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Gratitude Versus Entitlement: A Dual Process Model of the Profitability Implications of Customer Prioritization

Customer prioritization strategies, which focus a firm's efforts on its most important customers, are expected to improve account profitability. Anecdotal evidence suggests, however, that such strategies may also undermine account profitability by inducing customers to become overly demanding. Building on social exchange theory, this research evaluates these competing perspectives across two field studies and finds that prioritization is best understood as a double-edged sword. Specifically, the results reveal that prioritization efforts initiate both a gratitude-driven process, which enhances sales and profit, and an entitlement-driven process, which increases service costs and reduces profit. Importantly, the findings indicate that prioritization tactics differ in the extent to which they trigger these competing processes and thus in their ability to influence account profitability. Finally, the results also reveal that critical moderators (competitive intensity and prioritization transparency) determine the extent to which the entitlement-driven process undermines the gratitude-driven process. For managers, the findings suggest that both the tactics employed and moderating conditions determine whether prioritization has a positive, negative, or negligible effect on prioritized accounts' profitability.

Keywords: customer prioritization, gratitude, reciprocity, entitlement, rank equilibrium

What cost are business owners willing to pay for customer loyalty? ... I'm constantly tested by difficult customers who feel entitled to more than what they've paid.... Unreasonable demands are a drain on limited resources.

—Blog post by Kdubya (2012), small business owner

This business owner's words echo a growing concern among marketers regarding the need to curtail the costs associated with serving increasingly entitled customers. Ironically—as Cisco Systems recently learned when it was forced to terminate its Platinum Plus Support Program for top-tier customers (Cisco 2012; Infoactiv 2009)—entitlement and its cost-producing effects are often an unintended by-product of firms' customer prioritization strategies. Such strategies aim to enhance account profitability by focusing organizational efforts on a firm's most important customers (Rust, Lemon, and Zeithaml 2004).

The current research is an attempt to improve understanding of how firms can develop prioritization strategies that avoid the perils associated with entitlement while still encouraging customer behaviors that enhance profitability.

Customer prioritization has become common practice among business-to-business (B2B) firms and an important topic in marketing research (Reinartz, Krafft, and Hoyer 2004). Prior research has largely focused on investigating prioritization's impact on desirable, revenue-generating customer behaviors such as loyalty (Homburg, Droll, and Totzek 2008), retention (Verhoef 2003), and positive word of mouth (Lacey, Suh, and Morgan 2007). Extant research has also evaluated how these customer behaviors and related financial outcomes are influenced by prioritization tactics that differ in regard to the types of benefits they confer. Specifically, scholars have examined tactics that provide customers with concrete benefits, such as when suppliers adapt offers to meet prioritized customers' needs (Homburg, Droll, and Totzek 2008); tactics that provide customers with symbolic benefits, such as an elevated customer status (Drèze and Nunes 2009); and tactics that are hybrid in nature and thus simultaneously provide customers with concrete and symbolic benefits, as is the case when customers receive exclusive offers (Barone and Roy 2010) or preferential treatment (De Wulf, Odekerken-Schröder, and Iacobucci 2001).

Empirical research to date, however, has not examined prioritization's effects on undesirable, cost-generating

customer behaviors such as entitlement. Yet, as anecdotal evidence suggests, prioritization may undermine account profitability precisely by encouraging such behaviors. Furthermore, although firms often use different prioritization tactics simultaneously, prior research has not compared their impact on behavioral and financial outcomes or their relative effectiveness across contexts (Henderson, Beck, and Palmatier 2011). Such insight is critical to managers charged with leveraging multiple tactics to enhance prioritization outcomes.

Given these knowledge gaps, which Table 1 illustrates in greater detail, our goal with this study is to answer the following research questions: (1) To what extent do undesirable customer behaviors undermine prioritization programs' profit-generating potential? (2) Do prioritization tactics differ in their relative impact on undesirable versus desirable behavioral and financial outcomes? (3) Do prioritization tactics' relative effects on undesirable versus desirable behavioral and financial outcomes vary across contexts?

Social exchange theory (SET; Blau 1964; Homans 1974; Thibaut and Kelley 1959) offers a theoretical foundation for answering these questions and relies on norms to explain exchange behavior. Applied to our context, SET's reciprocity norm suggests that customer gratitude (i.e., buying behaviors motivated by a felt obligation to reciprocate supplier-provided benefits) is a critical intervening variable that explains why firms' prioritization tactics may enhance account profitability (Palmatier et al. 2009). Furthermore, SET's rank equilibrium norm (Cropanzano and Mitchell 2005; Meeker 1971) implies that customers with a high standing in suppliers' customer hierarchies will feel entitled to demand effort from suppliers that is commensurate with their standing. Accordingly, we suggest that customer entitlement (i.e., customers' expressed claims for extra effort from a supplier based on the belief that they deserve it; Boyd and Helms 2005) is a second key intervening variable that counterbalances gratitude's effects and offers insight into why firms' prioritization tactics may reduce account profitability.

Our research builds on these and other SET tenets to make three key contributions. First, we contribute to SET's further development within the relationship marketing domain by exploring how norms beyond the well-accepted reciprocity norm influence exchange (Cropanzano and Mitchell 2005). Specifically, we introduce the rank equilibrium norm (Meeker 1971), which has been widely overlooked in relationship marketing research, to provide a more complete theoretical perspective on the behavioral responses that firms' relationship-building efforts trigger among customers. Second, we contribute to the prioritization literature by establishing customer entitlement as a behavioral manifestation of the rank equilibrium norm and a mediator of prioritization tactics' profit impact. In doing so, we are the first to examine the possibility that prioritization tactics initiate undesirable, cost-generating behaviors among high-priority customers that ultimately reduce account profitability (Homburg, Droll, and Totzek 2008). Third, we also contribute to the prioritization literature by developing a dual process model that posits gratitude and entitlement as

competing behavioral mediators. This theoretical model explains why prioritization tactics differ in their revenue- and cost-producing effects (Lacey, Suh, and Morgan 2007) and, consequently, in their impact on customer-level profit growth (Henderson, Beck, and Palmatier 2011). The model also enables us to extend theoretical understanding of when prioritization tactics are more or less likely to have a positive, negative, or negligible effect on account profit growth as a result of the accentuation of revenue- or cost-generating customer behaviors across contexts (Shugan 2005).

An SET Perspective on Customer Prioritization

Social exchange theory is useful for examining how customers respond to prioritization tactics because it explains how parties engaged in repeated exchange behave in response to being bestowed with benefits by an exchange partner (Blau 1964). Four aspects of SET make it highly germane to our research.

First, SET enables us to theoretically classify prioritization tactics on the basis of their level of concreteness (Cropanzano and Mitchell 2005). Some tactics provide concrete benefits, such as products designed to meet customers' specific needs, whereas others offer symbolic benefits, such as customer status; still others confer hybrid benefits. For example, providing a prioritized customer with exclusive offerings unavailable to the average customer is a hybrid tactic that simultaneously offers a concrete benefit (product or service) and a symbolic benefit (appreciation).

