselves as among a company's best customers but who do not receive any recognition likely experience dissatisfaction.

When preferential treatment instead seems to provide inordinately high benefits, psychological bonds result, creating an expectation of reciprocation that constrains privileged consumers to specific behaviors (e.g., buy more, choose more expensive items). According to psychological reactance theory (Brehm, 1966, 1972), people react negatively to attempts to restrict their freedoms. Consumers who exhibit lower PS than their GS might wonder why the company labels them loyal or best customers and awards privileges: is it because the company is overly generous or expects something in return? Consumers receiving undesirable rewards and/or excessive communication may consider such marketing practices as violating the trust they have in their brands (Stoeckl & Luedicke, this issue). Inferences about mercantile intentions may generate negative reactions (Edwards, Li, & Lee, 2002), which in turn could lower the customer's satisfaction with preferential treatments.

In summary, equity theory and psychological reactance theory both suggest that customers who perceive themselves as best customers expect preferential treatment, to ensure equity in the relationship, whereas any discrepancy between GS and PS challenges the perceived legitimacy of the benefits, which may induce negative feelings and hinder the customer's satisfaction with the preferential treatment. In line with this reasoning,

H1. *Perceived status enhances the perceived legitimacy of preferential treatment.*

H2. *Perceived status has a greater impact on the perceived legitimacy of the preferential treatment than does given status.*

H3. *The perceived legitimacy of the preferential treatment mediates the impact of perceived status on satisfaction with the preferential treatment, such that greater perceived status increases the perceived legitimacy of the preferential treatment, which enhances satisfaction with the preferential treatment.*

2.2. Method

A leading European service company invited 1600 customers to participate, via e-mail, in an online study, presented as a classic satisfaction study. The customers were all members of the company's top-tier segment and had access to multiple privileges. Two hundred fifty agreed to participate and completed a questionnaire with questions related to the company in general, as well as items related specifically to this study. Similar to many other companies in the service sector, the focal firm identifies its top customers on the basis of the length of the relationship (in months) and the amount spent by each customer (average monthly invoice, in euros). These two criteria therefore defined the GS. The measure of PS relied on a concise, ad hoc, single-item scale, chosen in cooperation with the partner company: “I consider myself one of X's best customers” (X stands for the company's name, which asked to remain anonymous). The measure of perceived legitimacy of the preferential treatment relied on a three-item scale, designed for this study (“I deem I deserve advantages that X's other customers do not have,” “I deem I deserve to benefit from the advantages X offers me,” and “I deem I deserve to belong to X's privileged customers”, $\alpha = .777$). In keeping with equity theory, the items all captured a sense of deserving privileges (Feather, 1992). Finally, the single-item measure of satisfaction, “I am satisfied with the special benefits X offers me,” was used regularly by the focal company in satisfaction surveys.