

How Profound Is the Allure of Endowed Status in Hierarchical Loyalty Programs?

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Abstract Hierarchical loyalty programs are common relationship marketing instruments that award elevated status to customers exceeding a certain spending level (e.g., gold membership, platinum customer). In business practice, some companies also offer elevated status to selected customers even if they do not meet the required spending level, in an attempt to profit from the profound allure of status. Relying on social psychology research, this study analyzes the loyalty impact of such a status endowment. A first experimental study reveals the bright and dark sides of endowed status, with customer gratitude and customer skepticism acting as mediating mechanisms. A second experiment delineates that in order to alleviate the dark side, managers should let target customers make an active choice to be endowed with status and select target customers who are close to achieving that status on their own.

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1 Introduction

In hierarchical loyalty programs, firms reward customers not only on the basis of their repeat purchasing (Kivetz and Simonson, 2002) but also according to whether they exceed certain spending levels (Meyer-Waarden, 2007; Meyer-Waarden and Benavent, 2009; Wagner et al, 2009). Awarding elevated status to a customer can provide the firm with increased customer loyalty (e.g. Drèze and Nunes, 2011; Lacey et al, 2007; Meyer-Waarden, 2013) and stronger alignment of the costs to serve a customer with his or her value to the firm (Kumar and Reinartz, 2006). Hierarchical loyalty programs thus appear in many different industries, including airlines (e.g., American Airlines AAdvantage), hotels (e.g., Hilton HHonors), and credit cards (e.g., American Express Centurion).

Some companies further award customers elevated status even before they achieve the spending level predefined in the loyalty program's rules. Thus, certain customers who typically are expected to be of high value for the firm but are still in the basic tier of a hierarchical loyalty program are elevated to a higher tier, without having met the spending level required for status elevation (Kumar and Shah, 2004). In this case, the elevated status is endowed rather than achieved, because its attainment is beyond customers' control (Drèze and Nunes, 2009). We find several examples of companies that endow such elevated status, including Accor Hotels (A|Club), Starwood Hotels & Resorts (Starwood Preferred Guest), or Hertz Car Rental (Hertz Gold Plus Rewards).

Status endowment might be profitable if firms attain loyalty effects similar to those caused by awarding achieved status. However, using social psychology research, we argue that endowment differs from achievement in its impact on customer loyalty. Specifically, endowed status should entail both bright and dark side effects. On the one hand, endowed elevated status can initiate a loyalty-enhancing effect through customer gratitude. On the other hand, though, endowed elevated status might result in customer skepticism and thereby bring about a loyalty-reducing effect. We further suggest that the dark side effect depends on the specific endowment design, such that companies should be able to manage the extent to which customer skepticism arises. Designing status endowment in a way that fosters customers' perceptions of control and eligibility, managers can help reduce skepticism.

Analyzing the phenomenon of endowed elevated customer status thus has key implications for the management of hierarchical loyalty programs. Understanding its impact on customer loyalty might help managers evaluate the efficacy of endowed status as an instrument for effectively prioritizing valuable customers and managing their loyalty.

2 Study 1: The Bright and Dark Sides of Status Endowment in Hierarchical Loyalty Programs

In Study 1, to analyze the effectiveness of status endowment for increasing customer loyalty, we take both potential positive and potential negative psychological mechanisms into consideration. We compare being endowed with an elevated customer status against not receiving such elevated status, as well as with the regular achievement of elevated status.

Based on social identity theory (Tajfel and Turner, 1986) and the concept of gratitude-based reciprocity (Palmatier et al, 2009), we assume endowed status to initiate a loyalty-enhancing effect via customer gratitude. However, referring to attribution theory (Weiner, 1985) and the persuasion knowledge model (Friestad and Wright, 1994), we also propose endowed status to result in a loyalty-reducing effect via customer skepticism. Comparing endowed with achieved status, we suggest endowed status to foster skepticism and thereby entail a dark side that does not occur for achieved status.

In our experiment, we employed a posttest control group design and manipulated customer status on three levels (endowed versus achieved versus no elevated customer status). A total of 221 participants took part in the experiment. The mean age of the sample was 33.1 years and 53.3% were female. Our results show the proposed bright and dark side loyalty effects: Via gratitude, endowed status increases loyalty. Via skepticism, endowed status decreases loyalty. As compared to achieved status, endowed status reduces loyalty by generating skepticism.

3 Study 2: Alleviating the Dark Side with Status Endowment Design Characteristics

In Study 2, we seek insight into the use of different design characteristics of status endowment offerings as potential ways to decrease the skepticism perceived by customers when being endowed with elevated status.

We propose that designing a status endowment in a way that gives customers a sense of control over the endowment will decrease customer skepticism, as explained by attribution theory (Weiner, 1985). In particular, we suggest customers' freedom of choice and their proximity to status achievement to convert solely external to partly internal attribution.

Both design characteristics serve as means to reduce customer skepticism and enhance customer loyalty.

Our experiment used a 2×2 between-subjects factorial design in which we manipulated the freedom of choice (active versus no active choice) and the proximity to status achievement (high versus low proximity). In total, 284 participants took part in the experiment. Our sample had a mean age of 32.5 years and 50.5% of respondents were female. Results reveal customer skepticism-alleviating effects of both customers' freedom of choice and their proximity to status achievement, which indirectly increase customer loyalty.

4 Discussion and Implications

Demonstrating the differential loyalty effects of status endowment has three major implications. First, our simultaneous consideration of the bright and dark side loyalty effects of endowed status reveals that both influences cancel each other out, making status endowment ineffective for driving customer loyalty. These findings underscore the importance of considering the dark sides of relationship marketing investments on the focal customer. Customers might interpret companies' activities as self-interested persuasion attempts.

Second, the bright side effect of endowed status on customer loyalty implies that awarding customers elevated status, even though they did not achieve it, can be an effective means for enhancing their loyalty. Managers of hierarchical loyalty programs can employ the general appeal of

status (Henderson et al, 2011) as a stimulus to generate gratitude and motivate customers toward greater loyalty.

Third, endowed status possesses a dark side too, and managers must take care when elevating customers' status through endowment, because it can foster skepticism. Status endowment should not be designed as a "pure" endowment. Rather, it should be carried out in a way that augments customers' perceptions of personal choice or achievement to foster effectiveness.

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