Second, SET provides an explanation of why prioritization produces heterogeneous financial outcomes across customers (Anderson and Jap 2005). According to SET, benefit provision triggers implicit governance norms among recipients that establish an appropriate set of responses to benefits received (Homans 1974). Furthermore, multiple governance norms can operate simultaneously but independently of one another, thus creating the possibility that benefit provision activates counterbalancing, parallel behaviors among recipients (Meeker 1971). In the case of prioritization programs, offering benefits likely activates the reciprocity and rank equilibrium norms, which engender counterbalancing behavioral reactions among customers. The norm of reciprocity (Gouldner 1960) suggests that prioritized customers will be motivated to repay suppliers in the future for benefits received and is widely used to explain why firms' relationship marketing efforts result in desirable, revenue-generating buyer behaviors such as rebuying (Palmatier et al. 2009). In contrast, the rank equilibrium or status consistency norm suggests that customers engaged in exchange feel entitled to request service levels that are commensurate with their relative standing in suppliers' customer hierarchy (Cropanzano and Mitchell 2005). Thus, the rank equilibrium norm offers insight into why prioritization schemes that rank customers on the basis of their importance to the firm may engender undesirable, cost-generating buyer behaviors such as excessive demands.

Third, SET provides for a better understanding of why different prioritization tactics vary in regard to their conse-

TABLE 1
Summary of Key Studies on the Effects of Customer Prioritization Tactics

Study	Level	Data	Prioritization Tactics			Customer Behaviors		Tactics- Behaviors Moderators	Account- Level Profit Impact
			Concrete	Hybrid	Symbolic	Desirable	Undesirable		
Verhoef (2003)	Customer	Survey, financial	Loyalty program, direct mailings	None	None	Yes	No	No	No
Bowman and Narayandas (2004)	Customer	Survey, financial	Customer management efforts in sales, service, and support	None	None	Yes	No	Yes	Yes
Reinartz, Krafft, and Hoyer (2004)	Firm	Survey, financial	Activities to retain customers, activities to manage up-selling and cross-selling	None	None	No	No	N.A.	No
Venkatesan and Kumar (2004)	Customer	Financial	Channel communications	None	None	No	No	N.A.	Yes
Yim, Anderson, and Swaminathan (2004)	Firm	Survey	Focusing products and services on key customers	None	None	Yes	No	No	No
Ryals (2005)	Customer	Case studies	Adapted prices and levels of service	None	None	No	No	N.A.	Yes
Rust and Verhoef (2005)	Customer	Financial	Relationship magazines, direct mailings	None	None	No	No	N.A.	Yes
Homburg, Droll, and Totzek (2008)	Firm	Survey	Prioritization in product, price, sales, communication, and processes	None	None	Yes	No	No	No
De Wulf, Odekerken-Schröder, and Iacobucci (2001)	Customer	Survey	None	Preferential treatment	None	Yes	No	Yes	No
Lacey, Suh, and Morgan (2007)	Customer	Survey	None	Preferential treatment	None	Yes	No	Yes	No
Barone and Roy (2010)	Customer	Experimental	None	Deal exclusivity	None	No	No	N.A.	No
Drèze and Nunes (2009)	Customer	Experimental	None	None	Status elevation	No	No	N.A.	No
This study	Customer	Survey, financial	Core benefit provision	Preferential treatment	Status elevation	Yes	Yes	Yes	Yes

Notes: N.A. = not applicable.

quences. All else being equal, SET indicates that although both norms can shape responses to benefits received, each norm's role in determining customer behavior depends on the nature of the benefits. Specifically, the exchange of symbolic benefits encourages ambiguous reactions and thus allows responses to be shaped by the rank equilibrium norm to a greater degree than the exchange of concrete benefits, which tends to elicit quid pro quo responses driven by the reciprocity norm (Cropanzano and Mitchell 2005; Foa and Foa 1974).

Fourth, recent SET applications also stress that strategic thinking moderates behavioral responses following norm activation (Rapp, Bachrach, and Rapp 2013). That is, benefit recipients rely on informational cues to determine what type of response is likely to maximize their own utility in continued exchange (Lawler and Thye 1999). We build on these four critical aspects of SET to ground our conceptual model, which we discuss next.

Conceptual Framework

Figure 1 depicts the proposed dual process model. It contains parallel influence pathways that are initiated by three prioritization tactics and exert competing indirect effects on account profitability. In this section, we describe our model

in detail, offer our rationale for construct and variable selection, and define relevant concepts.
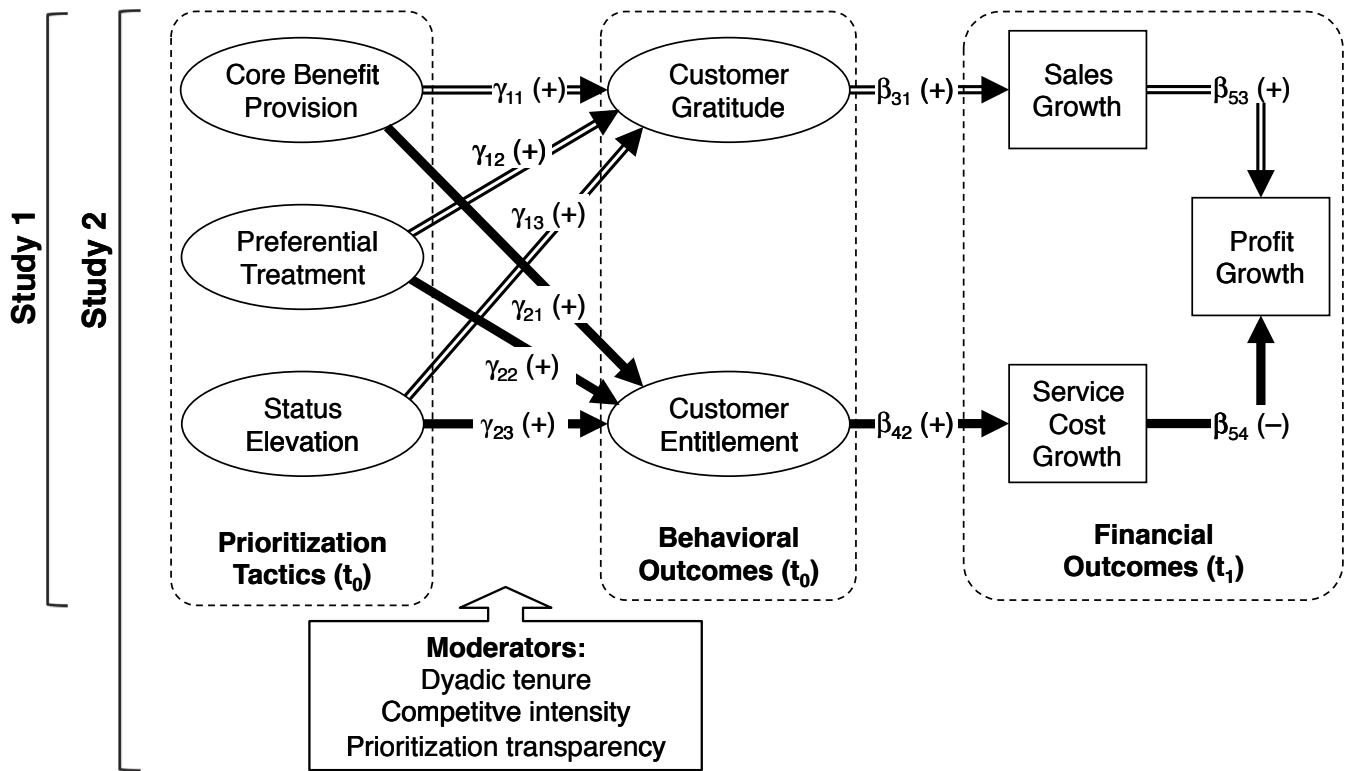
Customer Prioritization Tactics

We identified a set of tactics from the extant literature that confer prioritized benefits, are commonly employed in practice, and have received significant attention in prior research (Shugan 2005). From this set, we selected the tactic that best represents each of the three SET benefit classes (concrete, symbolic, and hybrid) for inclusion in our study.

