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# Development in Marketing

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# IS COMMUNICATING CUSTOMER PRIORITIZATION A DOUBLE-EDGED SWORD? EXPLORING THE EFFECTS OF PRIORITIZATION BENEFITS ON CUSTOMER LOYALTY AND PROFITABILITY

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## SUMMARY

Recent developments have brought a shift in the perspectives of customer relationship management. The old wisdom “Customer is king” has been replaced by the new paradigm “Customer is cash” (Johnson and Selnes 2005). Therefore, customer prioritization has been pinpointed as a crucial strategy for managing customer relationships (Homburg, Droll, and Totzek 2008). Customer prioritization reflects the idea that marketing efforts are specifically focused on important (i.e., high-tier) relationships in order to enhance relationship utility for high-tier customers (Zeithaml, Rust, and Lemon 2001). However, it is unclear which facets constitute this utility, how these facets (benefits) are interrelated and how these benefits are linked to relationship profitability.

We argue that there are three fundamental benefits for customers associated with prioritization. First, prioritized customers receive non-social utility which refers to an evaluation of relationship performance by the customer without consideration of social comparisons. Here, the common mantra is that pleasing high-tier customers by providing additional benefits like good payment conditions or fast delivery (performance benefit) leads to more satisfied and loyal high-tier customers and a higher average relationship profitability (Homburg, Droll, and Totzek 2008). Furthermore, we suggest that social utility arising from comparisons with other customers plays an important role. More specifically, providing additional social benefits like feeling specially treated compared to others (special treatment benefit) and perceiving a superior rank in the customer hierarchy (status benefit) is presumed to lead to positive outcomes for the company (Dreze and Nunes 2009; Lacey, Suh, and Morgan 2007).

Surprisingly, research on prioritization either neglects social utility (e.g., Homburg, Droll, and Totzek 2008), focuses on only one specific social benefit (e.g., Barone and Roy 2010) or commingles preferential treatment and status by considering an aggregated construct (e.g., Lacey, Suh, and Morgan 2007). While both types of social benefits can be intertwined, for many contexts this is not the case. For example, it has been shown that the length and frequency of sales person visits is strongly driven by sympathy with and emotional attachment to a

customer (Homburg and Jensen 2007). However, a “nice” customer advocated by sales reps is not necessarily most important from the firm’s point of view. Still, such a customer receives special treatment benefits without viewing himself as an important or high-status customer. Thus, both special treatment benefit and status benefit have to be conceptualized as individual constructs in order to fully understand the mechanisms through which prioritization programs affect the financial performance of high-tier relationships, i.e., to detect the sources of enhanced or reduced profitability.

With respect to the consequences of prioritization benefits, the introduction of prioritization programs resides with the assumption that triggering special treatment benefits and status benefits leads to favorable customer behavior toward the company in terms of higher loyalty and relatively stronger sales growth compared to cost enhancements. Consequently, in addition to enhancing performance benefits for high-tier customers making special treatment and enhanced status salient to high-tier customers through active communication has become an integral part of most prioritization initiatives like loyalty card programs. However, recent studies raise the question whether destructive side-effects occur through providing social utility (Barone and Roy 2010) and hence whether prioritization might even be harmful in terms of ultimate, financial outcomes. Thus, the intriguing question arises if a company that prioritizes its customers should or should not emphasize social utility such as special treatment benefit and status benefit by communication activities.

In summary, we contribute to a better understanding of the ramifications of prioritization programs by (1) disentangling prioritization benefits (performance benefit, special treatment benefit, and status benefit), (2) assessing the differential impact of these benefits on loyalty, sales and costs, and (3) examining the moderating role of communication for the link between prioritization benefits and loyalty, sales and costs.

We test our framework combining survey-based data and financial data (customer account data on sales and costs) for 481 interfirm exchanges. The results show that the performance benefit has a positive effect on loyalty

and that its influence on sales is stronger than the impact on costs. Furthermore, also special treatment benefit enhances loyalty while its effects on sales are stronger than on costs. At the same time, the special treatment benefit triggers the status benefit. Interestingly, our findings indicate that status benefit is associated with an increase of loyalty, sales and costs. However, here the boost in customer-specific marketing and sales costs outweighs the increase in sales and loyalty. Finally, the results

indicate that communicating a prioritization program to customers might undermine the financial performance of prioritized relationships as it disproportionately leverages the (unfavorable) impact of special treatment benefit and status benefit on costs while it attenuates the (favorable) impact on loyalty and sales. Hence, managers must be aware that explicitly communicating exclusive prioritization advantages and elevated status might backfire in terms of reduced profitability.

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