



So you want to delight your customers: The perils of ignoring heterogeneity in customer evaluations of discretionary preferential treatments

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ARTICLE INFO

Article history:

First received in 9, June 2011 and was under review for 9 months
Available online 20 June 2013

Guest Editor: Marnik G. Dekimpe
Area editor: Werner J. Reinartz

Keywords:

Discretionary preferential treatment
Preference heterogeneity
Justification
Imposition
Visibility
Surprise
Need for distinction
Negotiation proneness

ABSTRACT

Many firms assume that customers like to feel special and to receive discretionary preferential treatments (DPT). This research argues that the reality is more complicated: the same preferential treatment may delight one customer but enrage or embarrass another. To help companies align their DPT with their customers' preferences, this article identifies four dimensions along which consumers positively or negatively evaluate DPT: justification, imposition, visibility, and surprise. This article then introduces customer heterogeneity in the form of two individual traits that moderate DPT evaluations. Through two studies, the article shows that distinction seekers prefer visible rewards that impose on other customers, but negotiators prefer unjustified, non-surprising privileges. Finally, by tying consumer preferences to two readily available variables (age and gender), this article concludes with a set of practical guidelines for the companies that hope to align their DPT strategy with customer profiles.

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1. Introduction

One of the authors went to a fancy restaurant with a friend to celebrate a special event. Because the restaurant owner personally knew one of them, the staff went to great lengths to please them: they were seated at a central table, received exquisite attention and lavish service, and were offered special dishes that were not on the menu. The benefits were so great that the two became the center of attention (and envy) of the entire restaurant. The author was so embarrassed that she swore never to go to that restaurant again; her friend, instead, was delighted.

On another occasion, one of the authors bought an expensive piece of luggage in an airport store just before entering a long security queue in which hundreds of passengers were waiting. A store employee offered him a note to hand to the airport security personnel, which allowed him and his wife to proceed through the handicapped aisle and skip a 90-minute wait in line. His wife was thrilled by this special treatment. When he recalls walking down the handicapped aisle, though, bypassing hundreds of passengers, he refers to it as “the walk of shame.”

Both examples are typical illustrations of preferential treatments that backfire and trigger feelings of guilt and embarrassment. These examples raise a key question about the efficient use of preferential treatments: what type of preferential treatments should privileged

consumers receive? We examine this question in relation to a specific, mostly overlooked type of preferential treatment, namely, non-contractual preferential treatments. That is, existing research mostly considers preferential treatments in the context of a contractual reward process, involving loyalty programs with explicitly stated rules and policies (e.g., Drèze & Nunes, 2009; Kivetz & Simonson, 2003; Nunes & Drèze, 2006; Roehm, Pullins, & Roehm, 2002). However, some preferential treatments are granted at the whim of the company, which alone determines the recipients, nature, and value of the rewards (Kumar & Shah, 2004), often at the discretion of its frontline employees. For example, ACCOR hotels' desk managers offer non-contractual privileges, such as room upgrades, free breakfast, or dedicated parking spaces to selected clients in addition to the corporate privileges offered by the ACCOR loyalty program. These non-contractual forms of preferential treatment are *discretionary preferential treatments* (DPT), which we define as the selective granting of non-contractual advantages to a limited number of customers. In essence, DPT (a) is *selective*, (b) comes *in addition* to contractual preferential treatment, (c) involves an *informal* granting process (i.e., does not rely on publicly stated rules and policies), and (d) allows for the decision *flexibility* of the front-line employees.

Unlike contractual preferential treatment, DPT offers various advantages that make it an interesting managerial tool. Because its rules are not publicly stated, DPT (1) cannot produce liabilities such as ongoing obligations to recipients (Shugan, 2005), (2) eliminates

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the potential for demotions to lower levels of service and their negative consumer outcomes (Wagner, Hennig-Thurau, & Rudolph, 2009), and (3) increases customization flexibility, which can stimulate long-term loyalty (Shugan, 2005). In addition, because DPT is not just a function of the volume purchased, it can be used to treat selected customers even better, thereby stimulating a feeling of being treated as special (O'Brien & Jones, 1995). Finally, because frontline employees have more latitude to grant it, DPT strengthens the employee–customer relationship, which stimulates customer share, price premiums, and sales growth (Palmatier, Scheer, Houston, Evans, & Gopalakrishna, 2007).

Despite these benefits and its managerial relevance, little research considers how consumers value DPT. This research gap is problematic because customers' reactions to DPT are heterogeneous. The same DPT, such as being favored by restaurant staff or allowed to cut a long waiting line, might delight one customer but embarrass another. If companies ignore the heterogeneity in customers' preferences for DPT, they might offer rewards that are not valued by the targeted customers—or worse, that elicit negative reactions—and squander valuable marketing resources (Reinartz & Kumar, 2000). Firms thus must ask the question that guides our research: what type of DPT should be offered and does the answer vary predictably across consumers? To answer this question, we organize this manuscript as follows.

In the first section, we develop the theoretical underpinnings for this research. We identify four key dimensions along which customers evaluate DPT: *justification* (i.e., whether DPT is warranted by an existing relationship between the firm and the customer), *imposition* (whether DPT detrimentally affects other customers), *visibility*, and *surprise*. Building on equity theory (Adams, 1965), we argue that most people prefer DPTs that are justified, non-imposing, non-visible, and surprising. In addition, we rely on social comparison theory (Festinger, 1954) to hypothesize that these general preference tendencies are moderated by the consumer's *need for distinction and negotiation proneness*; consumers who like to be distinguished from others prefer imposing and visible DPT, whereas consumers who prefer to negotiate favor unjustified, non-surprising DPT.

In the subsequent two sections, we report the results of two studies that were run in the context of a hotel restaurant (Study 1) and a retail store (Study 2), in which we formally test the hypotheses. Most of the main effects and moderators receive confirmation. We also show that the reported heterogeneity in customers' preferences for various DPT can be partly anticipated by two readily available variables: age and gender. Building on these findings, we provide a set of practical guidelines for companies and conclude with some suggestions for further research.

2. Theoretical framework

2.1. Dimensions of DPT evaluations

Discretionary preferential treatments provide non-contractual advantages to a limited number of customers. Unlike their contractual counterparts (e.g., rewards earned through loyalty programs), DPTs entail (1) a greater degree of distinction between customers, in that they appear in addition to contractual rewards (Kumar & Shah, 2004), and (2) a discretionary nature, such that their granting process does not rely on preexisting rules or conditions. These differences suggest four dimensions of DPT that are particularly worthy of investigation.