Core benefit provision, a concrete prioritization tactic, requires that firms align benefit bundles to prioritized customers' functional needs (Zablah et al. 2012). We define core benefit provision as the extent to which customers perceive that a supplier's offerings match their needs along critical business dimensions, including product features, pricing, services, and market know-how (Tuli, Kohli, and Bharadwaj 2007).[1] Status elevation, a symbolic tactic, involves informing prioritized customers that they are viewed as

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[1]Although suppliers strive to offer core benefits to all of their customers, the degree to which they do so depends on each customer's importance to the firm. Consequently, core benefit provision results in greater value being provided to customers assigned higher priority levels and thus represents the most intuitive prioritization tactic.

FIGURE 1
A Dual Process Model of the Effects of Customer Prioritization Tactics on Relationship Profitability

Notes: Prioritization tactics' positive indirect effects on profit growth (H_{1a}, H_{1b}, and H_{1c}) are depicted by the double arrows, and their negative indirect effects (H_{2a}, H_{2b}, and H_{2c}) are depicted by bold arrows. Ovals represent constructs assessed using data provided by (key) informant(s) at the customer firm. Boxes represent variables captured from archival data provided by the supplier firm. The time elapsed between t_0 and t_1 is one year.

high-priority accounts. Although status elevation is free of concrete elements, it is a valued benefit in and of itself that motivates customer behavior (Festinger 1954).[2] We define status elevation as the extent to which customers perceive that a supplier grants them a high standing within its customer hierarchy (Drèze and Nunes 2009). Finally, preferential treatment—a hybrid prioritization tactic—contains both concrete and symbolic elements; it involves offering prioritized customers benefits that are designated as being exclusive (Lacey, Suh, and Morgan 2007). We define preferential treatment as the extent to which customers perceive that they receive benefits from a supplier that are not made available to all customers (De Wulf, Odekerken-Schröder, and Iacobucci 2001).

Behavioral Outcomes

As suggested by SET (Meeker 1971), gratitude and entitlement are norm-driven behaviors that may operate in parallel to counterbalance each other's effects. For that reason, and given their relevance in prioritization contexts, we consider each to be critical intervening variables that link prioritization tactics to account profitability (Butori 2010; Naumann, Minsky, and Sturman 2002; Palmatier et al. 2009). Customer gratitude, defined here as buying behaviors motivated by a felt obligation to reciprocate supplier-provided benefits, reflects how the norm of reciprocity eventually materializes into desirable behaviors (Morales 2005). Customer entitlement, which we define as customers' expressed claims for extra effort from a supplier based on the belief that they deserve it, reflects how the rank equilibrium norm or rank-induced expectations eventually materialize into undesirable behaviors (Fisk 2010; Magee and Galinsky 2008).

Financial Outcomes

Consistent with SET and Rust et al.'s (2004) marketing productivity chain, we further propose that gratitude and entitlement become manifest in financial outcomes. Sales growth reflects the percentage change in revenues captured from products and services sold to each customer from t_0 to t_1. Service cost growth captures the percentage change in direct marketing and sales costs incurred to service each account from t_0 to t_1. Profit growth refers to the change in account-level profits from t_0 to t_1. Profit is gross profit less

marketing and sales costs, with gross profit defined as net sales minus the costs of goods sold; marketing and sales costs include both the direct and indirect costs of servicing the account (Bowman and Narayandas 2004).

Moderators

Social exchange theory suggests that behavioral responses to norm activation are strategic in nature and thus contingent on informational cues that offer insight into the type of reaction that is likely to serve the benefit recipients' own future interests (Lawler and Thye 1999; Meeker 1971). Such cues arise from characteristics of the exchange relationship, supplier, and environment (Frazier et al. 2009). We included one moderator from each of these three categories in our study, with our choice determined by the moderator's level of relevance in a prioritization context.

Informational cues differ in their diagnosticity (Markle 2011) such that some cues are useful for evaluating how to respond to certain benefits, whereas others are not (Jayachandran, Kalaignanam, and Eilert 2013). Furthermore, perceived locus of control over the benefit being provided is an important determinant of a cue's diagnosticity (Palmatier et al. 2007). Thus, we examine three tactic–moderator combinations, with their pairing determined by the extent to which each moderator offers cues diagnostic for determining the best response to the prioritization benefit in question given locus of control over its provision.

Dyadic tenure is diagnostic for determining customers' responses to core benefit provision. Customers are motivated to experience continuous fulfillment of their core needs and hold salespeople responsible for delivering on this concrete exchange dimension (Palmatier et al. 2007). Research has shown that a focal salesperson's ability to effectively match buyers' needs with concrete supplier benefits improves over time (Homburg, Wieseke, and Bornemann 2009). Thus, dyadic tenure, an exchange relationship characteristic referring to the time a salesperson has serviced a particular customer account, is a source of information about the likelihood of future need fulfillment when working with a particular supplier and, as such, is diagnostic for shaping customers' response to core benefit provision (Doney and Cannon 1997).

Prioritization transparency is diagnostic for determining customers' responses to status elevation. The symbolic benefits that status elevation provides arise from decisions that apply to the entire customer base and are controlled by the firm. Thus, information about how suppliers make these decisions plays an important role in determining customers' responses to their elevated status (Frazier et al. 2009; Palmatier et al. 2007). Prioritization transparency, a supplier characteristic that refers to the firm's level of openness with customers regarding the scheme used to adapt customer service levels, offers such information and therefore should be diagnostic for shaping customers' responses to status elevation.

Competitive intensity is diagnostic for determining customers' responses to preferential treatment. Preferential treatment, a hybrid tactic that combines concrete and sym-

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[2]Note that status is not simply a means of receiving preferential treatment: although both are certainly related, there is strong reason to expect that preferential treatment can occur in the absence of "high" status. Indeed, as Drèze and Nunes (2009) show, customers perceive status as a benefit in its own right, regardless of accompanying privileges. Brady, Vorhees, and Brusco (2012) find that salespersons' efforts are often driven by factors unrelated to customers' status, such as commercial friendships and the need for social approval. Therefore, certain customers may receive preferential treatment from a salesperson even though it is inconsistent with their status within the supplier firm. On such occasions, customers are likely to recognize that although their accounts are relatively unimportant to the supplier, their "connection" with the salesperson enables them to receive this preferential treatment. For this reason, we treat preferential treatment and status elevation as distinct tactics whose roles are worthy of co-exploration.

bolic benefits in an attempt to differentiate the firm from its competitors, is the result of many behind-the-scenes activities controlled by both the firm and its staff, making it difficult for customers to ascertain who controls the benefit (Palmatier et al. 2007). Given this unclear locus of control, information external to the relationship is most useful in shaping customers' responses to preferential treatment. Competitive intensity is an environmental characteristic that refers to customers' perceptions of the degree of supplier rivalry in the marketplace for their business (Jaworski and Kohli 1993) and thus offers such diagnostic information.

Hypothesis Development

Prior research has suggested that prioritization results in heterogeneous financial outcomes across customers (Anderson and Jap 2005; Shin, Sudhir, and Yoon 2012). Our model helps explain this heterogeneity by accounting for prioritization tactics' competing indirect effects on profit growth and exploring how the competing effects' relative magnitude varies across tactics and contexts.

Prioritization Tactics' Profit-Enhancing Effect

Firms' prioritization efforts are driven by the notion that customer relationships are critical assets (Shugan 2005) such that incremental resources directed at select customers represent investments that contribute to future profitability by maximizing revenues over time (Zeithaml, Rust, and Lemon 2001). Accordingly, and consistent with prior research indicating that firms' prioritization efforts have a desirable effect on financial outcomes (Rust and Verhoef 2005), we expect that core benefit provision, preferential treatment, and status elevation enhance account-level profit growth.

