

Differential Effects of Preferential Treatment Levels on Relational Outcomes

Russell Lacey

University of New Orleans

Jaebeom Suh

Ajou University, Korea (on leave of Kansas State University)

Robert M. Morgan

University of Alabama

Despite its often controversial and philosophically divisive nature, preferential treatment of customers holds the potential to contribute to important relational outcomes valued by firms. In this study, sampled customers (n = 2,461) of a national upscale department store chain representing recipients of three different levels of preferential treatment are tested. While controlling for individual customer characteristics, higher levels of preferential treatment are shown to positively influence relationship commitment, increased purchases, share of customer, word of mouth, and customer feedback. This study fills a major services marketing research gap by assessing the favorable effects of higher levels of preferential treatment as a relationship marketing strategy.

Keywords: *preferential treatment; relationship marketing; customer loyalty programs*

Although the notion of a firm offering its best customers elevated service and enhanced value proposition incentives is certainly not new (e.g., Dameron 1941), the popularity of preferential treatment of selective customers

has been fueled by the emergence of relationship marketing, as firms increasingly adopt a more strategic approach for retaining valued customers (Zabin and Brebach 2004). Yet preferential treatment of selective customer segments has emerged as a controversial marketing strategy. Labeled by *Business Week* (2000) as the “new consumer apartheid,” preferential treatment creates tiered levels of customer service that essentially deny or limit access to less valuable customer segments. Some critics of preferential treatment argue that firms should strive to improve the quality of service for all customers. Other critics argue that preferential treatment can lead to customer dissention toward practicing firms (Fournier, Dobscha, and Mick 1998).

In addition to being a controversial and philosophically divisive practice, preferential treatment carries potentially substantial economic ramifications to firms. As a firm builds service design and technological infrastructure to enhance value propositions and customer service treatment among selective consumers, the cost of product and service delivery escalates. The financial implications facing the firm include the inability to incrementally raise its cost of service delivery without raising its prices or lowering its profitability, at least in the short term. Moreover,

many firms believe that it is neither economically prudent nor operationally practical to enhance value propositions and/or extend service entitlements to all of its customers, especially when most firms have several tiers of customers in terms of profitability and there is significant heterogeneity between customer tiers. When the value of some customers justifies the additional expenses needed to bestow preferential treatment, how does the firm truly benefit? Although it has been suggested that customers' perceptions of preferential treatment can significantly influence stronger customer relationships (Berry 1995), there is little empirical evidence of this relationship.

Despite the increasingly widespread practice of preferential treatment, this concept has received surprisingly little attention in the academic literature. Much of the previous research has been limited to examining special treatment of customers within the confines of complaint handling and service failure recovery (e.g., Blodgett, Hill, and Tax 1997; Goodwin and Ross 1992; Kelly, Hoffman, and Davis 1993; Tax, Brown, and Chandrashekar 1998). This is unfortunate, as preferential treatment appears to hold promise as an influential relationship driver to attracting, developing, and retaining successful marketing relationships (Gwinner, Gremler, and Bitner 1998). Even then, more recent research contradicts the value of preferential treatment and even calls into question the compatibility of preferential treatment with the relationship marketing concept (Hennig-Thurau, Gwinner, and Gremler 2002). Hence, significant research gaps remain in terms of investigating the effects of systematic and deliberate use of preferential treatment as a relationship marketing strategy.

To fill this void, we concentrate on the study of preferential treatment as a proactive and progressive relationship marketing strategy. Specifically, the framework of our study investigates the differential effects of preferential treatment levels on key relational outcomes (i.e., relationship commitment, increasing current purchase levels, increasing share-of-customer intentions, positive word of mouth, and customer feedback) among three large customer subgroups of a national upscale department store sample ($n = 2,461$) and, in doing so, will answer two important research questions. First, does the practice of preferential treatment truly strengthen customer relationships? Second, to what extent do different levels of customer preferential treatment affect relational outcomes held to be important to the firm? Answers to these questions provide two sets of contributions. For academia, the results of our study would (a) provide a baseline for understanding the potential conceptual contribution of preferential treatment to building and sustaining customer relationships in the marketing literature and (b) help explain how the provision of higher levels of preferential treatment affect customer relationships, in terms of relational outcomes. For

marketing managers, answering these research questions would (a) offer guidance to firms about the potential benefits of preferential treatment and (b) provide instruction regarding how firms may pursue different levels of customer service treatment initiatives.

To answer our major research questions, we begin with a review of the scant scholarly research published regarding preferential treatment of customers and establish its linkage to relationship marketing as the central theoretical foundation of our study. We then present the framework of our model. This is followed by a description of the research method, including a description of the three different levels of preferential treatment received by sampled customers of an upscale department store chain and a delineation of the measures used to test the hypothesized relationships. Following an analysis of the results, we interpret the results and present the major contributions of the study, including managerial implications and research limitations and suggestions for future preferential treatment studies.

LITERATURE REVIEW

The relationship marketing concept describes the process by which firms create, maintain, and enhance long-term relationships with individual customers as well as other stakeholders for mutual benefit (Morgan and Hunt 1994). "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" (Sheth and Parvatiyar 1995, p. 264). In a general sense, relationship marketing involves treating individual customers differently (Peppers and Rogers 2004). Vargo and Lusch (2004) recently advocated that the relationship marketing perspective is actually part of a broader service-centered view in which firms strive to cultivate relationships through differentiated and customized value propositions. By being adaptive to individual and dynamic service needs of customers, customized value propositions allow firms to build more sustainable marketing relationships. In an era in which many competitors may be offering comparable products, sharing distribution systems, and emulating price promotions, firms are being strongly encouraged to direct more of their focus on developing and implementing relationship efforts to improving customer value and gaining competitive advantage (De Wulf and Odekerken-Schroder 2003).

Drawing from the existing literature (e.g., De Wulf and Odekerken-Schroder 2003; Gwinner, Gremler, and Bitner 1998), preferential treatment is defined as the practice of giving selective customers' elevated social status recognition and/or additional or enhanced products and services above and beyond standard firm value propositions

and customer service practices. In their exploratory study of relational benefits, Gwinner, Gremler, and Bitner (1998) found that preferential treatment comprises two components: economic and customization. Relabeled as economic-based preferential treatment, the former component describes the monetary value and/or time savings benefits that customers receive from engaging in marketing relationships (Gwinner, Gremler, and Bitner 1998). Examples of economic-based preferential treatment include product and service rewards, complimentary product and service upgrades, gift certificates, and discounts. Once a customer has established a marketing relationship, time saving benefits may materialize in the form of priority service provider appointments and expedited checkout lines. In the context of service recovery, economic-based preferential treatment may take the shape of liberal return and refund policies and immediate service repairs. The second major component of preferential treatment, customization-based preferential treatment describes customer benefits derived from customer's perceptions of personal recognition, extra attention, and specific services not available to regular customers (Gwinner, Gremler, and Bitner 1998). Examples of customization-based preferential treatment include customized products, access to dedicated customer service personnel, first access to new product shipments, members-only concierge services, advanced sales notices, private tours, and invitations to special events. Many forms of customization-based preferential treatment involve conspicuously recognizing customers for their special status. Based on the ideas of Berry (1995), customization-based preferential treatment is regarded to be considerably more difficult for competitors to imitate than economic-based preferential treatment and thus holds stronger potential for sustainable competitive advantage to firms.