First, because DPTs are added on to contractual preferential treatments, but companies' resources are limited, they may mandate smaller resource allocations to non-privileged consumers to allow more resources to be devoted to the privileged ones (Kamakura, Mittal, de Rosa, & Mazzon, 2002). DPTs can thus be granted to the

detriment of non-privileged consumers, which makes *imposition on others* the first dimension worthy of investigation.

Second, the DPT process is informal, such that DPT may be granted arbitrarily. This potential for arbitrary decisions raises the question of DPT *justification*, that is, whether the DPTs are warranted by the nature of the relationship between the customer and the company.

Third, the discretionary DPT process also allows the frontline employees to make DPT decisions on the fly and possibly in front of an audience of non-privileged customers. This social setting enables both the privileged and the non-privileged customers to compare what they receive with what others receive, thereby making *visibility* another central dimension of DPT.

Fourth and finally, because DPTs do not rely on publicly stated rules and conditions, they leave room for the unexpected and have the potential to create delighting experiences. *Surprise* represents the fourth dimension of DPT that we study.

In turn, we use these four dimensions to define the type of DPT that consumers encounter. With equity theory (Adams, 1963), we predict the customers' general preferences (e.g., whether most customers prefer surprising or unsurprising DPT). We then build on social comparison theory (Festinger, 1954) to introduce moderators that mitigate these general tendencies.

2.2. Preferences for DPT dimensions

2.2.1. Equity theory

According to equity theory (Adams, 1965), participants in social exchange relationships compare their outcomes from the exchange with their inputs into it (internal equity) as well as the balance between their own outcome/input ratio and those of significant others (external equity). If the outcome/input ratios of partners appear unequal, inequity exists. The greater the inequity (over- or under-reward), the more distress the participant feels.

In a consumption setting, under-rewards tend to create feelings of resentment (Lapidus & Pinkerton, 1995), whereas over-rewards prompt the suspicion that companies are employing manipulation tactics to induce specific behaviors (e.g., encourage spending). The perception of such manipulative intent may result in a boomerang effect, whereby the consumers reject the encouraged behavior (e.g., Cleo & Wicklund, 1980). Either way, people tend to prefer situations that they perceive to be equitable.

Because DPTs establish unequal levels of treatment among customers, they drive both privileged and non-privileged customers' attention toward the perceived inequity of their rewards. Equity theory (Adams, 1965) is thus a particularly relevant framework for understanding how consumers evaluate the four dimensions of DPT.

2.2.2. Justification

In general, justification refers to the presence or absence of any valid grounds for an act or course of action. Because DPT generally falls within the scope of a relationship between the firm and the customer (Gwinner, Gremler, & Bitner, 1998), it is justified (unjustified) when it has been warranted (not warranted) by the nature of their relationship. Unjustified DPTs create an imbalance in the consumers' outcome/input ratios, such that they should generate more distress than justified DPT (Adams, 1965).

Unjustified DPT might also suggest that the company is attempting to induce specific behaviors (e.g., buy more expensive items than planned). For instance, a consumer offered a free drink at his or her first visit to a restaurant might experience an undesirable feeling of indebtedness. Such preferential treatment might be appreciated, but it would have created a more positive feeling had this suspicion not been aroused. Therefore, unjustified DPT could not only generate distress but could also result in consumer inferences of manipulative intent by companies. In a consumption setting, awareness of this manipulative intent generates negative reactions, such as irritation

(e.g., Edwards, Li, & Lee, 2002). Accordingly, we hypothesize the following:

H1. The more justified the DPT, the more positively the privileged consumers evaluate it.

2.2.3. Imposition

To issue DPT, the firm must allocate its limited resources to a limited number of its consumers (Bolton, Lemon, & Verhoef, 2004). This allocation implies that marketing efforts for non-privileged customers must be reduced (Kamakura et al., 2002), which can negatively influence the perceived level of service provided to those customers. For example, if a privileged customer monopolizes the attention of a sales clerk in a crowded store, the non-privileged customers lose their opportunity to ask questions and seek advice. From an equity theory perspective (Adams, 1963, 1965), imposing DPT therefore lowers the non-privileged consumers' outcomes, which creates an imbalance in their outcome/input ratios. Consistent with the internal equity principle, this imbalance should result in feelings of unfairness among non-privileged consumers, as well as possible hostile reactions to privileged consumers (Gwinner et al., 1998).

Imposing DPT creates imbalances not only within the non-privileged customers' outcomes and inputs but also *between* privileged and non-privileged customers' outcome/input ratios. According to the external equity principle, this imbalance should generate perceptions of unfairness among both the privileged and the non-privileged consumers, who feel over-rewarded and under-rewarded, respectively. Because over-reward generates distress and negative feelings, such as guilt (Hassebrauck, 1986; Steenhaut & Van Kenhove, 2005), imposing DPTs may also put the privileged customers in an uncomfortable situation.

In summary, when receiving imposing DPTs, the consumers may feel embarrassed in the face of negative reactions from non-privileged customers, and they may also experience distress and guilt. Should they be given a choice between an imposing DPT and an unimposing DPT with the same benefits, we expect that these consumers would prefer the unimposing DPT. All else being equal, the negative impact of DPT on non-privileged consumers should reduce its subjective value:

H2. The more imposing the DPT (i.e., the greater its negative impact on the level of service received by non-privileged consumers), the more negatively the privileged consumers will evaluate it.

2.2.4. Visibility

Research on preferential treatment suggests a mixed impact on several relational variables. Lacey, Suh, and Morgan (2007) offer strong support for the use of preferential treatment as a relationship marketing tool, showing that it increases sales, customer share, word of mouth, and feedback. Yet Hennig-Thurau, Gwinner, and Gremler (2002) find no significant relationship between preferential treatment and either satisfaction or loyalty, and only a modest relationship with word of mouth. In a similar vein, De Wulf, Odekerken-Schröder, and Iacobucci (2001) find no significant effect of preferential treatment on perceived relationship investments. To account for this finding, these authors note that some people might feel embarrassed when they are openly favored in front of others, which raises the idea that the visibility of the privileges (i.e., granted in private versus in public) influences how consumers evaluate the DPT (Melnyk & Van Osselaer, 2012). Consistent with equity theory (Adams, 1965), we posit that the visibility of privileges reinforces the comparison processes, such that others notice the increase in the privileged customers' outcomes. Because the underlying justifications for this increase may not be known (e.g., loyalty, amount of last purchase), the publicly privileged consumers may be perceived as being unfairly privileged, leading to embarrassment and guilt. We therefore expect the following result:

H3. The more visible the DPT, the more negatively the privileged consumers evaluate it.