The preceding expectation can be explained by SET's reciprocity norm, which suggests that prioritization tactics enhance profit growth because they motivate customers to repay suppliers for the benefits received through gratitude-driven changes in purchasing behaviors (Blau 1964; Morales 2005). Such changes might include increases in the amount of business customers award a supplier or opportunities to expand the relationship further (Palmatier et al. 2009). From a profitability standpoint, these relationship-expanding behaviors are desirable because they provide for sales growth, which ultimately leads to profit growth (Bowman and Narayandas 2004). In summary, we posit that prioritization tactics' positive effect on profit growth is sequentially mediated by gratitude and sales growth.

H$_1$: (a) Core benefit provision, (b) preferential treatment, and (c) status elevation have a positive effect on profit growth that is mediated first by customer gratitude and subsequently by sales growth.

Prioritization Tactics' Profit-Reducing Effect

Anecdotal evidence suggests that, despite its many desirable effects, prioritization may also have an undesirable effect on financial outcomes. As Shugan (2005) notes, customer relationships become a liability if suppliers' intensified efforts increase future costs to service an account, ultimately undermining profitability. Consequently, we expect that prioritization tactics will also exert a counterbalancing, negative effect on account-level profit growth.

Our rationale for this expectation is rooted in SET's rank equilibrium norm. The use of prioritization tactics requires that the firm direct extraordinary effort and focused attention toward select customers. As a result, prioritized customers perceive that they are worthy of the additional effort because they hold a high relative standing in the supplier's customer hierarchy. The rank equilibrium norm suggests that such perceptions may lead prioritized customers to believe they are entitled to constantly demand increased efforts from suppliers. Indeed, researchers theorize that prioritization can trigger an ego-focused self-concept that leads customers to feel superior and important to the point of deserving "adulation" from suppliers (Boyd and Helms 2005; Lacey, Suh, and Morgan 2007) and psychologically empowers them to demand exceptional effort (Bolton, Kannan, and Bramlett 2000).

Prioritization thus reinforces customers' belief that if they demand greater resource investments, the supplier is likely to acquiesce. Consequently, prioritized customers are likely to adopt entitled behaviors, such as tough negotiation and bargaining tactics when dealing with suppliers, that enable them to "capture" the privileges they believe they deserve (Castellucci 2010). Such behaviors naturally increase the costs associated with managing the exchange relationship over time (Zeithaml, Rust, and Lemon 2001), which has negative implications for account profitability. For example, to meet the order turnaround times requested by a highly demanding customer, service staff may be required to work extra hours and thus be due overtime pay. Likewise, entitled customers might significantly impinge on a sales representative's time with requests that are beyond the scope of his or her responsibility and that do not necessarily generate future revenue. In summary, we expect that prioritization tactics' negative effect on profit growth is sequentially mediated by entitlement and service cost growth.

H$_2$: (a) Core benefit provision, (b) preferential treatment, and (c) status elevation have a negative effect on profit growth that is mediated first by customer entitlement and subsequently by service cost growth.

Relation Between Prioritization Tactics' Profit-Reducing and Profit-Enhancing Effects

We expect prioritization tactics that more strongly activate the rank equilibrium norm (which increases service cost growth through entitlement) relative to the reciprocity norm (which increases sales growth through gratitude) to have greater potential to undermine profit growth. Ceteris paribus, SET suggests that the rank equilibrium norm will be more dominant when suppliers employ prioritization tactics that confer symbolic rather than concrete benefits. This is because symbolic benefits provide for increased latitude in behavioral responses and thus offer a greater window of opportunity for the rank equilibrium norm to exert its influence, whereas concrete benefits tend to more readily encourage reciprocal quid pro quo responses (Cropanzano

and Mitchell 2005). Furthermore, entitled behaviors guided by the rank equilibrium norm involve judgments about being worthy of receiving more. Such judgments are more easily made in comparison with others who are not deemed to be equally deserving and consequently require customer knowledge about their relative standing within suppliers' prioritization hierarchies (Meeker 1971). Tactics that provide more symbolic benefits (e.g., status elevation) convey such knowledge more explicitly than those that provide more concrete benefits (e.g., core benefit provision) (Barone and Roy 2010) and, as a result, should prime entitlement to a greater degree.

Given the preceding arguments, we expect that prioritization tactics differ in the extent to which their negative and positive indirect effects counterbalance each other. Specifically, we anticipate that the ratio of prioritization tactics' negative and positive indirect effects will increase as a tactic confers more symbolic benefits.

> H_3: The negative indirect effect on profit growth (mediated by entitlement and service cost growth) relative to the positive indirect effect on profit growth (mediated by gratitude and sales growth) is (a) stronger for status elevation than for preferential treatment, (b) stronger for status elevation than for core benefit provision, and (c) stronger for preferential treatment than for core benefit provision.

Moderators of Prioritization Tactics' Relative Effects

Social exchange theory posits that behavioral responses following norm activation are strategic in nature and thus are contingent on factors that help benefit recipients determine the type of behavioral responses (entitlement vs. gratitude) that best serve their own future interests (Rapp, Bachrach, and Rapp 2013). Consistent with this perspective, we consider moderators that regulate the relative extent to which customers engage in entitlement versus gratitude in response to benefits received. Extending this logic to our entire dual process model, our moderators are theoretically expected to affect prioritization's impact on profit growth by altering the ratio of each tactic's negative indirect effect on profit growth and its positive indirect effect.

Dyadic tenure moderates the ratio of core benefit provision's competing indirect effects. We expect that core benefit provision's effect on profit growth is enhanced when dyadic tenure increases because of an attenuation of its negative indirect effect on profit growth relative to its positive indirect effect. First, we expect that increasing dyadic tenure weakens core benefit provision's negative effect on profit growth by attenuating entitled behaviors. Prior research has indicated that customers perceive salespeople with longer interpersonal interaction histories as more competent in providing solutions because they have developed extensive customer need knowledge (Homburg, Wieseke, and Bornemann 2009). Supplier efforts to provide core benefits through stable dyads thus signal to customers that the supplier is focused on continuous customer need fulfillment (Tuli, Kohli, and Bharadwaj 2007). This discourages customers from engaging in entitled behaviors that may damage the continued "flow" of core benefits, ultimately

reducing the potential for service cost growth and reduced profit growth.

Second, we anticipate that increasing dyadic tenure strengthens the positive effect on profit growth by accentuating customers' gratitude-driven responses. As we have suggested, core benefit provision under conditions of increasing dyadic tenure signals to customers that the supplier is capable of fulfilling their future core needs because the focal, supplier-assigned salesperson has the knowledge necessary to do so (Tuli, Kohli, and Bharadwaj 2007). Motivated by the desire to experience continuous need fulfillment, customers are more inclined to respond gratefully to core benefit provision, ultimately enhancing revenues and profits. In summary, when dyadic tenure is high, core benefit provision's profit impact through entitlement-driven behaviors relative to its impact through gratitude-driven behaviors is weaker than when dyadic tenure is low.

> H_4: Core benefit provision's negative effect on profit growth (mediated by entitlement and service cost growth) relative to its positive effect on profit growth (mediated by gratitude and sales growth) is weaker (stronger) when dyadic tenure is high (low).

Competitive intensity moderates the ratio of preferential treatment's competing indirect effects. We posit that preferential treatment's effect on profit growth is reduced when competitive intensity is high, resulting from an accentuation of its negative indirect effect on profit growth relative to its positive indirect effect. On the one hand, we expect that increasing competitive intensity strengthens preferential treatment's negative effect on profit growth by encouraging entitled customer behaviors. More precisely, we posit that customers interpret preferential treatment in highly competitive environments as an indication that they possess heightened relative market power (Homburg, Müller, and Klarmann 2011). Consequently, customers are likely to feel empowered to demand more from suppliers to enhance their own future outcomes from the relationship, accentuating preferential treatment's impact on customer entitlement and its cost-enhancing, profit-reducing effects.