The notion of preferential treatment is consistent with the relationship marketing perspective because it recognizes the special status of preferred customers (Czepiel 1990). Customers are more likely to receive such preferential treatment attributes as special recognition and customized products and services when they are engaged in established marketing relationships (Barnes 1997; Gronroos and Ojasalo 2004). Many relationship-driven firms aspire to customize their value propositions to match idiosyncratic customer needs. It is often the firm's capacity to personalize that leads customers to observe certain firm behaviors and actions as preferential treatment (Patterson and Smith 2003). Indeed, a firm's ability to practice preferential treatment depends on its capacity to identify and focus on its most valuable customers. Though the importance of maintaining economic fairness perceptions among customer groups and its impact on the firm's profitability has long been recognized (Kahneman, Knetsch, and Thaler 1986), adoption of the relationship

marketing concept strongly encourages, if not implicitly mandates, that firms learn about individual customer requirements and purchasing conditions. With the emergence of Customer Relationship Management (CRM) technologies, firms of all sizes can more easily establish and systematically maintain organizational memory on individual customers, including their product and service preferences. It is the combination of customer learning and customization built over a series of interactions that increases the potential for differentiation of customer treatment (Rigby, Reichheld, and Schefter 2002). Armed with detailed customer intelligence, firms are in a better position to make strategic marketing decisions, such as allocation of service resources to enhance existing customer relationships, particularly for their most valuable customers. Furthermore, preferential treatment is lost if the relationship is terminated and thus may serve as a switching cost barrier (Patterson and Smith 2003).

From the consumer's perspective, customers typically compare themselves with "similar others" (Xia, Monroe, and Cox 2004). Savvy customers who recognize their high value are more likely to demand commensurate special privileges. As customers become more educated and experienced, they may feel entitled to preferential treatment in return for their business. With time, preferential treatment may eventually condition some customers to take on a personality characteristic of being special and unique and thus cause them to feel entitled to such adulation (Boyd and Helms 2005). When preferential treatment is highly visible to customers, it becomes all the more important for customers to understand stipulations for disproportionate levels of treatment (Schneider and Bowen 1999).

Perhaps the most prevalent mechanism used by firms to practice preferential treatment is through customer loyalty programs. Loyalty programs are coordinated, membership-based marketing activities designed to enhance the building of relational attitudes and behaviors among customers toward a particular brand or firm. Often based on cumulative purchases, loyalty programs may be able to provide customers with added economic and customized service incentives to strengthen their marketing relationship with the firm. Loyalty programs can lend depth and uniqueness to targeted customer segments and help create customer perceptions that make them feel special, important, and appreciated (Bolton, Kannan, and Bramlett 2000; Lewis 2004). Depending on the firm's objectives, loyalty program membership can be automatically offered to all customers or offered only to certain qualifying customers. Through loyalty programs, firms are essentially transferring customer value and service levels from nonparticipants to loyalty program participants as they give preferential treatment to selected or enrolled customers. Because firm-sponsored loyalty programs are chiefly aimed at the biggest spenders,

it is these customers who stand to benefit most from a loyalty program. By default, those customers who do not join loyalty programs or fail to qualify for membership receive comparably fewer product and service enhancements and incentives than loyalty program members (Kim, Shi, and Srinivasan 2001; Shugan 2005).

FRAMEWORK AND HYPOTHESES OF THE STUDY

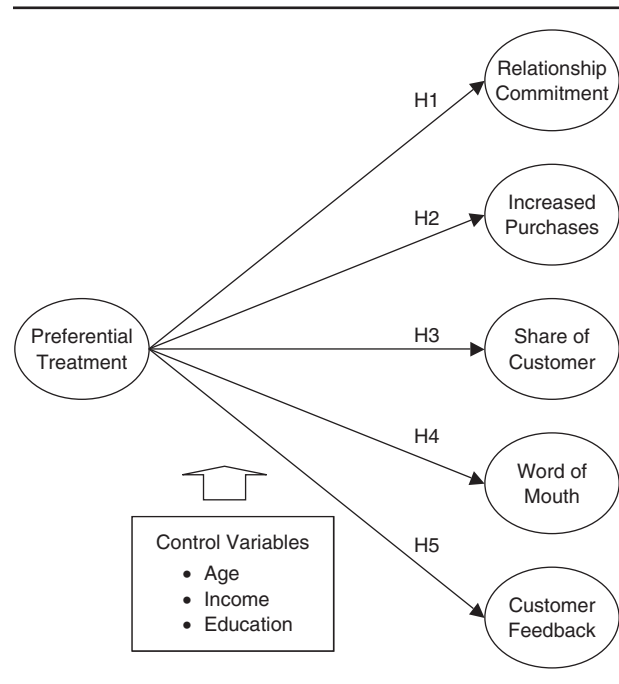
Preferential Treatment and Relational Outcomes

As illustrated in Figure 1, the framework of this study examines associations between preferential treatment of customers and five key relational outcomes while controlling the influences of three individual customer characteristics. The model suggests that preferential treatment can be used to contribute to repurchase patronage activities and other forms of procurement. Separate, though closely related, measures of repatronage intentions with a particular firm are increased purchases and share of customer. We also include positive word of mouth and customer feedback in the framework to further capture the potential contribution of preferential treatment. But first, because any assessment of customer-firm relationships cannot solely rest on relational behaviors, we examine the proposed linkage between preferential treatment and the focal attitudinal construct—relationship commitment—that supports consistent behaviors.

Relationship Commitment

The importance of relationship commitment is well established in the marketing literature (e.g., Garbarino and Johnson 1999; Gruen, Summers, and Acito 2000; Morgan and Hunt 1994) and has been shown to be essential to the creation and preservation of marketing relationships. In line with Morgan and Hunt (1994), we define relationship commitment as a customer's enduring desire to continue a relationship with a firm accompanied by his or her willingness to make efforts at maintaining the relationship. Committed customers hold feelings of attachment to maintain valued marketing relationships (Fournier 1998; Moorman, Zaltman, and Deshpande 1992). Customers base their level of commitment, in part, on the degree of recognition received because of their status as contributing customers (Gruen, Summers, and Acito 2000). Moreover, customers are more likely to develop commitment toward firms that they believe recognize and reward their special customer status (Barnes 1997). In a recent study, Hennig Thureau, Gwinner, and Gremler (2002) found a direct and signifi-

FIGURE 1
Preferential Treatment Model



cantly positive influence of special treatment benefits on relationship commitment in service provider relationships.

Hypothesis 1: Higher levels of preferential treatment positively influence relationship commitment.

Increased Purchases

In the marketing literature, there is wide agreement on the crucial role of repeat patronage as a key behavioral outcome for measuring relationship marketing success (e.g., Crosby and Stephens 1987; Reichheld 1996). By providing gestures of gratification to valuable customers, firms anticipate repatronization (Schneider and Bowen 1999). Although there is a lack of empirical evidence to support this relationship (Hennig Thureau, Gwinner, and Gremler 2002), it appears logical that preferential treatment is associated with repatronization intentions. In the framework of this study, preferential treatment is not just expected to be associated with intentions to maintain the marketing relationship but rather is hypothesized as being related to increasing purchase intentions. Here, this relational outcome is operationalized as the customer's intentions to increase the magnitude of his or her current purchasing activities from a specific firm during the next 12-month period.