2.2.5. Surprise

Unlike contractual preferential treatments, DPTs do not rely on explicitly and publicly stated rules and policies. Thus, consumers may not know in advance whether they will be privileged. Should they expect special treatment as a reward for repeated patronage (consistent with the internal equity principle; Adams, 1963, 1965), the content of this special treatment (i.e., advantages) would still remain unknown because no publicly stated rules determine the conditions and nature of the DPT rewards. This absence of contractual terms leaves room for the unexpected and thus the potential for delight (Rust & Oliver, 2000).

Contrary to "musts," which are the central features of an offer, and "satisfiers," which are embellishments to the basic offer, "delights" are attributes that the consumers do not expect to find in the offer (Kano, Seraku, Takahashi, & Tsuji, 1984; Oliver, 1997). Delights are surprising in nature, and their impact on satisfaction is always positive. In a growing culture of entitlement (Boyd & Helms, 2005), in which customers who know their worth expect special privileges that reflect it, the potential for delight constitutes a powerful differentiating tool. Because DPTs hold this potential, we expect surprise to be a dimension of DPT that consumers attend to carefully; thus, we propose the following:

H4. The more surprising the DPT, the more positively the privileged consumers evaluate it.

2.3. Moderators

Several studies suggest that consumers vary in their sensitivity to relationship marketing practices. For example, De Wulf et al. (2001) find that companies' efforts to enhance relationships with regular customers are not always positively perceived. The impact of these efforts on relationship quality depends on the consumer's product category involvement (Mittal, 1995) and relationship proneness. Butori (2010) also shows that consumers vary in their receptiveness to the symbolic, hedonic, and utilitarian benefits of DPT. Whereas some consumers are delighted at the seller's special attention, others do not value the feeling of distinctiveness. These findings suggest that no matter what the firms do to please their customers, the effects will be tempered by the individual consumer's characteristics (Bendapudi & Berry, 1997; Christy, Oliver, & Penn, 1996; Day, 2000).

A wide range of individual variables likely influence how consumers evaluate DPT. We focus on those variables related to the core, essential characteristics of the DPT, namely, its selective and discretionary process. Because the DPT process is selective, it establishes a *distinction* among customers; because it is discretionary and not based on a well-defined set of rules, it leaves room for *negotiation*. People vary in their sensitivity to distinction (Brewer, 1991) and are differentially likely to engage in negotiations (e.g., Harris & Mowen, 2001; Rubin & Brown, 1975). Thus, a consumer's need for distinction, defined as the degree to which being distinct from others is important to the consumer's self (White & Argo, 2011), and negotiation proneness, defined as a consumer's desire to engage in negotiations (Mowen & Spears, 1999), likely influence how consumers evaluate the essential characteristics of DPT. We use these variables in our attempt to explain heterogeneity in DPT evaluations,¹ and in the next sections, we build on the social comparison theory (Festinger, 1954) to explain how the need for distinction and negotiation proneness likely moderate DPT evaluations.

¹ Other individual variables, such as locus of control, narcissism, assertiveness, or market mavenism, might also influence how consumers evaluate DPT. We leave these effects for further research.

2.3.1. Need for distinction

Social comparison theory (Festinger, 1954) is grounded in three propositions: (1) people evaluate their own abilities and opinions; (2) in the absence of any objective benchmarks, people turn to social comparisons (i.e., with others); and (3) whenever possible, people make comparisons with similar others.

Several types of social comparisons are possible, depending on whether the person undertakes a comparison with someone who is superior in some way (upward social comparison) or inferior or less fortunate (downward social comparison) than him- or herself. Whereas downward comparisons enhance subjective well-being (Affleck & Tennen, 1991; Gibbons, 1986; Wills, 1981, 1991), upward comparisons lead to negative affective reactions, especially if the focal comparison dimension is significant for self-esteem (Richins, 1991). In this case, comparisons even pose a threat to self-esteem and have an ego-deflating effect.

People are not equally prone to engage in these social comparisons, and the impact of comparisons on perceived self-worth varies from one individual to another. Because the need for distinction is the expression of more general narcissistic tendencies (American Psychiatric Association, 2000) and because narcissists are overly dependent on social sources for self-affirmation (i.e., they tend to orchestrate downward social comparisons to maintain positive self-views, Horvath & Morf, 2010), distinction seekers should be particularly prone to engage in social comparisons. However, these distinction seekers are not genuinely concerned with others; rather, they use social interactions as a stage for maintaining a positive view of themselves and to elicit the admiration of others (Besser & Zeigler-Hill, 2010). Accordingly, the distinction seekers should be particularly sensitive to comparisons made in public but absolutely not concerned about the impact of their privileges on others. These people may even be flattered by visible and imposing DPTs because such privileges signal their importance. Therefore, we hypothesize the following:

H5. The higher the consumer's need for distinction, the more positively he or she evaluates an imposing DPT.

H6. The higher the consumer's need for distinction, the more positively he or she evaluates a visible DPT.

2.3.2. Negotiation proneness

People engage in negotiations in response to two primary motivations: economic, such that they hope to receive a tangible value associated with the outcome of the negotiation; and non-economic, resulting from the pleasure associated with demonstrating negotiation competence (Assor & O'Quin, 1982; Rubin & Brown, 1975). Because DPTs do not rely on preexisting conditions that determine which consumers should be privileged and how, consumers might take the initiative and ask for a favor and negotiate its content. In this sense, DPT provides a means for the consumers to demonstrate their competence. This empowerment increases the opportunity for social comparisons (Wathieu et al., 2002) and strengthens the impact of the comparisons on the subsequent affective reactions (e.g., increased or decreased self-esteem). Indeed, downward comparisons enhance well-being primarily when the comparison is esteem-relevant or when people perceive their superior standing as stable and within their control (Major, Testa, & Bylsma, 1991). In other words, a downward comparison is more ego-inflating when the person has control over the skill being evaluated. With DPT, the consumer's attribution of the preferential treatment to his or her negotiation skills therefore influences the magnitude of the positive effects on self-esteem. The more challenging the negotiation, the greater the level of competence demonstrated, and the greater the pride associated with the negotiation (Rose, 1988; Schindler, 1998). Because unjustified DPTs are more difficult to negotiate than justified DPTs

(i.e., they do not rely on existing loyalty or extant relationships), they are more difficult and challenging to obtain, which makes them more valuable to those people prone to negotiate. Accordingly, we hypothesize the following:

H7. The higher the consumer's negotiation proneness, the more negatively he or she evaluates a justified DPT.