On the other hand, we expect that increasing competitive intensity weakens preferential treatment's positive effect on profit growth by discouraging customer gratitude. We theorize that this occurs because under conditions of high competitive intensity, customers interpret preferential treatment as a persuasion attempt designed to ensure that the supplier can keep up with competitive offerings (Lacey, Suh, and Morgan 2007; Morales 2005). Customers realize that gratitude's potential to improve their future exchange outcomes is limited because they can obtain the same or better outcomes from other suppliers. This reduces their motivation to engage in reciprocal behaviors and hinders suppliers' profit growth by diminishing sales growth levels. In summary, the preceding arguments suggest that when competitive intensity is high, preferential treatment's profit impact through entitlement-driven behaviors is accentuated relative to its impact through gratitude-driven behaviors.

> H_5: Preferential treatment's negative effect on profit growth (mediated by entitlement and service cost growth) relative to its positive effect on profit growth (mediated by grati-

tude and sales growth) is stronger (weaker) when competitive intensity is high (low).

Prioritization transparency moderates the ratio of status elevation's competing indirect effects. We propose that status elevation's effect on profit growth is reduced when prioritization transparency is high, resulting from an accentuation of its negative indirect effect on profit growth relative to its positive indirect effect. First, we anticipate that status elevation's negative effect on profit growth is strengthened when prioritization transparency is high as a result of a heightened activation of customer entitlement. Specifically, information about the connection between their previous behaviors and status encourages customers to make requests from the supplier aimed at improving their own future outcomes because the status they have earned through their previous behaviors entitles them to do so. This heightened demandingness increases service cost growth, thus reducing profit growth over time.

Second, we suggest that status elevation's positive effect is weakened when prioritization transparency is high because customer gratitude is discouraged. As we noted previously, a transparent prioritization scheme explicitly informs customers of the connection between their prior purchasing behaviors and their current customer status. This information suggests to customers that suppliers' exchange behavior is motivated by backward-looking, nonbenevolent considerations to exploit the relationship rather than forward-looking, benevolent intentions to nurture future exchange. When customers perceive suppliers' motivations as nonbenevolent, they do not view reciprocal behaviors as most appropriate for maximizing their own future outcomes (Foa and Foa 1974; Palmatier et al. 2009), thus diminishing status elevation's impact on gratitude and hindering sales and profit growth. In summary, we expect that prioritization transparency accentuates entitlement-driven versus gratitude-driven customer behaviors.

> H_6: Status elevation's negative effect on profit growth (mediated by entitlement and service cost growth) relative to its positive effect on profit growth (mediated by gratitude and sales growth) is stronger (weaker) when prioritization transparency is high (low).

Study 1

Study Overview

We conducted two studies to test our research hypotheses. Study 1 serves as a baseline investigation of the competing indirect effects proposed in our dual process model (H_1–H_2) and their relative magnitude across prioritization tactics (H_3). Study 2 provides an additional test of H_1–H_3 and evaluates the role of moderating factors (H_4–H_6). The two-study approach enables us to assess the cross-validity and generalizability of our findings across samples. A major difference between our samples is how the prioritized population is defined. In Study 1 we consider a firm that uses a gradual approach in which each customer's prioritization level varies along a continuum. In contrast, Study 2 firms employ a discrete approach to prioritization in which customers are assigned to one of two groups: prioritized versus nonprioritized. Consequently, all customers are part of the population of interest in Study 1, whereas only prioritized customers are the population of interest in Study 2.

Design, Sample, and Procedure

Study 1 relies on survey data collected from a chemical supply company's customers in the German market. To avoid common method bias (Podsakoff et al. 2003), we matched these survey data with supplier-provided account-level sales, service costs, and profit data. The typical customer in our sample is a midsize business that uses the materials procured from the supplier to manufacture products for other firms. The supplier ranked customers on the basis of past sales and adjusted its efforts toward each customer accordingly. Our supplier contacts identified purchasing managers at the customer firms as the key informants for the study. Thus, using a three-wave procedure (survey mailing, follow-up phone call, and second survey mailing), we invited purchasing managers of 300 randomly selected customer firms to complete a survey containing our construct measures (prioritization tactics, gratitude, and entitlement), which resulted in data for 197 customer accounts (effective response rate of 65.67%). Common tests for nonresponse bias confirmed that it is not a concern in our study.[3]

Measures

We measured constructs using multi-item scales adapted from prior research (see Appendix A). We measured all constructs using seven-point Likert-type scales (1 = "strongly disagree," and 7 = "strongly agree"). We performed a confirmatory factor analysis to assess the constructs' psychometric adequacy. The results indicate that all item loadings are significant ($p < .01$), in support of convergent validity, and that the measurement model provides a good fit to the data (χ^2/d.f. = 2.61, $p < .01$; comparative fit index [CFI] = .94; standardized root mean square residual [SRMR] = .06). Relatively high Cronbach's alpha values ($\alpha \geq$ .83) confirm that the measures are reliable (Bagozzi and Yi 1988). We evaluated the constructs' discriminant validity using Fornell and Larcker's (1981) test, which revealed that each construct's average variance extracted is greater than its squared correlation with any other construct in the model; we thus concluded that our measures exhibit discriminant validity and that multicollinearity is not a problem in our model (Grewal, Cote, and Baumgartner 2004).

Finally, we obtained customer-level financial data on sales growth, service cost growth, and profit growth from the supplier for the year after the collection of the survey data. We measured all financial data continuously in percentage growth (e.g., we measured sales growth as [(sales$_{t1}$ – sales$_{t0}$)/(sales$_{t0}$)] × 100). Table 2 reports descriptive statistics, correlations, and additional quality metrics of interest for our constructs and financial variables.

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[3]Details are available from the authors upon request.

TABLE 2
Descriptive Statistics and Correlations

Measure	Study 1				Study 2				1	2	3	4	5	6	7	8	9	10	11
	M (SD)	AVE	CR	α	M (SD)	AVE	CR	α											
1. Core benefit provision	5.02 (1.24)	.62	.86	.85	5.45 (1.28)[b]	.66	.89	.89	1.00	.35	.35	.51	.22	.16	.08	.18	.07	−.17	.02
2. Preferential treatment	4.11 (1.36)	.84	.94	.94	4.25 (1.60)[b]	.74	.90	.91	.39	1.00	.56	.62	.36	.13	.00	.14	.07	−.11	.01
3. Status elevation	4.06 (1.51)	.62	.83	.83	4.46 (1.77)[b]	.71	.88	.89	.55	.34	1.00	.54	.44	.11	.07	.06	−.01	−.05	.01
4. Customer gratitude	3.99 (1.36)	.70	.88	.87	4.81 (1.47)[b]	.75	.90	.90	.61	.51	.52	1.00	.42	.36	.17	.24	.13	−.07	−.00
5. Customer entitlement	4.31 (1.35)	.84	.94	.94	3.26 (1.55)[b]	.58	.80	.78	.25	.34	.44	.41	1.00	.07	.33	−.13	.02	−.03	.00
6. Sales growth[a]	1.98 (11.15)	—	—	—	3.40 (17.92)	—	—	—	.08	.10	.09	.16	.01	1.00	.24	.50	.12	.02	−.01
7. Service cost growth[a]	3.31 (12.69)	—	—	—	3.04 (19.47)	—	—	—	.07	.06	.03	.03	.21	.43	1.00	−.17	.01	.05	.00
8. Profit growth[a]	.20 (1.81)	—	—	—	3.39 (16.47)	—	—	—	−.01	−.06	−.01	.08	−.06	.17	−.16	1.00	.09	.00	.02
9. Dyadic tenure[a]	—	—	—	—	4.34 (4.06)	—	—	—	—	—	—	—	—	—	—	—	1.00	.03	−.03
10. Competitive intensity	—	—	—	—	3.82 (1.52)	—	—	—	—	—	—	—	—	—	—	—	—	1.00	−.03
11. Prioritization transparency	—	—	—	—	1.50 (.50)	—	—	—	—	—	—	—	—	—	—	—	—	—	1.00