Hypothesis 2: Higher levels of preferential treatment positively influence increased purchases.

Increased Share of Customer

For the purpose of this study, share of customer represents the percentage of the volume of the customer's total spending in a product or service category devoted to a particular firm within a 12-month period. Although increasing the absolute volume of customer spending over current levels may be more directly beneficial to the firm, it can be argued that share of customer is a stronger relational outcome metric because it captures the relationship between customers' purchases and overall purchases made in that particular product or service category. Although a limitation of this metric is its ceiling effect, proportion of purchases devoted to a customer's most purchased brand has been historically viewed as the most frequently used operational definition of relational-based behavior (Twedt 1964; Zeithaml, Berry, and Parasuraman 1996). As preferential treatment contributes to more loyal purchase behaviors from its high-value customers (Zabin and Brebach 2004), it follows that preferential treatment should encourage customers to make a higher share of their category purchases from a particular firm.

Hypothesis 3: Higher levels of preferential treatment positively influence increasing share of customer.

Positive Word of Mouth

Positive word of mouth describes favorable communications regarding a certain firm that a customer is willing to share with others. Positive word of mouth is well established as one of the most important variables to acquiring new customers (e.g., Anderson 1998; Zeithaml, Berry, and Parasuraman 1996) and has been found to be a key outcome of relationship marketing (Morgan and Hunt 1994). Word of mouth can occur in a multitude of ways, ranging from traditional one-to-one communications to Web-enabled consumer-generated media forums, the latter of which can include e-mails, Internet portals, microcommunities, Web logs, and third-party Web sites. Indeed, the Internet has exponentially elevated the importance, influence, and breadth of both positive and negative word-of-mouth communications from customers. The effect of enhanced or augmented service treatment on positive word of mouth has found support in multiple contexts (e.g., Beatty et al. 1996; Hennig Thureau, Gwinner, and Gremler 2002; Price and Arnould 1999).

Hypothesis 4: Higher levels of preferential treatment favorably influence positive word of mouth.

Customer Feedback

In their empirical study of organizational relationships, Morgan and Hunt (1994) hold cooperation to be among the

most important outcomes of relationship marketing. In consumer marketing, one form of cooperation is the degree to which firms may be able to secure customer feedback. A firm that can incorporate customer feedback is able to reduce its business risk by designing customer-driven products and services (Bettencourt 1997). Customer feedback describes the willingness of the customer to provide input that can be used for improving marketing performance, such as participating in new product development testing, reacting to advertising campaigns, giving opinions on service quality, and sharing insight about unfulfilled customer needs (Shani and Chalasani 1992). Thus, we expect preferential treatment to have a positive effect on customers' willingness to provide customer feedback.

Hypothesis 5: Higher levels of preferential treatment positively influence customer feedback.

Individual Customer Characteristics

The final aspect of the preferential treatment framework addresses the potential for individual customer characteristics to influence relational outcomes of the study. Based on recent marketing studies (e.g., Meuter et al. 2005; Mittal and Kamakura 2001), we expect to find systematic differences based on customer demographic characteristics. We selected age, income, and education as three covariates for the following reasons. First, older consumers may prefer receiving special treatment more so than younger customers. Second, preferential treatment recipients are frequently selected on the basis of their individual purchase history, which implies a possible relationship with household income. Third, the more educated the customers are, the more likely they will recognize their ability to demand preferential treatment from the firm in return for their business. However, as noted by Mittal and Kamakura (2001), "the effect of consumer characteristics is most likely industry- and/or category specific, which makes a priori specification of each effect an almost impossible task" (p. 133). Moreover, we lack a rich theoretical basis to specify a priori how each customer characteristic will affect the preferential treatment model. Instead, we statistically control for the influence or variation by expanding our model to account for the individual differences on the hypothesized relationships.

RESEARCH METHOD

Sample and Data Collection

What a customer views as preferential treatment may be considered to be standard treatment by the firm and vice versa. Given the premise that customers' perceptions on

preferential treatment are more critical to the firm, they are the most appropriate sample unit for this research study. Thus, customers' perceptions of preferential treatment would be needed to capture the influence of preferential treatment on each relational outcome of our model. Furthermore, sampled customers would be asked to assess their perceptions of receiving preferential treatment in relation to their overall experience with a given firm as opposed to reacting to more narrowly defined scenarios such as those used to recover from service failures. The plethora of preferential treatment arsenal described earlier adds to the complexity of testing for the impact of preferential treatment. Hence, it was considered paramount to control for the diversity of preferential treatment practices. Accordingly, the decision was made to sample customers of a single firm that explicitly practiced preferential treatment through a single company-sponsored loyalty program. Furthermore, it was very important to distinguish between customers who received different levels of preferential treatment. Doing so would help control potential participation bias that might result in overrepresentation of customers receiving higher levels of preferential treatment or underrepresentation of customers receiving lower levels of customer treatment, as well as to determine if and how level of preferential treatment influences the positive associations with key relational outcomes.

A nationally recognized upscale department store chain agreed to participate in this study. To assess how levels of preferential treatment affect the respective relational outcomes, we conducted a nationwide sample of customers belonging to three distinct customer segments. For analysis convenience, we labeled these groups as Level 1, Level 2, and Level 3. As nonmembers of the firm's loyalty program, Level 1 customers did not receive preferential treatment benefits from the firm made exclusively to loyalty program members. Though Level 1 customers had made purchases from the firm within 12 months from the time the sample was drawn, they were ineligible for loyalty program membership because of insufficient spending activity during the previous annual qualifying period. In contrast, as members of the firm's loyalty program, Level 2 customers had qualified for membership through their volume of purchases during the qualifying period and thus received a variety of customization-based preferential treatment and time savings benefits not available to nonmembers of the loyalty program (e.g., invitations to attend private shopping parties, members-only concierge services, special members-only communications). Finally, Level 3 customers had not only qualified for membership in the firm's loyalty program through their previous annual purchasing levels but, unlike Level 2, had redeemed points in the loyalty program in exchange for store merchandise, special

events, and travel tickets within the prior 12-month period from the time the sample was drawn and thus had received economic-based preferential treatment benefits holding monetary value. In summary, Level 1 customers were not eligible to receive the economic- and customization-based preferential treatment benefits only available to members of the company's loyalty program, Level 2 customers received customization-based preferential treatment benefits and time savings benefits, and Level 3 customers received a full array of economic- and customization-based preferential treatment benefits in the prior 12-month period from the time of the sample.

Before conducting a large-scale mail survey, the instrument was first pretested by personally administering it to 10 individuals similar to targeted respondents to verify the suitability of the terminology used and clarity of the instructions and scales. The pretest revealed that only slight modifications needed to be made. All surveys contained a questionnaire along with a postage-paid business reply envelope and a letter of introduction from the sponsoring firm requesting the recipient's participation. All customers who were asked to participate in this study were offered 200 loyalty program points in return for their participation. However, only members of the firm's loyalty program stood to benefit from this offer.