People who are prone to negotiating should also be particularly willing to exert control over the DPT negotiation process and take the initiative to ask for preferential treatment. Because DPTs granted by surprise prevent these customers from playing an active part in the process, we propose the following:

H8. The higher the consumer's negotiation proneness, the more negatively he or she evaluates a surprising DPT.

Table 1 summarizes our hypotheses, which we test in two different managerial contexts.

3. Study 1: hotel restaurant

3.1. Experimental setting

In this study, we asked respondents to imagine being the privileged customer of a hotel where they are staying. When they arrive at the hotel's restaurant, a table has been set aside for them. We used a hotel scenario for two reasons: (1) hotels represent a context that many consumers regularly experience, and (2) DPTs in this business often vary across the dimensions of interest. The experiment presented four hypothetical DPTs at a time, in a two-by-two table, and the respondents ranked them by decreasing order of preference, from 1 (most preferred) to 4 (least preferred), such that the measure featured trade-offs similar to those commonly used in conjoint studies (Carroll & Green, 1995; Green & Srinivasan, 1978). The respondents also indicated their confidence in their top choice on a seven-point Likert scale.

Each DPT was described by two of the four evaluation dimensions (justification, imposition, visibility, or surprise). The questionnaire contained all possible two-by-two combinations, for a total of six tables, each with four cells, and therefore 24 data points per respondent. Table 2 (left) provides the descriptions of each manipulated dimension.

To test the moderating influences of the need for distinction and negotiation proneness, we asked the respondents to complete Butori's (2010) need for preferential treatment (NPT) scale. This scale measures a consumer's receptivity to a DPT. In particular, its *distinction* subscale measures the consumer's receptivity to the symbolic benefits associated with the distinction that a DPT establishes (e.g., "I do not like to feel like any customer"), and its *play* subscale measures the consumer's receptivity to the fun benefits associated with a DPT negotiation process (e.g., "I enjoy negotiating advantages as much as actually using them"). These subscales therefore capture the extent to which consumers like to be distinguished from others and play the game of negotiation, respectively. The subscales serve to identify distinction seekers and negotiators (Appendix A provides the items as well as the factor loadings and Cronbach's alphas obtained for the survey).

Table 1
Summary of hypotheses.

	Main effect	Need for distinction	Negotiation proneness
Justification	↗ H ₁		↘ H ₇
Imposition	↘ H ₂	↗ H ₅	
Visibility	↘ H ₃	↗ H ₆	
Surprise	↗ H ₄		↘ H ₈

Table 2
Scenario descriptions and justification, imposition, visibility, and surprise manipulations in Studies 1 and 2.

	Study 1		Study 2	
Scenario	Imagine that you are the client of a hotel and that you are granted the following preferential treatment: a table is especially set aside for you at the hotel's restaurant		Imagine that you need to buy a new laptop. You go to a specialty store on a Saturday afternoon. After a few minutes wait, a sales agent comes and takes care of you. Once your choice is made, this sales agent grants you the following preferential treatment: he helps you skip the waiting line.	
	Low	High	Low	High
Justification	The table was booked for you for no specific reason.	The table was booked for you because you are one of the hotel's best customers.	The sales agent helps you skip the waiting line for no specific reason.	The sales agent helps you skip the waiting line because you are a very good customer.
Imposition	The restaurant is not full; there are free tables.	The restaurant is full; several people are waiting for a table.	The sales agent opens a cash desk for you.	The sales agent allows you to cut a waiting line where several people are waiting.
Visibility	The other customers do not see that a table was especially booked for you.	The other customers see that a table was especially booked for you.	The other customers in the store do not see that you are allowed to skip the waiting line.	The other customers in the store see that you are allowed to skip the waiting line.
Surprise	The hotel told you in advance about the table.	The hotel did not tell you in advance about the table	The sales agent tells you in advance that you will skip the waiting line.	The sales agent does not tell you in advance that you will skip the waiting line.

3.2. Pretest

Before administering the questionnaire, we conducted a pretest with 50 students to ensure that each description correctly manipulated its assigned modality. The respondents rated each description level for each dimension (Table 2); for example, after reading the description of the visible modality, the participants rated the preferential treatment as visible or not visible on a seven-point semantic differential scale. This pretest was conclusive: each description correctly manipulated its assigned modality (details available on request).

3.3. Sample

The 125 respondents in the main sample completed the study by filling in the six tables and the NPT scale. These respondents were all participants of a five-day seminar on tax law. To reduce any carry-over effects, they filled in the tables on the first day of the seminar and the NPT scale on the fifth day (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). The content of the seminar had nothing to do with the purpose of the study, so no contamination should intervene between the measures of the two sets of variables.

The respondents displayed great variability in terms of age (22 to 64 years) and professional background (15 graduate students in various fields, 54 entrepreneurs with at least three years of experience, 27 real estate employees, and 29 unemployed or retirees). Of the 125 questionnaires collected, we eliminated 5 because their mean responses to the question "Are you confident in your choices?" were at the low end of the scale. The final sample therefore consisted of 120 respondents (65 men; mean age of 35 years).

3.4. Model

The data analysis had two objectives. First, we need a modeling framework that permits testing of the hypotheses related to the main effects (H_1 – H_4) and moderator/interaction effects (H_5 – H_8). Second, we hope to obtain preference partworths at the individual level, so that we can quantify the direction and amplitude of the trade-offs that respondents are willing to make among different DPT dimensions. These trade-offs are of interest to firms that want to align their DPT strategy with the individual consumers' preferences.