[a]Numbers are divided by a constant to preserve data confidentiality.
[b]Variables were centered on the mean of the respective supplier for model estimation purposes.
Notes: AVE = average variance extracted, CR = composite reliabilities, α = Cronbach's alpha. Study 1 (2) correlations are reported below (above) the diagonal. For Study 1, correlations greater than or equal to |.14| are statistically significant ($p < .05$, two-tailed). For Study 2, correlations greater than or equal to |.13| are statistically significant ($p < .05$, two-tailed).

Hypothesis Tests

We used structural equation modeling (SEM) in Mplus 6.1 to evaluate the relevant hypotheses (H_1–H_3) because it is superior to common regression analysis for testing indirect effects when sequential and/or parallel mediators are involved (Iacobucci, Saldanha, and Deng 2007; Preacher and Hayes 2008). We controlled for several potential confounds. First, we considered customer firm size and customer–supplier relationship duration as covariates that may influence the financial outcomes of an exchange relationship. Second, we accounted for the possibility that prioritization tactics are endogenous given that the firm might strategically set the intensity of each tactic directed toward an individual customer according to the tactic's anticipated effectiveness for triggering a behavioral response from the customer (Boulding et al. 2005; Manchanda, Rossi, and Chintagunta 2004). We controlled for this form of endogeneity using the procedure Garen (1984) suggests,[4] which previous marketing research has applied to similar problems (e.g., Grewal, Chakravarty, and Saini 2010; Landsman and Stremersch 2011). To do so, we initially regressed each endogenous variable (core benefit provision, preferential treatment, and status elevation) on several predictors (previous sales, previous costs, and buying frequency) to obtain a customer-specific residual for each prioritization tactic: R_{CB} (residual from the core benefit provision regression), R_{PT} (residual from the preferential treatment regression), and R_{SE} (residual from the status elevation regression). Then, given that the correction for endogeneity bias is conditional on the values of the endogenous variables, we estimated the interaction between each residual and the respective endogenous variable ($R_{CB} \times$ core benefit provision, $R_{PT} \times$ preferential treatment, $R_{SE} \times$ status elevation). Finally, we included the three residuals and the three interaction terms as additional predictors of the response variables (customer gratitude and customer entitlement) in our SEM.

Test of indirect effect hypotheses. To test the indirect effects of interest, we included direct effects from the prioritization tactics to profit growth and estimated direct and indirect effects simultaneously (Iacobucci, Saldanha, and Deng 2007). We employed bootstrapped SEM (5,000 draws), which builds on an empirical sampling distribution of the indirect effect (Zhao, Lynch, and Chen 2010).[5] These analyses provided bootstrapped confidence intervals and standard errors that enabled us to make inferences about the magnitude and statistical significance of each indirect effect (Hayes 2009). The results indicate that the model provides an acceptable fit to the data (χ^2/d.f. = 2.35, $p < .01$; CFI = .88; SRMR = .07). Furthermore, the results offer support for

five of the six proposed indirect effects. Specifically, the results confirm $H_{1a–c}$ in that they reveal that core benefit provision ($\gamma_{11}\beta_{31}\beta_{53}$ = .02, $p < .05$, H_{1a}),[6] preferential treatment ($\gamma_{12}\beta_{31}\beta_{53}$ = .02, $p < .05$, H_{1b}), and status elevation ($\gamma_{13}\beta_{31}\beta_{53}$ = .02, $p < .05$, H_{1c}) all have a significant, positive indirect effect on profit growth that is mediated first by gratitude and subsequently by sales growth. The results do not support H_{2a}, because the expected negative indirect effect of core benefit provision on profit growth is not significant ($\gamma_{21}\beta_{42}\beta_{54}$ = –.00, $p > .05$). In contrast, the results support H_{2b} and H_{2c}: we find that preferential treatment ($\gamma_{22}\beta_{42}\beta_{54}$ = –.01, $p < .05$) and status elevation ($\gamma_{23}\beta_{42}\beta_{54}$ = –.02, $p < .05$) have a significant, negative indirect effect on profit growth that is mediated first by entitlement and subsequently by service cost growth. Finally, we do not find significant direct effects from the prioritization tactics on profit growth (γ_{51} = .06, $p > .05$; γ_{52} = –.04, $p > .05$; γ_{53} = –.03, $p > .05$), a result that indicates that the prioritization tactics' impact on profit growth is fully mediated by gratitude and entitlement (Zhao, Lynch, and Chen 2010). Figure 2 and Table 3 summarize these results in addition to constituent path estimates and R-square values for model constructs.

Test of the relative indirect effect hypothesis. In H_3, we propose that the ratio of each tactic's negative and positive indirect effect on profit growth differs. To test this hypothesis, we extended the analytical procedures Homburg, Grozdanovic, and Klarmann (2007) outline. Using the results presented in the previous subsection, we began our analysis by estimating the ratio of the negative indirect effect of core benefit provision on profit growth (through entitlement and cost growth) and the sum of the same effect and core benefit provision's positive indirect effect (through gratitude and sales growth) on profit growth. Formally:

$$(1) \qquad RIE_{CB} = \frac{|\gamma_{21}\beta_{42}\beta_{54}|}{|\gamma_{21}\beta_{42}\beta_{54}| + |\gamma_{11}\beta_{31}\beta_{53}|} \times 100\%,$$

where RIE_{CB} is the ratio of core benefit provision's indirect effects. We repeated the procedure to obtain the ratios for preferential treatment (RIE_{PT}) and status elevation (RIE_{SE}). We found that RIE_{SE} was higher than RIE_{PT} and that RIE_{PT} was higher than RIE_{CB} (RIE_{SE} = 50%, RIE_{PT} = 33%, RIE_{CB} = 0%). To test whether RIE_{SE} is significantly higher than RIE_{PT}, we ran our model again, constraining both ratios to be equal, and compared the fit of the constrained model with that of the unconstrained model using chi-square values. We found that the difference between RIE_{SE} and RIE_{PT} was significant ($\Delta\chi^2_{(1)}$ = 13.08, $p < .01$), in support of H_{3a}. Repeating the same procedure for the remaining comparisons, we found that the difference between RIE_{SE} and RIE_{CB} ($\Delta\chi^2_{(1)}$ = 6.16, $p < .05$) was significant, in support of H_{3b}. We rejected H_{3c} because the difference between RIE_{PT} and RIE_{CB} was not significant ($\Delta\chi^2_{(1)}$ = 3.43, $p > .05$).

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[4]We thank the area editor for recommending this approach.

[5]Traditional approaches for estimating indirect effects (e.g., Baron and Kenny 1986) rely on Sobel's z-test to assess the significance of such effects. However, as Preacher and Hayes (2004) and others show, Sobel's z-test is biased because the distribution of the product term that captures the indirect effect is nonnormal. The resulting bias is magnified when—as in this study—the indirect effects being assessed involve more than one intervening variable (Zhao, Lynch, and Chen 2010). Bootstrapping helps overcome this bias, which is why we use it here.