A stratified sample of 8,776 customers was divided into the three preferential treatment levels just described. Simple random sampling was conducted on each subgroup. The adjusted sampling frame net of nondeliverable surveys was 2,952 Level 3 customers, 2,955 Level 2 customers, and 2,869 Level 1 customers. In aggregate, 2,591 completed questionnaires were returned, for an overall response rate of 29.5%. For Level 1 customers, 750 completed questionnaires were returned, for a response rate of 26.1%. For Level 2 customers, 597 completed questionnaires were returned, for a response rate of 20.2%. For Level 3 customers, 1,244 completed questionnaires were returned, for a response rate of 42.1%. Among these returned questionnaires, 708, 572, and 1,181 respondents for Level 1, Level 2, and Level 3 were actually used in the analyses after eliminating respondents because of too many missing values, which resulted in adjusted response rates of 24.7%, 19.4%, and 40%, respectively.

Nonresponse bias was assessed by comparing the responses of early respondents to those of late respondents (Armstrong and Overton 1977). Based on the survey receipt dates, the first and last 10% of the questionnaires received was tested for statistically significant differences in the mean values for each of the research study's constructs. This nonresponse bias test did not show any statistically significant differences at the $p = .05$ level, suggesting that nonresponse bias is not likely a major concern of this study.

Demographic Characteristics

Characteristics for each of the three level subgroup samples are displayed in Table 1. Most of the respondents for the sample were women (84.1%). The average respondent's age was 50 years. The demographic profile revealed comparatively high levels of formal education and household income. Approximately 40% of the respondents reported that they had earned a graduate degree, 10.3% had performed some graduate work, and 26.7% reported an undergraduate degree as their highest level of education. One fifth (21.2%) of the respondents reported household incomes of \$500,000 or more, 27.4% reported household income between \$200,000 and \$499,999, 28.1% reportedly earned between \$100,000 and \$199,999, leaving just 23.3% with reported household incomes of less than \$100,000.

Measures

The variables of the model were measured using self-report measures of respondents' perceptions. All of the construct items were measured using 7-point Likert-type scales, with the majority of the items anchored with *strongly agree/strongly disagree*. An adaptation of the relational benefits scale developed by Gwinner, Gremler, and Bitner (1998) was used to measure preferential treatment, resulting in a five-item scale. Scales used for relationship commitment (five items) and customer feedback (five items) were both adapted from Morgan and Hunt (1994). The four-item scale that tapped positive word of mouth was adapted from Gremler and Gwinner (2000). Finally, to capture increased ongoing patronage, both in volume and in proportion, two single-item measures of increased purchases and share of customer were developed for this study (see the appendix for a listing of the scale items).

TABLE 1
Sample Demographic Characteristics (%)

	Level 1	Level 2	Level 3	All Levels
Gender				
Male	19.6	16.7	13.6	15.9
Female	80.4	83.3	86.4	84.1
Age				
20 to 29	9.5	4.0	3.9	5.5
30 to 39	18.4	18.0	17.3	17.7
40 to 49	23.6	27.3	26.7	25.9
50 to 59	20.7	27.6	29.3	26.3
60 to 69	16.4	16.6	14.5	15.6
70+	11.5	6.5	8.1	8.9
Marital status				
Single	24.2	13.9	13.1	16.3
Married	57.3	69.3	74.7	68.5
Divorced/separated	11.0	12.3	7.4	9.5
Widowed	7.5	4.5	4.8	5.7
Race				
African American	12.7	7.1	5.0	7.8
Asian	10.9	11.2	12.9	12.0
Hispanic	5.2	4.7	3.2	4.1
White	67.8	74.8	76.3	73.3
Other	3.4	2.6	2.5	2.8
Annual household income				
< \$25,000	2.1	0.4	0.3	0.9
\$25,000 to \$49,999	9.1	2.5	2.5	4.6
\$50,000 to \$74,999	14.9	4.6	5.8	8.2
\$75,000 to \$99,999	14.3	7.9	7.3	9.6
\$100,000 to \$149,999	18.7	13.8	14.6	15.5
\$150,000 to \$199,999	14.0	11.3	12.6	12.7
\$200,000 to \$299,999	9.9	17.4	15.5	14.2
\$300,000 to \$499,999	7.4	15.3	15.5	13.2
\$500,000+	9.7	26.8	25.8	21.2
Education				
< high school	0.3	0.5	0.1	0.3
High school degree	3.7	2.9	1.4	3.3
Some college	20.8	15.7	19.3	19.0
College degree	24.4	28.3	27.4	26.7
Some graduate work	10.2	11.7	9.8	10.3
Graduate degree	40.6	40.9	40.0	40.4

ANALYSIS AND RESULTS

Measurement Properties

Measurement properties were tested to check measurement reliability and validity based on a pooled data of three preferential treatment levels and each of separate levels of preferential treatment. First, a pooled covariance matrix combining three customer levels was created and subjected to confirmatory factor analysis using LISREL 8.71.

Results from the measurement model exhibited acceptable levels of fit. Although the overall model fit as indicated by the chi-square statistic, $\chi^2(129) = 1,696.15$, $p = .00$, was unsatisfactory, this result was not surprising given the chi-square test's sensitivity to sample size and

this large sample. Attention was focused on the incremental fit measures, which yielded good levels of fit, including normed fit index = .98, non-normed fit index = .98, comparative fit index = .98, incremental fit index = .98, relative fit index = .98, goodness of fit index = .92, adjusted goodness of fit index = .90, and root mean square error of approximation = .073. Convergent validity was supported in each construct with the lowest parameter estimate being $\lambda = .82$. Significant t values meet the criteria for convergent validity (Anderson and Gerbing 1988). In addition, Bagozzi and Yi (1988) suggest strong evidence of convergent validity results when the factor loading on an item of interest is significant. The squared multiple correlations for all of the items in the model were large, ranging from .67 to .91. In assessing discriminant

TABLE 2
Descriptive Statistics and Correlations: Level 1

Construct	M	SD	CA	CR	AVE	1	2	3	4	5	6
1. Preferential treatment	3.83	1.74	.94	.95	.80	1.00					
2. Relationship commitment	5.43	1.34	.92	.94	.79	.33	1.00				
3. Share of customer	4.70	1.67	na	na	na	.23	.42	1.00			
4. Increased purchases	4.69	1.64	na	na	na	.25	.43	.81	1.00		
5. Positive word of mouth	5.72	1.26	.93	.96	.84	.32	.78	.44	.42	1.00	
6. Customer feedback	5.59	1.52	.95	.98	.90	.15	.33	.25	.30	.34	1.00

NOTE: Correlation is based on listwise deletion. $n = 708$. All correlations significant at .01 level. CA = Cronbach's alpha; CV = construct reliability; AVE = average variance extracted.