Although ranking tasks provide a natural context for respondents to express their preferences, they pose a modeling challenge for

estimating individual parameters. As an illustration, suppose that a respondent has a very strong preference for visible DPTs, as opposed to the not visible ones. Of the six ranking tasks, three integrate the visibility dimension (visibility–justification, visibility–imposition, and visibility–surprise), for a total of six DPTs labeled visible (visible–justified, visible–unjustified, etc.). If the respondent has a very strong preference for visible DPTs and ranks them systematically as top choices—such that visible–something DPTs are systematically preferred to not visible–something DPTs—then this respondent's individual likelihood function remains undefined. It asymptotes to its maximum value as the parameter estimate for visibility goes to infinity.

To circumvent this challenge, we analyzed the conjoint data using a hierarchical Bayesian framework with individual random effects (e.g., Lenk, DeSarbo, Green, & Young, 1996). This framework provides a natural structure to express the customers' preferences for DPT attributes as a function of their personality traits; the individual random effects also allow each respondent to deviate from average group preferences while preventing the individual parameter estimates from stretching to infinity. We used the following notations:

- i Respondents 1 to N , with $N = 120$.
- a Attributes (1 = justification, 2 = imposition, 3 = visibility, 4 = surprise).
- t Traits (1 = need for distinction, 2 = negotiation proneness).
- p Profiles (DPT) presented on each ranking task, from 1 to P , where $P = 4$.

To model the ranking data among P available profiles, we can write the likelihood as a sequence of $P - 1$ consecutive choices, often referred to as exploded logit/probit models (Beggs, Cardell, & Hausman, 1981; Combes, Laurent, & Michael, 2008). The respondent first selects the most preferred option out of the P profiles, then picks the second most preferred option out of the $P - 1$ remaining profiles (most preferred option excluded), and so on, until there is only one option left. Imagine, for example, that a respondent ranks four options, A, B, C, and D, by identifying A as the most preferred option (rank 1), C as the second most preferred (rank 2), and then D and B (ranks 3 and 4). Noting that $\pi(A|ABCD)$ is the estimated probability that option A will be the preferred option among the four, the full likelihood function for this consumer is as follows:

$$\mathcal{L} = \pi(A|ABCD) \cdot \pi(C|BCD) \cdot \pi(D|BD). \quad (1)$$

We model the probability of the choice among P options using a logit function:

$$\pi_{ip} = \frac{e^{\mu_{ip}}}{\sum_{q=1}^p e^{\mu_{iq}}} \quad (2)$$

and

$$\mu_{ip} = \sum_{a=1}^4 \omega_{ia} \cdot X_{ap} \quad (3)$$

where

- π_{ip} Probability that respondent i chooses profile p out of P profiles
- μ_{ip} Respondent i 's preference for profile p
- X_{ap} Attribute a of profile p
- ω_{ia} Preference of respondent i for attribute a ; because the model is fit on ranking data, there is no need for an intercept in the model.

The probability that respondent i first selects profile p out of the P available profiles is a function of the respondent's preference for that profile, compared with the respondent's preferences for all available profiles. These preferences are expressed as a linear combination of preference partworths for each attribute describing the profiles.

The next level of the hierarchy expresses individual preference partworths in terms of personality traits, plus an individual random effect that captures residual preferences that are not explained by traits. That is,

$$\omega_{ia} = \sum_{t=0}^T \varphi_{at} \cdot T_{it} + \varepsilon_{ia} \quad (4)$$

where

- ω_{ia} Preference of respondent i for attribute a
- T_{it} Trait t of respondent i , where $T_{i0} = 1$ by convention (intercept)
- φ_{at} Influence of trait t on the preference for attribute a , where $\varphi \sim N_{at}(\Phi, \Sigma)$, and Φ and Σ are empirically estimated from the data (empirical Bayes estimation with no hyperprior structure)
- ε_{ia} Random component of respondent i on attribute a , where $\varepsilon \sim N_a(0, E)$ and E is also empirically estimated from the data (no hyperprior structure) to provide the level of shrinkage required to bind the posterior within finite values.

Before estimating the model, we mean centered and standardized the individual traits T_t so that the intercepts φ_{a0} represent the average preference partworths for each attribute at the population level (to test H_1 – H_4). The values of φ_{a1} and φ_{a2} serve to test the moderating influences of the need for distinction and negotiation proneness on the individual preferences (H_5 – H_8). Finally, we estimated the model using an empirical Bayesian approach and the Metropolis–Hastings algorithm. The burn-in period was 10,000 draws, with the marginal posteriors estimated on 20,000 subsequent draws. The convergence, mixing, and rejection rates were satisfactory.

3.5. Results

In Table 3, we report the posterior means and the 95% confidence intervals of the φ parameters for this study; Fig. 1 reveals the distributions of ω_a (Eq. (4)), which represent the preferences for the four dimensions of DPT estimated at the individual level. These preferences encompass the intercepts (average preferences at the population level), the moderating influences of the need for distinction and

negotiation proneness, and individual random effects (i.e., individual variability not captured by the former variables). The heterogeneity in the preference partworths is evident, which highlights caveats for firms that anticipate that they can provide DPT without accounting for individual preferences.

At the average population level, the respondents preferred justified (.476, $p < .01$) and surprising (.472, $p < .01$) DPTs in support of H_1 and H_4 . However, contrary to H_2 , they also preferred imposing DPTs (1.246, $p < .01$). Although unexpected, this effect can be explained in hindsight by the utilitarian facet of DPT. In the imposing condition in Study 1, the respondents imagined that a table had been booked for them in a full restaurant, where several other people were waiting. This preferential treatment provided a true utilitarian benefit: avoiding a long wait. In contrast, in the non-imposing condition, the restaurant was not full so that all customers, privileged or not, could sit down immediately, and the preferential treatment provided no utilitarian benefit. These expressed preferences suggest that the utilitarian facet of DPT prevails over its imposition facet (which we examine in Study 2).

The visibility parameter was not significantly different from 0 ($-.027$, $p = .30$), so we must reject H_3 . However, the result does not indicate that the respondents were indifferent to this dimension. Quite the contrary, and consistent with De Wulf et al.'s (2001) assertion that some people are embarrassed by being openly favored, whereas others feel delighted by the attention, we illustrate in Fig. 1 that the respondents varied wildly in their preferences for visibility.