[6]We use a composite parameter notation (e.g., $\gamma_{11}\beta_{31}\beta_{53}$) to describe the indirect effect that results from the product of the direct effects (e.g., $\gamma_{11} \times \beta_{31} \times \beta_{53}$) that form part of the causal chain being evaluated.

FIGURE 2
Summary of Study 1 and Study 2 Structural Model Results
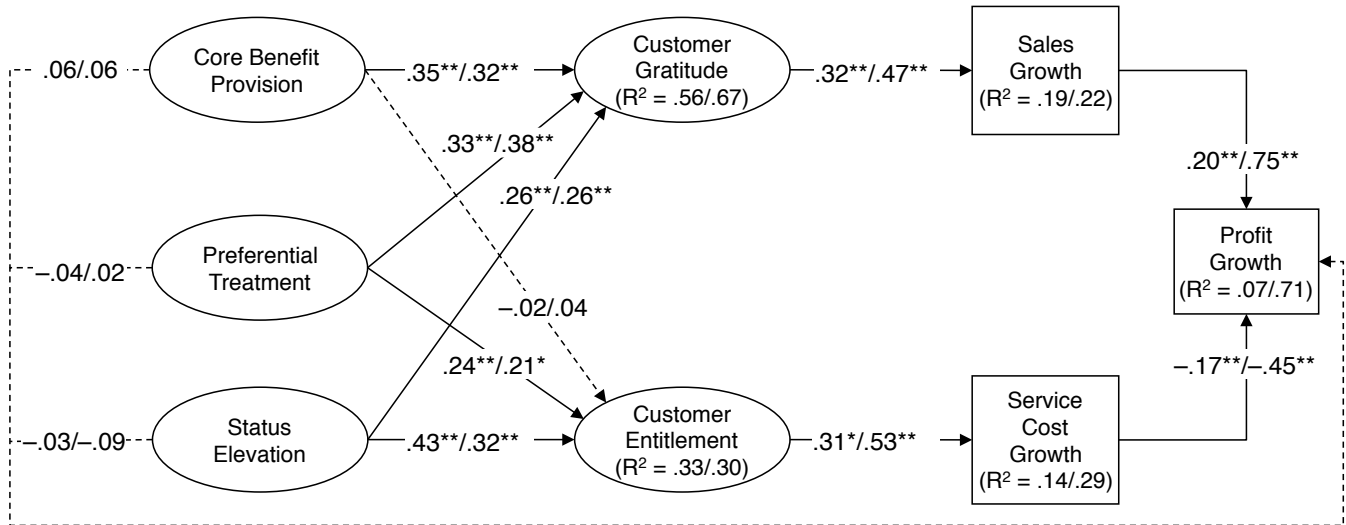
Additional paths controlled for in the model:

IMR → gratitude	= − / −.07	R_{CB} x core benefit provision → gratitude	= −.05 / .11*	Customer firm size	→ cost growth	= .02 / −.12
IMR → entitlement	= − / −.00	R_{PT} x preferential treatment → gratitude	= .02 / −.12*	Relationship duration	→ profit growth	= .04 / −.14*
R_{CB} → gratitude	= −.02 / −.04	R_{SE} x status elevation → gratitude	= −.04 / −.01	Relationship duration	→ sales growth	= −.23 / .02
R_{PT} → gratitude	= .03 / .09	R_{CB} x core benefit provision → entitlement	= .01 / −.02	Relationship duration	→ cost growth	= −.19 / −.03
R_{SE} → gratitude	= .10 / −.20*	R_{PT} x preferential treatment → entitlement	= −.15* / .05			
R_{CB} → entitlement	= −.22*/ −.16	R_{SE} x status elevation → entitlement	= .01 / −.01	**Additional paths tested in rival models:**		
R_{PT} → entitlement	= .12 / .38*	Customer firm size → profit growth	= .01 / −.01	Gratitude	→ cost growth	= .01 / .05
R_{SE} → entitlement	= .18*/ −.35**	Customer firm size → sales growth	= −.18 / −.07	Entitlement	→ sales growth	= .04 / −.14

*p < .05.
**p < .01.
Notes: Results are based on two-tailed t-tests. Study 1 results are reported before the slash, and Study 2 results are reported after the slash.
Significant effects are illustrated by continuous lines, and dashed lines represent effects that are nonsignificant (p > .05) across both
studies. Long dashes (—) indicate not applicable. Details regarding the additional paths controlled for in the model are provided in the
"Study 1" and "Study 2" sections.

TABLE 3
Bootstrapped SEM Indirect Effect Estimates

		Study 1	Study 2
		Path	Path
Hypothesized Indirect Effect	**Hypothesis**	**Coefficient**	**Coefficient**
Core benefit provision → customer gratitude → sales growth → profit growth	H_{1a}	.02*	.12**
Preferential treatment → customer gratitude → sales growth → profit growth	H_{1b}	.02*	.14**
Status elevation → customer gratitude → sales growth → profit growth	H_{1c}	.02*	.09**
Core benefit provision → customer entitlement → service cost growth → profit growth	H_{2a}	−.00	−.01
Preferential treatment → customer entitlement → service cost growth → profit growth	H_{2b}	−.01*	−.05*
Status elevation → customer entitlement → service cost growth → profit growth	H_{2c}	−.02*	−.08**

*p < .05.
**p < .01.
Notes: Results are based on two-tailed t-tests. All path coefficients are reported in standardized form.

Rival model performance. We tested the adequacy of the proposed causal structure against a rival model, which included two additional paths: customer gratitude → service cost growth and customer entitlement → sales growth. Both these paths were nonsignificant (p > .05; see Figure 2), with the proposed relationships remaining stable. Model fit was not significantly affected by the inclusion of the additional paths in the model ($\Delta\chi^2_{(2)}$ = .06, p > .05).

Discussion of Study 1 Findings

The Study 1 results reveal that all three prioritization tactics enhance profit growth by initiating an indirect effect that includes customer gratitude and sales growth as key intervening variables. Furthermore, the results indicate that preferential treatment and status elevation (but not core benefit provision) reduce profit growth by triggering an indirect effect mediated by customer entitlement and service cost growth. The results also indicate that the entitlement-driven indirect

effect is stronger in magnitude relative to the gratitude-driven indirect effect for status elevation than for preferential treatment and core benefit provision. Collectively, the results support our dual process model in that they confirm that prioritization exerts offsetting effects on customer-level financial outcomes and that the profit gains firms derive from prioritization efforts likely depend on the combination of tactics they employ. With Study 2, we aim to extend this insight.

Study 2

Design, Sample, and Procedure

Two suppliers of industrial goods (competitors in the German market) and their customers provided the Study 2 data. Each supplier's typical customer is a small service provider. Both firms prioritized their customers by forming a high-priority group that exceeded a certain level of prior sales and ensured that resource investments in the low-priority customer group were minimized. The firms' prioritization programs differed in one key regard: Supplier 1 used prioritization as a purely internal resource-allocation scheme. That is, Supplier 1 was low in prioritization transparency, whereas Supplier 2 was high in prioritization transparency.