TABLE 3
Descriptive Statistics and Correlations: Level 2

Construct	M	SD	CA	CR	AVE	1	2	3	4	5	6
1. Preferential treatment	4.11	1.71	.94	.95	.80	1.00					
2. Relationship commitment	5.53	1.34	.91	.94	.80	.33	1.00				
3. Share of customer	5.12	1.69	na	na	na	.23	.47	1.00			
4. Increased purchases	5.04	1.64	na	na	na	.27	.49	.84	1.00		
5. Positive word of mouth	5.85	1.24	.93	.95	.84	.31	.77	.49	.52	1.00	
6. Customer feedback	5.49	1.48	.94	.96	.83	.15	.33	.29	.33	.31	1.00

NOTE: Correlation is based on listwise deletion. $n = 572$. All correlations significant at .01 level. CA = Cronbach's alpha; CV = construct reliability; AVE = average variance extracted.

TABLE 4
Descriptive Statistics and Correlations: Level 3

Construct	M	SD	CA	CR	AVE	1	2	3	4	5	6
1. Preferential treatment	4.41	1.79	.94	.96	.81	1.00					
2. Relationship commitment	5.83	1.18	.92	.95	.82	.31	1.00				
3. Share of customer	5.48	1.60	na	na	na	.20	.48	1.00			
4. Increased purchases	5.41	1.55	na	na	na	.22	.50	.80	1.00		
5. Positive word of mouth	6.02	1.10	.92	.95	.83	.28	.75	.50	.54	1.00	
6. Customer feedback	5.66	1.50	.94	.96	.84	.14	.32	.26	.27	.33	1.00

NOTE: Correlation is based on listwise deletion. $n = 1,181$. All correlations significant at .01 level. CA = Cronbach's alpha; CV = construct reliability; AVE = average variance extracted.

validity, the procedure described by Fornell and Larcker (1981) was used. That is, if the average variance extracted (AVE) for each construct is higher than the squared correlation between the construct and any other, then discriminant validity is established. For each factor, the variance extracted exceeded the Φ^2 estimates. AVE ranged from .81 to .84, with each measure easily exceeding the .50 minimum cutoff suggested by Bagozzi and Yi (1988).

Tables 2 to 5 show correlation matrices for all three levels of preferential treatment and for the pooled group altogether as well as mean, standard deviation, and AVE results of each construct. Table 2 results also show that Cronbach's alphas for each multi-item construct ranged from .91 to .95, which provide evidence of reliability.

RESULTS

A one-way ANOVA was first run to check preferential treatment for three subgroup levels. The result showed that there were significant differences among these three levels, $F(2, 2,458) = 24.39, p < .001$. Mean values of preferential treatment for each customer group level were 3.83, 4.11, and 4.41, respectively. The Levene statistic also showed homogeneity of variances among the three subgroup levels.

To test the model's hypotheses, MANCOVA was run on the set of dependent variables (relationship commitment, increased purchases, increasing share of customer, positive word of mouth, and customer feedback) with preferential treatment as an independent variable, while

TABLE 5
Descriptive Statistics and Correlations: All Levels

Construct	M	SD	CA	CR	AVE	1	2	3	4	5	6
1. Preferential treatment	4.17	1.77	.94	.96	.81	1.00					
2. Relationship commitment	5.64	1.28	.92	.94	.81	.33	1.00				
3. Share of customer	5.17	1.68	na	na	na	.24	.47	1.00			
4. Increased purchases	5.12	1.63	na	na	na	.26	.49	.82	1.00		
5. Positive word of mouth	5.89	1.19	.92	.95	.83	.31	.77	.49	.50	1.00	
6. Customer feedback	5.60	1.50	.94	.96	.84	.15	.33	.26	.29	.33	1.00

NOTE: Correlation is based on listwise deletion. $n = 2,461$. All correlations significant at .01 level. CA = Cronbach's alpha; CV = construct reliability; AVE = average variance extracted.

TABLE 6
Separate ANCOVA Result

Sources of Variation	Dependent Variables									
	Relationship Commitment		Share of Customer		Increased Purchases		Word of Mouth		Customer Feedback	
	F	p	F	p	F	p	F	p	F	p
Constant	1152.51	.000**	729.17	.000**	813.74	.000**	1655.77	.000**	1042.92	.000**
Covariate										
Age	65.85	.000**	1.43	.232 ^{ns}	6.04	.014*	18.98	.000**	5.29	.022*
Income	23.27	.000**	6.33	.012*	4.57	.033*	26.99	.000**	8.36	.004**
Education	24.17	.000**	6.05	.014*	9.06	.003**	26.43	.000**	1.20	.274 ^{ns}
Preferential treatment	23.29	.000**	45.23	.000**	39.76	.000**	16.05	.000**	3.64	.026*
Parameter Estimate for Preferential Treatment Level ^a										
	B	t	B	t	B	t	B	t	B	t
Level 1	—	—	—	—	—	—	—	—	—	—
Level 2	.18	2.25*	.51	4.94**	.44	4.41**	.20	2.65**	-.04	-0.48 ^{ns}
Level 3	.45	6.60**	.84	9.50**	.76	8.89**	.36	5.64**	.15	1.94*

a. Parameter estimate for preferential treatment using Level 1 as a reference one. Thus, for Level 1, there are no estimates. A regression with two dummy variables for three preferential treatment levels provides the same result.

* $p < .05$. ** $p < .01$. ^{ns} = not significant.

controlling for the effects of age, income, and education as covariates. MANCOVA results showed that preferential treatment levels had significant main effects on the set of dependent variables (Wilks's lambda = .950), $F(10, 4,092) = 10.68, p < .001$.

To further understand the effect of preferential treatment, separate univariate ANCOVA was run on each dependent variable, while controlling the effects of the same covariates (i.e., age, income, and education level). As shown in Table 6, preferential treatment showed significant effects on each of the five dependent variables, which supported all hypotheses. For instance, the second column of Table 6 summarizes the results of ANCOVA for relationship commitment, which provide evidence that the preferential treatment level had significant effects on relationship commitment, $F(2, 2,050) = 23.29, p < .001$.

Similar interpretation can be applied to the remaining four columns in Table 6. The results showed that preferential treatment level had significant effects on increasing share of customer, $F(2, 2,050) = 45.23, p < .001$, increased purchase, $F(2, 2,050) = 39.76, p < .001$, positive word of mouth, $F(2, 2,050) = 16.05, p < .001$, and customer feedback, $F(2, 2,050) = 3.64, p < .05$.

Because all the separate ANCOVA showed significant results for preferential treatment levels, pairwise comparisons were further examined to see which levels were different for the dependent variables. All the pairwise comparisons for relationship commitment, increased purchases, share of customer, and positive word of mouth were significant. However, pairwise comparisons of Level 1 and Level 2 for customer feedback were not significant. In terms of individual customer characteristics

as covariates, household income showed significant effects on all five dependent variables. Meanwhile, age and formal education were each shown to have a significant effect on four of the five dependent variables.