In terms of moderating effects, the respondents with a high need for distinction expressed a stronger preference for imposing (.408, $p < .01$) and visible (.888, $p < .01$) DPTs, in strong support for H_5 and H_6 . These respondents also preferred the surprising DPT (.208, $p < .01$), which we did not hypothesize, although it makes sense in light of the increasing number of preferential treatments that modern consumers receive. As many researchers and practitioners note (e.g., Kumar & Shah, 2004), many consumers enroll in multiple loyalty programs in a single industry (e.g., loyalty cards from several grocery stores). This inflation has shaped a culture of entitlement, in which consumers are accustomed to receiving preferential treatment and come to expect it (Boyd & Helms, 2005). In this context, surprising DPTs are rare, which strengthens their distinguishing power and flatters the distinction seekers even more.

People with high scores on the negotiation proneness scale evaluated justified ($-.374$, $p = .04$) and surprising ($-.288$, $p < .01$) DPTs less favorably, confirming H_7 and H_8 . These respondents like to take the initiative in the negotiation process, and they enjoy it more when they obtain unjustified preferential treatments. The interaction effect between negotiation proneness and visibility is also positive and significant (.173, $p < .01$). This effect was not hypothesized, though in hindsight it appears natural: what is the fun in demonstrating one's negotiation skills if they go unnoticed?

In total, we confirm six of our eight hypotheses (H_1 , H_4 – H_8). The results for one hypothesis do not reach significance (H_3), and one parameter estimate is significant but opposite to the direction that we hypothesized (H_2).

4. Study 2: specialty store

4.1. Study objectives

Demonstrating heterogeneity in consumer preferences is valuable because it shows the urgent need to fine-tune DPT to customers' expectations, but it provides little practical guidance to companies. It might be tempting to offer DPTs that please the majority of customers, but our results suggest that such an undifferentiated approach would be dangerous. The majority of respondents in Study 1 preferred justified, imposing, visible, and surprising DPTs,

Table 3
Posterior means and 95% posterior interval for φ in Studies 1 and 2. A simple model, absent of interaction effects, is included for completeness.

		Simple model	Complete model with interactions		
		Main effect	Main effect	Need for distinction	Negotiation proneness
Study 1 (table at a hotel restaurant)	Justification	.600* [.506, .705]	.476* [.388, .590]	-.121 [-.240, .018]	-.374* [-.538, -.236]
	Imposition	1.168* [1.030, 1.272]	1.246* [1.100, 1.354]	.408* [.211, .592]	.080 [-.085, .280]
	Visibility	-.151* [-.211, -.079]	-.027 [-.145, .161]	.888* [.760, 1.004]	.173* [.059, 0.310]
	Surprise	.446* [.231, .558]	.472* [.349, .624]	.208* [.064, .321]	-.288* [-.361, -.209]
Study 2 (skip waiting line in store)	Justification	.193* [.157, .243]	.285* [.160, .466]	-.075 [-.173, .001]	-1.321* [-1.436, -1.215]
	Imposition	.234* [.195, .288]	.386* [.263, .469]	.948* [.843, 1.032]	.031 [-.133, .167]
	Visibility	.155* [.123, .200]	.038 [-.076, .216]	1.101* [.969, 1.229]	.022 [-.157, .183]
	Surprise	.043* [.008, .124]	.146* [.007, .304]	.659* [.598, .745]	-.964* [-1.089, -.850]

Notes: The parameter estimates that are significant at $p = .95$ are in bold.

but these preferences correspond to the exact preferences of only 28 respondents, or 23% of the sample. For the remaining 77%, some customers would feel embarrassed by the visible attention, guilty about imposing on other customers, or frustrated that they did not initiate the negotiation themselves.

Although we have shown that heterogeneity is partly explained by psychological traits such as the need for distinction or negotiation proneness, such moderators are not observable and are of little use to firms. Frontline employees are often in charge of selecting the customers who will receive DPT, as well as the characteristics of the DPT that they offer. They may have no information about the customers in front of them, yet they need to make a decision on the spot. To provide practical guidelines, it is therefore useful to explore whether preferences vary significantly in accordance with characteristics that are readily observable by frontline employees, such as age and gender.

Accordingly, the goals of Study 2 are threefold: (1) to validate the robustness of the Study 1 findings in a different managerial context; (2) to disentangle the respective roles of the imposition and utilitarian facets of DPT, and (3) to measure whether observable characteristics, such as gender and age, can guide the frontline employees in tailoring DPT.

4.2. Experimental setting

In Study 2, we asked another group of adult respondents to imagine a hypothetical scenario: they were shopping for a computer at a specialty store, and when they reached the checkout line, the sales-clerk allowed them to skip ahead. The survey was similar to that for Study 1, with two adjustments. First, we manipulated imposition but kept the utilitarian benefit of the DPT constant, such that both high and low imposition conditions provided the same utilitarian benefit, namely, customers gained the same amount of time (see Table 2). Second, we adopted a slightly shorter scale for the need for distinction (two items instead of three) and negotiation proneness (two items instead of four).

4.3. Sample

The sample consisted of 110 adult respondents, 58 men (53%) and 52 women, all between the ages of 22 and 55 years (average = 36). They were participating in a medical seminar that took place in a city different from the location in Study 1. However, the data collection

followed the same procedure: the respondents completed the six matrices then, three days later, they filled in the NPT scale.

4.4. Results

We used the model and estimation procedure from Study 1 and report the results in Table 3. Despite the new context, the results were highly consistent. On average, the respondents preferred justified (.193, $p < .01$) and surprising (.043, $p < .01$) DPTs, in support of H_1 and H_4 . As in Study 1, the preferences for visibility indicated so much variance that the hypothesized main effect did not achieve significance (.038, $p = .34$), so we rejected H_3 . Also consistent with our previous findings, in contrast with H_2 , imposition had a significant, positive impact on the respondents' preferences (.386, $p < .01$). Even when the utilitarian benefit of the DPT remained constant, a DPT that imposed on others had a greater perceived value, though the amplitude of the effect was smaller in this study (.386 vs. 1.246).