Parameter estimates for the different levels of preferential treatment were also reported in Table 6 in order to further show the magnitude of differential effects among the three levels on each dependent variable. For example, regarding differential effects of three preferential treatment levels on relationship commitment, Level 2 and Level 3 had significantly larger impacts (.18 and .45 higher) compared to Level 1, which, as the reference group, had a value of zero. This pattern is consistent with other dependent variables of share of customer (.51 and .84 higher for Level 2 and Level 3), increased purchases (.44 and .76 higher for Level 2 and Level 3), and positive word of mouth (.20 and .36 higher for Level 2 and Level 3). While there was a significantly higher effect (.15) of preferential treatment level on customer feedback for Level 3 compared to Level 1, there was no such an effect for Level 2 compared to Level 1 (-.04). In sum, our results showed that preferential treatment levels had direct influences on all the relational outcome variables, which was the main interest of our study.¹

Finally, given the theoretical and empirical evidence of high correlations among relationship commitment and the remaining four dependent variables, step-down analysis was conducted to examine a possible mediation effect of relationship commitment between preferential treatment levels and the remaining four dependent variables to see if preferential treatment levels still have direct influences on the remaining four variables. By examining dependent variables in a predetermined order, the step-down analysis gauges the distinct contribution of each variable to the between-group variance as the variable is added to the dependent variable set (Bagozzi and Yi 1989; Yi 1993). According to Yi (1993), "it can provide useful information since it indicates whether variation in a single dependent variable is due to the direct effect of an independent variable or due to relationships of that independent variable with other dependent variables" (p. 6). Because relationship commitment has been theoretically and empirically supported as an antecedent of several important relational outcomes (e.g., Morgan and Hunt 1994), we believe relationship commitment precedes the remaining four dependent variables in our study in terms of predetermined order, which suggested that relationship commitment should be used as a covariate in step-down *F* analysis. Thus, step-down *F* analysis was conducted for each of four dependent variables while treating relationship commitment as a covariate in univariate ANCOVA.

The results in Table 7 show that the effect of preferential treatment levels on increased purchases and share of customer were still significant when relationship commitment

is treated as a covariate. However, the effect of preferential treatment levels of positive word of mouth and customer feedback became insignificant, which suggested that the variations in these two relational outcomes were due to the dependence of positive word of mouth and customer feedback on relationship commitment rather than due to the direct influence of preferential treatment levels. Therefore, the effect of preferential treatment levels on positive word of mouth and customer feedback does not hold when relationship commitment is considered as a mediating variable.

Also shown in Table 7, the variance in share of customer and increased purchases attributable to differences in preferential treatment was significantly reduced when relationship commitment was included as an additional covariate. For instance, differential effect of Level 2 compared to Level 1 on share of customer changed from .51 in Table 6 to .40 in Table 7, and differential effect of Level 3 compared to Level 1 on share of customer changed from .84 in Table 6 to .57 in Table 7. A similar result was found for increased purchases. Specifically, differential effect of Level 2 compared to Level 1 on increased purchases changed from .44 in Table 6 to .33 in Table 7, and differential effect of Level 3 compared to Level 1 on increased purchases changed from .76 in Table 6 to .48 in Table 7. More important, the effect of preferential treatment levels on positive word of mouth and customer feedback became insignificant when relationship commitment was treated as a covariate.²

In summary, when relationship commitment is treated as a covariate, preferential treatment was shown to have a direct and indirect (through relationship commitment) impact on increased purchases and share of customer but no direct impact on positive word of mouth and customer feedback. In addition, the results also showed that differential effects of three preferential treatment levels have been attenuated with the inclusion of relationship commitment as a covariate compared to the condition where relationship commitment was treated as a dependent variable. Therefore, step-down *F* analysis suggests that relationship commitment plays a partial mediating role between preferential treatment levels and the remaining four relational outcomes.

DISCUSSION

This study was aimed at investigating the potential impact for how firms' practice of preferential treatment toward customers influences key relational outcomes that benefit firms. In contrast to previous marketing studies that focus on assessing preferential treatment effects in support of service recovery initiatives, this study offers an expanded view regarding the advantages to firms who practice preferential treatment as a proactive and extensive

TABLE 7
Step-Down F Analysis

Sources of Variation	Dependent Variables							
	Share of Customer		Increased Purchases		Word of Mouth		Customer Feedback	
	F	p	F	p	F	p	F	p
Constant	105.17	.000**	119.90	.000**	335.27	.000**	311.920	.000**
Covariate								
Age	29.71	.000**	51.73	.000**	7.92	.005**	30.52	.000**
Income	0.11	.736 ^{ns}	0.02	.888 ^{ns}	5.19	.023*	1.57	.210 ^{ns}
Education	0.05	.821 ^{ns}	1.19	.428 ^{ns}	4.69	.031*	0.34	.562 ^{ns}
Commitment ^a	547.21	.000**	659.18	.000**	2958.58	.000**	278.79	.000**
Preferential treatment	26.05	.000**	20.69	.000**	1.06	.347 ^b	1.08	.339 ^b
Parameter Estimate for Preferential Treatment Level ^c								
	B	t	B	t	B	t	B	t
Level 1	—	—	—	—	—	—	—	—
Level 2	.40	4.39**	.33	3.76**	.07	1.45 ^b	-.12	-1.41 ^{ns}
Level 3	.57	7.21**	.48	6.43**	.03	0.82 ^b	.03	-0.44 ^b

a. ANCOVA was run including commitment as an additional covariate.

b. Notice that these values became insignificant while significant in Table 6 for preferential treatment.

c. Parameter estimate for preferential treatment using Level 1 as a reference one. Thus, for Level 1, there are no estimates. A regression with two dummy variables for three preferential treatment levels provides the same result.

* $p < .05$. ** $p < .01$. ^{ns} = not significant.

relationship marketing strategy. To our knowledge, it is the first study that empirically investigates the differential effect of preferential treatment on key relationship marketing variables. This study should be particularly helpful to marketers charged with developing and managing relationship marketing strategies. Although the results cannot be directly applied to different industries or to similar industries serving dissimilar customer segments, the findings may nevertheless be instrumental in how firms adapt to individual and dynamic service needs of their customers and how firms design customized value propositions to build more sustainable relationships with their customers.

In line with the predictions set forth in the framework, higher levels of preferential treatment were shown to positively magnify the effect on relationship commitment and thus provided strong evidence for Hypothesis 1. When customers perceive themselves as benefactors of preferential treatment, a stronger emotional attachment and more enduring desire to maintain the marketing relationship emerges. The results further demonstrated that desirable behavior intentions are positively influenced by preferential treatment. Higher levels of preferential treatment were found to increase both sets of repatronization intentions, providing support for the influence of preferential treatment on increased purchases (Hypothesis 2) and share of customer (Hypothesis 3). These results suggest that customers are more likely to increase their purchase activities from those firms they believe both recognize and reward

their special customer status. In addition, because of the critical importance of both customer retention and new customer attraction to a firm's long-term success, we assessed the potential impact of preferential treatment on relational outcome variables that help support new customer attraction, namely positive word of mouth and customer feedback. As predicted, higher levels of preferential treatment were shown to favorably affect positive word of mouth (Hypothesis 4). Last, preferential treatment was shown to significantly influence customer feedback (Hypothesis 5). We also found evidence for a skewed relationship between preferential treatment and customer feedback, suggesting that customer service treatment to elicit customer feedback may require a higher level of preferential treatment than do other relational outcomes tested in our model.

We also examined the impact that individual customer characteristics have on the relational outcomes of our model by controlling for the effects of individual customer characteristics as covariates. We found that all three demographic variables included in our model (i.e., age, household income, and formal education) influence the strength of relational outcomes. In particular, the results showed that age, income, and education each have especially highly significant associations with relationship commitment as well as with positive word of mouth. It is interesting that our results show that age and household income played a slightly more influential role in securing customer feedback than did preferential treatment of customers.

Following the conclusions of Mittal and Kamakura (2001), we did not specify *a priori* how customer characteristics would affect the preferential treatment model; however, the results indicate that the impact of preferential treatment on relational outcomes varied by socioeconomic class, suggesting that preferential treatment is more important for some customer segments than for other segments. For example, the significant role of income on the preferential treatment model lends support to past researchers (e.g., Mann 1993; Stanley 1988) who have contended that preferential treatment may provide more value among more affluent populations. Although our results are based on highly affluent sample populations, a comparison reveals that the control group (Level 1) is less affluent than are the other two treatment categories (e.g., 59.1% of Level 1 earned less than \$150,000 in annual household income vs. 29.2% and 30.5% of Levels 2 and 3, respectively). According to Mann (1993), even among the affluent customer segments exist distinct subsegments (e.g., the affluent, the rich, and the superrich), each with its own service needs and priorities. Hence, our findings suggest that systematic differences in relational outcomes based on customer characteristics can be expected to have differing effects on customers who receive the same level of preferential treatment benefits.

Finally, we explored the mediating effect of relationship commitment to more fully understand the contribution of preferential treatment and found that relationship commitment acts as a powerful mediator between preferential treatment and the other relational outcomes tested in the model. Step-down analysis revealed that preferential treatment had a direct impact on relationship commitment and both direct and indirect impact on increased purchases and share of customer. However, introducing relationship commitment as a mediator severely weakened preferential treatment's impact on both positive word of mouth and customer feedback. Based on these findings, although preferential treatment contributes to strengthening relationship commitment, it is relationship commitment that is most needed to reap positive word of mouth and secure customer feedback.

Managerial Implications

In terms of managerial implications of our research, we have shown empirical support for the practice of preferential treatment. Based on the findings from an upscale department store chain sample, firms may stand to benefit by devising and implementing customer-specific strategies and tactics that make customers feel recognized and appreciated for their special status. Given our results, firms are advised to consider creating CRM models wherein valued customers perceive that they are the recipients of enhanced

levels of products and services. Primarily through loyalty programs, a wide variety of firms appear to be deliberating enhancing value propositions for their more valuable customer segments by explicitly shifting resources in their direction. Based on the findings of this study, despite the criticism highlighted at the outset surrounding preferential treatment, practicing firms should not retract from its continued use. Meanwhile, faced with the business realities of finite corporate resources, nonpracticing firms may well wish to consider (or reconsider) the merits of preferential treatment to help strengthen customer relationships.

This study also may be instructive to managers attempting to capture the multidimensionality of relational outcomes by investigating the focal attitudinal construct of relationship commitment to the firm as well as a mixture of repatronage and other supporting behaviors. The model clearly does not attempt to encapsulate all potential relational outcomes of strong marketing relationships (e.g., willingness to pay higher prices, reduced marketing and administrative costs, external and internal responses when faced with a problem, contribution to higher employee satisfaction and retention; see Reichheld 1996; Zeithaml, Berry, and Parasuraman 1996). Instead, the model contains a combination of more established or conventional measures and less established measures of relational outcomes. For example, to capture a more robust view of the strength of current marketing relationships, managers should consider supplementing the conventional share-of-customer measure that captures the amount of current purchases in a product or service category as well as the amount spent with the firm (Anderson and Narus 2003), with a second measure of intentions to increase portion of product or service category purchases from a particular firm over a defined time period into the future. Such an approach would allow managers to take into account not only current individual share-of-customer levels but also anticipated likelihood to increase current share levels. Another less established relational outcome is the role of customers' cooperation in engaging in firm-sponsored marketing activities. This is an important relational outcome for firms to consider as customer feedback holds potential strategic value to the firm in terms of supporting initiatives to improve the efficiency and effectiveness of its marketing performance.

Although this research provides support for the positive influence of preferential treatment on various relational outcomes, the strength of these relationships is affected by individual customer characteristics. By capturing the moderating effects of customers' age, education, and household income on the relationship between preferential treatment and relational outcomes, this research has the added potential to provide managers with insight into customer segmentation strategies that

could be developed in concert with preferential treatment strategies to improve relational outcomes. Such insights might allow managers to combine the identification of characteristics of those customers who place a higher value on preferential treatment and those who are more likely to strengthen their marketing relationship with the firm as a result of enhanced levels of customer treatment.

Despite the fact that the results of this study are confined to customers of a single retailer, review of the marketing literature suggests that preferential treatment may be practical and produces beneficial results for many service firms, particularly for services characterized by high levels of customer contact and credence attributes (Hennig Thureau, Gwinner, and Gremler 2002; Patterson and Smith 2003). Notwithstanding the increasing popularity of firms adopting preferential treatment strategies, its practice remains relatively undeveloped and is less prevalent for retail services other than those offered in other high customer contact service contexts, such as those commonly found in the hotel, restaurant, and tourism industries. Indeed, for certain low customer contact services (e.g., fast food restaurants, movie theaters, grocery stores), practicing preferential treatment may be contrary to customer expectations, as customers are routinely required to perform precise behaviors and procure deliverance of the service, and not formulate extraneous demands that require special treatment (Surprenant and Solomon 1987). In such cases, customers of standardized products and services must often repress their desires for preferential treatment. Nevertheless, preferential treatment may be practical for a wide spectrum of services, including medium and low customer contact firms and service providers (e.g., airlines, banks, theme parks, rental car companies, vehicle repair shops, bookstores, florists, home improvement). Indeed, an emerging perspective from Vargo and Lusch (2004) is for marketing managers representing all types of organizations to differentiate the delivery of goods and services to match customers' heterogeneous standards.

Study Limitations and Future Research

This research serves as one of the few empirical investigations of a controversial marketing strategy; however, several limitations are warranted to qualify our findings as well as promote future research efforts. First, it is confined to customers of a specific firm, which was deemed appropriate because of the exploratory nature of the preferential treatment domain and wide spectrum of preferential treatment initiatives employed by firms. Although we controlled for the effects of income in our examination of preferential treatment, the study has limited applicability to other retail service settings because of the highly affluent characteristics of our customer samples. Replicating

this study in other retail service contexts with less affluent customer samples could help establish the generalizability of these results beyond the current context. In some situations, customers' perceptions of preferential treatment and their level of personal involvement may vary based on customers' relationships with different types of firms and varying marketing strategies used by firms in the same market. Future research also might consider studying the influence of degree of customer contact across multiple markets as a moderating variable to the relationship between preferential treatment and relational outcomes.