In terms of the interaction effects, the results confirmed all of our hypotheses. The higher the consumer's need for distinction, the more

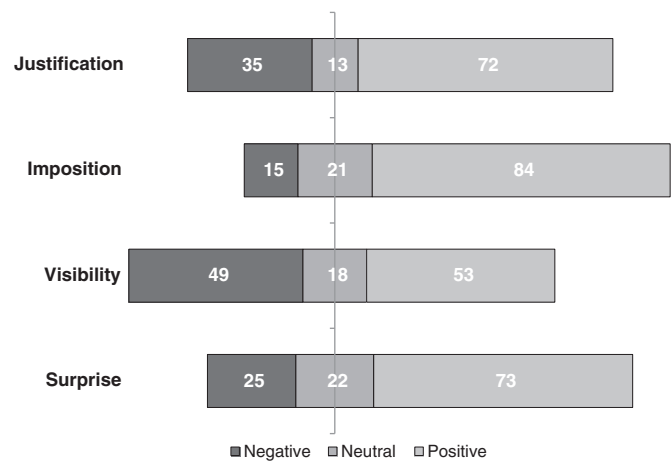


Fig. 1. Distribution of individual preference parameters for the four dimensions of DPT, Study 1. Notes: Of the 120 respondents, 25 prefer non-surprising DPTs, 73 prefer surprising DPTs, and 22 have an individual posterior mean that is not significantly different from 0 (the 95% interval of their posterior distribution contains 0).

he or she preferred imposing (.948, $p < .01$) and visible (1.101, $p < .01$) over non-imposing and non-visible DPTs, in support of H_5 and H_6 . Again, we found support for a non-hypothesized, positive, significant effect of surprise (.659, $p < .01$) on the distinction seekers' preferences. Furthermore, people prone to negotiate experienced greater satisfaction when the DPT that they received was not justified (-1.321 , $p < .01$), in support of H_7 ; they also preferred to stay in control of the negotiation process and disliked surprising DPTs ($-.964$, $p < .01$), in support of H_8 . Thus, despite the different context and sample, the results remained quite robust across Studies 1 and 2.

4.5. Managerial guidelines

We split the Study 2 sample by gender (men vs. women) and age (21–35 years vs. 36–65 years, corresponding to a median split), then performed two-tailed t-tests to check for significant differences in the psychological traits and preferences for justification, imposition, visibility, and surprise (Table 4).

In terms of the psychological traits, we found that the younger men scored twice as high as the older women on the negotiation proneness scale (4.84 vs. 2.83). The younger women scored the highest on distinction seeking (5.10), a trait that tended to decrease with age (from 4.59 to 3.40 for men and from 5.10 to 3.95 for women).

While justified, imposing, visible, and surprising DPTs earned the highest utility on average (i.e., the base DPT), the results in Table 1 show that significant improvements can be achieved by tailoring the DPT to various demographic groups. Older men tend to strongly dislike visible DPTs (consistent with their low score on the distinction seeking scale), so making sure that the firm does not grant a DPT to them ostentatiously and in the view of all other customers should increase their utility eightfold compared with the base DPT. The exact opposite result emerged for younger women (highest on the distinction seeking scale), for whom visibility is an essential characteristic of a delightful DPT. Younger men, the most prone to negotiate, tend to appreciate being in charge and benefiting from unjustified DPTs; ensuring that the granted DPTs are unjustified and unsurprisingly tends to increase their utility ten-fold. In all, these results provide interesting hints for how sales representatives should tailor the DPTs to the profiles of the customers that they encounter. Table 4 provides the characteristics of the ideal DPT for each demographic group.

5. Discussion

5.1. Contributions

With their resource limitations, companies need to devote more resources to their most profitable customers rather than their least profitable ones (Bolton et al., 2004). Although the question of which customers should be privileged has received considerable attention (e.g., Venkatesan & Kumar, 2004), the question of how to do so efficiently had not been addressed. We focus on an understudied type of preferential treatment, namely, discretionary preferential treatments (DPT), and highlight the perils that companies may encounter should they ignore the heterogeneity in customers' evaluations of these treatments.

Consumers evaluate DPTs along four dimensions (justification, imposition, visibility, and surprise). Despite their heterogeneity, in general consumers prefer DPTs that are justified, impose on others, and surprise the recipient. The customers' need for distinction and negotiation proneness moderate these preferences, such that distinction seekers have stronger preferences for visible and imposing DPTs, whereas negotiators prefer DPTs that are neither justified nor surprising. Building on social comparison processes (Festinger, 1954), the distinction seekers' preferences for visible and imposing DPTs reflect a need to perform public, downward social comparisons (Besser & Zeigler-Hill, 2010). The negotiators' preferences for unjustified, non-surprising DPTs reflect a need to attribute downward social comparisons to themselves (negotiation skills), which increases the ego-inflating effects of the DPT (Major et al., 1991).

From a theoretical point of view, this research extends social comparison theory (Festinger, 1954) to a consumption context, where the consumers' abilities to gain additional benefits enhance their feelings of self-worth. This research also introduces nuance to equity theory (Adams, 1963, 1965) and its extension into the principle of reciprocity. Granting benefits commensurate with each customer's contribution does not necessarily enhance consumer satisfaction. Negotiators are particularly sensitive to the asymmetry of their relationships (they prefer unjustified DPTs). Moreover, by demonstrating that consumers differentially value the four dimensions of preferential treatment, this research elucidates the contradictory positions in prior research and practice (De Wulf et al., 2001; Hennig-Thurau et al., 2002). Not all consumers like the same preferential treatments, so marketers must exercise care when determining the preferential treatment that they will grant.

Table 4

Average preference partworths for DPT dimensions for the population as a whole and for different age and gender groups.

	Population as a whole	<36 years		≥36 years	
		Men	Women	Men	Women
Distinction seeking	4.33	4.59	5.10^a	3.40^a	3.95^b
Negotiation proneness	3.71	4.84^a	3.56	3.19	2.83^a
Justification	4.33	-3.93^a	5.73	6.63	12.02^b
Imposition	4.41	5.75	8.69	0.41	0.98
Visibility	0.86	1.56	9.45^b	-8.26^a	-1.57
Surprise	2.46	-1.99^a	6.04	3.36	2.83
Ideal DPT		Unjustified	Justified	Justified	Justified
	Justified	Imposing	Imposing	Imposing	Imposing
	Imposing	Visible	Visible	Invisible	Invisible
	Visible	Unsurprising	Surprising	Surprising	Surprising
	Surprising				
Average utility of a justified, imposing, visible and surprising DPT to that group	12.06	1.39	29.91	2.14	14.26
Average utility of DPTs tailored to the preferences of that specific group	20.00	13.23	29.91	18.66	17.40
Difference	+66%	+852%	+0%	+772%	+22%

Notes: Justified, imposing, visible, and surprising DPTs tend to be favored by the population as a whole, but younger male respondents tend to prefer unjustified and unsurprising DPTs (consistent with their higher-than-average negotiation proneness). Tailoring the justification and surprise of the DPT increases their average utility from 1.39 to 13.23, an almost tenfold increase. Two-tail t-test: significant differences in bold at (a) $p < .01$ and (b) $p < .05$.