Second, this study is cross-sectional, with constructs of the model using only self-reported measures of respondents' perceptions, which may result in common method variance. Although it mirrors the approach used in other studies investigating customer relationships (e.g., Garbarino and Johnson 1999; Tax, Brown, and Chandrashekar 1998), this approach may result in overestimations of the influence of preferential treatment and does not enable us to strictly assess the causal effects of preferential treatment on relational outcomes measured in our study. The impact of differential effects between preferential treatment and relational outcomes over time would certainly strengthen confidence in our results. For example, future research might consider capturing actual customer purchasing behavior (e.g., prior 12 months of presurvey purchases, post-12 months of purchase activities postsurvey) as a complement to self-reported measures of respondents' perceptions. Such measures would allow researchers to identify the effects of actual purchase behaviors from different levels of customer service treatment. In addition to reducing the potential for common method variance, this methodology would more directly produce causal relationships that result from qualitatively different levels of treatment of customers.

Third, although we intentionally sought to include a mixture of customer groups, including nonparticipants of the company-sponsored loyalty program (i.e., customers who were not formal recipients of preferential treatment) and calculated parameter estimates for different preferential treatment levels among customer groups using nonparticipating customers as the control group, we nonetheless acknowledge the potential for confounding because of sample selection bias. Specifically, customers belonging to the department store's loyalty program received preferential treatment based on prior behaviors, which may indicate that these customers were inherently different from nonparticipating customers before receiving preferential treatment. An issue that is not investigated in the current research is the length of the marketing relationship. Future research could focus on enriching the understanding of preferential treatment effects by collecting attitudes and behavioral intentions from dyadic pairs,

by identifying and isolating new and long-term customers of each level of preferential treatment.

Fourth, we were unable to isolate the impact of economic-based preferential treatment from customization-based preferential treatment. Future studies should not only consider separating these two components but also attempt to tease out specific types of preferential treatment. Isolating these two components would be instrumental in helping managers investigate how they can best employ preferential treatment as a relationship marketing strategy. For example, undoubtedly, some customization-based preferential treatment benefits are more relevant than others to customers with respect to their impact on relational outcomes. Thus, another potentially fruitful area for future research might be to isolate the relative contributions of specific types of preferential treatment benefits. More detailed models that take into account the relationship between attribute-level preferential treatment and relational outcomes could help managers discern which tactical components firms could employ to improve relational outcomes.

CONCLUSION

In summary, despite the charges made in *Business Week* (2000) that preferential treatment is the “new customer apartheid,” bearing potentially negative consequences, and questions raised by Hennig Thureau, Gwinner, and Gremler (2002) that special treatment carries the risk of destroying long-term customer relationships, the results of this study reveal that signifying preferential treatment contributes to relationship marketing benefits (i.e., relationship commitment, increased purchases, share of customer, positive word of mouth, and customer feedback) valued by firms. Thus, to the extent to which firms can sustain valuable customer relationships by giving valued customers elevated social status recognition, meaningful rewards, and enhanced customer service, both firms and customers stand to benefit from the practice of preferential treatment.

APPENDIX

Construct Scale Items

Preferential Treatment

Please answer the questions in relation to your overall experience with Firm X. Firm X: (1 = *strongly disagree*/7 = *strongly agree*)

1. ... does things for me that they don't do for most customers.
2. ... usually places me higher on the priority list when dealing with other customers.

3. ... gives me faster service than most customers get.
4. ... gives me better treatment than most customers get.
5. ... gives me special things that most customers don't get.

Relationship Commitment

My relationship with Firm X is (1 = *strongly disagree*/7 = *strongly agree*)

1. ... strong—I am very committed to continuing it.
2. ... very important to me.
3. ... something that I really care about.
4. ... worth my effort to maintain.

Increased Purchases

In the next 12 months, how likely are you to make more purchases overall with Firm X? (1 = *very unlikely*/7 = *very likely*)

Share of Customer

In the next 12 months, how likely are you to make a larger share of your [product or service category] purchases at Firm X, rather than other firms? (1 = *very unlikely*/7 = *very likely*)

Positive Word of Mouth

Please respond to the following statements regarding Firm X: (1 = *strongly disagree*/7 = *strongly agree*)

1. I am willing to encourage friends and relatives to do business with Firm X.
2. I am willing to recommend this company whenever anyone seeks my advice.
3. When the topic of [product or service category] comes up in conversation, I am willing to go out of my way to recommend Firm X.
4. I am willing to recommend Firm X to my friends.

Customer Feedback

How would you characterize your willingness to cooperate with Firm X regarding the following? (1 = *not at all willing to cooperate*/7 = *very willing to cooperate*)

1. Share my feelings about unmet needs.
2. Participate in new product development testing.
3. Provide feedback about Firm X's advertising.
4. Discuss my views about Firm X's quality of service.
5. Provide feedback about new products or services offered by Firm X.

NOTES

1. Because customers' incomes in the a priori-defined preferential treatment levels are so different between the group that received no preferential treatment (i.e., Level 1) and the groups that received at least some preferential treatment (i.e., Levels 2 and 3), we also conducted latent class analysis of the income and preferential treatment jointly

and, based on the results, identified three classes of consumers, within each of which there were greater income heterogeneity. We then conducted MANCOVA and ANCOVA within each of these classes to assess the effects of preferential treatment (and the age and education covariates) on the relational outcome variables. With just a few exceptions, the results from these reanalyses were consistent with those reported in Table 6. Detailed results are available from the authors.

2. We also redid the step-down *F* analysis for each of the income classes mentioned in the preceding endnote, and the results were by and large consistent with those reported in Table 7.

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Russell Lacey is an assistant professor of marketing at the University of New Orleans. He earned his PhD at the University of Alabama and has more than 11 years of corporate marketing experience at Blue Cross & Blue Shield of Kansas City and Baylor Health Care System. His research interests include relationship marketing, customer loyalty, and services marketing. His research has been published in *Journal of Advertising Research*, *Journal of Relationship Marketing*, *Journal of Consumer Marketing*, and *Marketing Health Services* as well as published in marketing and management conference proceedings. He also cowrote a book chapter on customer loyalty (*Relationship Marketing*, Springer).

Jaebom Suh is an assistant professor of marketing at Ajou University, Korea (currently on leave of Kansas State University). His research interests are relationship marketing, customer service, organizational citizenship behaviors, and new product development. His research has been published in *Journal of Advertising*, *Journal of Business Research*, *Journal of Services Marketing*, *International Journal of Service Industry Management*, *Journal of Brand Management*, and numerous conference proceedings.

Robert M. Morgan is a professor of marketing and head of the Management and Marketing Department at the University of Alabama, Tuscaloosa. His research has been published in *Journal of Marketing*, *Academy of Management Journal*, *Journal of the Academy of Marketing Science*, *Journal of Advertising*, *Journal of Advertising Research*, *Journal of Business Research*, *Decision Sciences*, and *Marketing Management*. In 2004, his 1994 article in *Journal of Marketing*, "The Commitment-Trust Theory of Relationship Marketing," coauthored with Shelby Hunt, was recognized by ISI as the most highly cited paper in business and economics in the past decade. He has also served as a member of the editorial review boards of the *Journal of Marketing* and the *Journal of the Academy of Marketing Science*. He is the contributor to two books: *The Handbook of Relationship Marketing* and *Relationship Marketing: Gaining Competitive Advantage Through Customer Satisfaction and Customer Retention*.