From a practical point of view, our results specify that companies should implement a differential approach to preferential treatment to align the DPTs that they grant with their individual customers' preferences. This approach starts with the identification of distinction seekers and negotiators. In contexts in which they can identify and interact with customers (e.g., hotels, leisure industries), customer contact employees should infer and track customers' need for distinction and negotiation proneness—just as preferences for pillow softness or favorite coffee brands are tracked in some customer relationship management systems. If no prior identification is possible (e.g., first-time visitor to a store), the identification must rely on more easily accessible variables. As we show, both gender and age, though clearly imperfect, offer some predictive power in terms of identifying distinction seekers and negotiators. Young women are overrepresented among distinction seekers, and they prefer visible, imposing, and surprising DPTs. Young men are overrepresented among negotiators, and they prefer to maintain control of the negotiation process. Older men tend to prefer not visible DPTs. Such basic demographics offer frontline employees some hints about the types of consumer that they are addressing. In turn, these employees can adapt their reward processes to the personality type and preferences of each customer they meet, which reduces the potential stress that they may encounter in their work role (Whiting, Donthu, & Baker, 2011).

5.2. Further research

This article paves the way for further explorations of DPTs. We list a few directions that we consider to be of particular interest. First, most customers prefer imposing to non-imposing DPTs, which violates one of our core hypotheses and contradicts Adams's (1963, 1965) equity theory. This finding holds even when we keep the utilitarian benefits constant (Study 2); it is particularly worthy of further investigation. We suspect that beyond the common correlation between imposition and utilitarian value (as in Study 1), imposing DPTs carry a higher symbolic value: the firm demonstrates its willingness to sacrifice its other customers' well-being to delight the recipient. Although imposition might cause some negative emotions, it also triggers a strong positive feeling of being special and valued, and we suspect that the latter effect might be stronger than the former. Additional research should disentangle these two effects.

Second, although our results appear robust to various contexts (a hotel restaurant in Study 1 and a retail store in Study 2), future research should investigate the impact of other situational variables, such as the presence or absence of significant others and the degree of distinctiveness for the privileges. Imagine, for example, being awarded a seat in business class while flying from London to Singapore. Traveling by yourself on a business trip, you might enjoy the favor. If you travel with your family and friends, though, being the only one to receive this DPT is embarrassing. It would therefore be interesting to study the moderating impacts of social context, as well as the degree of DPT distinctiveness, on consumers' evaluations. Another notable situational variable is the cultural context. Because DPT creates unequal situations, and cultures vary greatly in the extent to which they expect and tolerate such inequalities (Hofstede, 1980), it may be that a country's power distance score influences the patterns of DPT preferences. Uncertainty avoidance, or the extent to which members of a culture feel uncomfortable in unstructured situations (Hofstede, 1980), might be another interesting cultural dimension. Cultures with high uncertainty avoidance try to minimize unstructured situations with strict laws and rules, which provides a particularly challenging setting for negotiators and may increase their propensity to negotiate preferential treatments.

Third, we have limited our studies to the consumer's perspective and investigated the impact of *perceived* justification, imposition, visibility, and surprise. Yet justification from the customer's point of view may appear totally unjustified to the company. Similarly, the impact of a preferential treatment on non-privileged consumers likely appears different,

depending on the perspective taken. For example, if a privileged consumer receives direct access to after-sale services, he or she might not be aware that the dedicated service provision excludes non-privileged others, who then must wait far longer for their service appointments. To increase the practical implications of the findings, additional research should work to reconcile consumer and company perspectives.

Fourth, non-privileged consumers' perspectives on DPTs should also be investigated. Managerial decisions must balance the DPT effectiveness among favored customers against the impact on the wider audience. To delight one customer might not be wise if it upsets ten others. It also would be helpful to determine the combined impact of justification, imposition, and visibility on spectators; we anticipate that visible, imposing, unjustified DPTs for a third party might be more upsetting than non-visible, non-imposing, justified DPTs.

Fifth, because the first step of any rewarding process consists of identifying which consumers to privilege, additional research should specify how to select consumers in a non-contractual setting. Substantial research has established the relevance of customer lifetime value as a segmentation tool (e.g., Rust, Kumar, & Venkatesan, 2011), yet to date, no studies explicitly address the question of how to identify such top-tier consumers without historical data. Answering this question is of great importance to determine the efficient uses of DPTs.

We thus identify DPTs as a double-edged sword: on the one hand, they offer a rare opportunity to delight customers who feel more entitled, yet also more undistinguished; on the other hand, if improperly used, they can backfire, embarrass, and frustrate. We have elucidated this important customer relationship tool by specifying (1) the dimensions along which DPTs are evaluated, (2) the heterogeneity of customers' preferences along these dimensions, (3) how customers' preferences are moderated by psychological traits, and (4) how sales representatives can anticipate customers' likely preferences using simple sociodemographic variables. We hope that this research sparks further interest in this fruitful and managerially relevant topic.

Acknowledgments

The authors would like to thank Timothy B. Heath and Christian Pinson for their helpful comments on earlier versions of this article.

Appendix A. Factor structure of the need for distinction and negotiation proneness scales

Items	Butori (2010) sample (n = 224)		Study 1 sample (n = 120)	
	Factor		Factor	
	Distinction	Negotiation	Distinction	Negotiation
I generally do not like to be considered the same as any other customer	.887		.931	
I do not like to feel like any customer	.814		.772	
In general, I like to be treated differently from other customers	.798		.850	
I need to feel that I am a customer who is granted special attention	.843		.840	
Just for the fun of it, I often ask salespeople for special offers		.891		.907
I enjoy asking salespeople for special treatment		.854		.877
I enjoy negotiating advantages as much as actually using them		.817		.856
Cronbach's alpha	.865	.822	.889	.869

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