As in Study 1, we collected survey-based data from customers across both firms, and each supplier granted us access to account-level financial data. Matching survey and objective data makes common method bias unlikely to occur (Podsakoff et al. 2003). Our data collection effort involved the random selection of 1,000 (600) customers targeted by Supplier 1's (2's) prioritization efforts; we excluded customers shared between both firms from the sampling frame. From interviews with both suppliers and customers, we identified general managers, purchasing managers, and operations managers as adequate customer-side informants. To minimize key informant bias, we invited multiple respondents employed in any one of these positions to participate in the study from each of the customer firms. We collected all survey data using a three-wave procedure (preannouncement, survey mailing, and follow-up phone call). We excluded from further analysis responses provided by 37 (17) customer firms from Supplier 1 (2) because of missing information. This procedure resulted in a sample of 373 (195) customer firms, for an effective response rate of 37.3% (32.5%). For data analysis purposes, we averaged the responses provided by multiple informants from each of the customer firms.[7] Furthermore, using the same procedures as in Study 1, we concluded that

Study 2 data are not significantly influenced by nonresponse bias.[8]

Finally, we undertook several steps to alleviate potential concerns associated with pooling data from two suppliers. First, we collected the data within the same three-month time window and from two highly similar suppliers competing in the same national market. At the time of data collection, there were no noteworthy differences between suppliers with regard to national regions targeted, products sold, product prices, reputation for quality, or type of customers served. The firms' prioritization programs were nearly identical, with the exception of the previously noted difference regarding prioritization transparency (which serves as a grouping variable in our analyses). Furthermore, to minimize the likelihood of confounds resulting from the pooling of firm data, we applied a matched-pair comparison process for the customers in our data set using customer firm size, relationship duration, and national region as matching variables (Kumar, Venkatesan, and Reinartz 2008). This process involves matching customers from Supplier 1 with customers from Supplier 2 such that relative customer frequencies on the matched variables are similar in the samples from both suppliers. For example, if 27% of the customers from the Supplier 1 sample had relationships that lasted between six and ten years, we ensured that the sample from Supplier 2 also contained approximately 27% of customers with this same relationship duration. The suppliers suggested these matching variables as a means of classifying their customers (beyond sales levels), and we obtained them from each firm's customer database. This matching procedure resulted in the retention of 302 customers (151 matched pairs) for further analysis.[9]

Measures

As Appendix A shows, we measured our constructs using the same items as in Study 1. We evaluated the constructs' adequacy using a confirmatory factor analysis. The results suggest that the measurement model offers a good fit to the data (χ^2/d.f. = 2.13, $p < .01$; CFI = .96; SRMR = .05). All item loadings are significant ($p < .01$), suggesting convergent validity. Relatively high Cronbach's alpha values ($\alpha \geq$ .78) confirm that the measures are reliable (Bagozzi and Yi 1988). Again, the Fornell and Larcker (1981) test results support our conclusion that the constructs exhibit discriminant validity and that multicollinearity is unlikely to influence our study results (Grewal, Cote, and Baumgartner 2004). For all subsequent analyses, we centered customer response variables on their respective supplier's mean to rule out the possibility of systematic differences in effect sizes across both suppliers.

Furthermore, both suppliers provided objective financial customer-level data. We measured sales growth, service cost growth, and profit growth for the year after the collection of survey data as in Study 1. We obtained the measures

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[7]The average number of informants was 1.92 for Supplier 1 and 1.99 for Supplier 2. Respondents' answers were highly consistent within firms. For each construct, the r_{wg} index, which evaluates interrater agreement, was well above the recommended threshold of .70 (James, Demaree, and Wolf 1984). In addition, a comparison of the construct means for customer firms with only one informant versus those with multiple informants revealed no significant differences ($p > .10$). Thus, we deemed the averaging of responses for firms with multiple informants adequate and most appropriate for model estimation purposes.

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[8]Details are available from the authors upon request.

[9]For a discussion of additional analyses performed to rule out the possibility that confounds associated with data pooling influenced the study's results, see Appendix B.

for the moderators from different sources. For the moderator dyadic tenure, we used a measure from company records that indicates the number of years that the same sales representative served a specific customer. We measured competitive intensity by averaging participants' responses to two items adapted from Jaworski and Kohli (1993): "Competitors of [focal supplier] often approach us with good offerings," and "The offerings of [focal supplier] are easily matched by its competitors." Finally, we coded prioritization transparency (i.e., whether suppliers openly share their prioritization schemes with customers) using a binary variable depending on the strategy pursued by each supplier (low prioritization transparency = 1, high prioritization transparency = 2). Table 2 offers a summary of descriptive statistics, correlations, and additional quality metrics for all constructs and financial performance measures.

Hypothesis Tests

For the same reasons as in Study 1, we employed SEM to assess the magnitude and significance of the six indirect effects of interest. Furthermore, as in Study 1, we included the same covariates and the Garen (1984) correction factors when testing our study hypotheses. Study 2, however, only includes customers that were identified as high priority and thus might be subject to sample selection bias (Verhoef 2003). To control for this type of bias, we also employed the Heckman (1976) correction procedure. We first used available data for a random set of customers, which included prioritized customers (responders and nonresponders of our study) and nonprioritized customers, to run a probit model for each supplier in which we regressed the customer selection decision (selected for prioritization = 1, not selected for prioritization = 0) on covariates explaining the selection decision (i.e., previous sales, customer firm size, and customer–supplier relationship duration). We then used the probit estimates to calculate the Heckman correction factor or inverse Mills ratio by dividing the probability density function by the cumulative distribution function of the standard normal distribution. Finally, we included the inverse Mills ratio as an additional predictor of our response variables (gratitude and entitlement) in the SEM to evaluate the impact of the three prioritization tactics on profit growth beyond any potential selection bias effects.

Test of indirect effect hypotheses. We evaluated our indirect effects hypotheses using the same procedures as in Study 1. The global fit indexes indicate that the proposed model offers a good fit to the data (χ^2/d.f. = 1.60, $p < .01$; CFI = .94; SRMR = .05). Consistent with H_{1a-c}, we found that core benefit provision ($\gamma_{11}\beta_{31}\beta_{53} = .12, p < .01, H_{1a}$), preferential treatment ($\gamma_{12}\beta_{31}\beta_{53} = .14, p < .01, H_{1b}$), and status elevation ($\gamma_{13}\beta_{31}\beta_{53} = .09, p < .01, H_{1c}$) have a significant, positive indirect effect on profit growth that is first mediated by gratitude and subsequently by sales growth. Again, we reject H_{2a} because core benefit provision did not exert a significant negative indirect effect on profit growth ($\gamma_{21}\beta_{42}\beta_{54} = -.01, p > .05$). Consistent with H_{2b-c}, we found that preferential treatment ($\gamma_{22}\beta_{42}\beta_{54} = -.05, p < .05, H_{2b}$) and status elevation ($\gamma_{23}\beta_{42}\beta_{54} = -.08, p < .01, H_{2c}$) have a significant, negative indirect effect on profit growth that is

mediated first by customer entitlement and subsequently by service cost growth. Finally, none of the three tactics had a significant direct effect on profit growth ($\gamma_{51} = .06, p > .05; \gamma_{52} = .02, p > .05; \gamma_{53} = -.09, p > .05$), which indicates that prioritization tactics' profit impact is fully mediated (Zhao, Lynch, and Chen 2010). Table 3 summarizes the results of the indirect effects analysis, and Figure 2 reports constituent path estimates and R-square values for model constructs.

Test of the relative indirect effect hypothesis. We repeated the steps described in Study 1 to evaluate whether the ratio of each tactic's negative and positive indirect effect on profit growth differs. The results do not support H_{3a} and H_{3c}, because RIE_{SE} was not significantly higher than RIE_{PT} ($RIE_{SE} = 47\%, RIE_{PT} = 26\%; \Delta\chi^2(1) = 1.40, p > .05$), and RIE_{PT} was not significantly higher than RIE_{CB} ($RIE_{PT} = 26\%, RIE_{CB} = 8\%; \Delta\chi^2(1) = 1.34, p > .05$). We found support for H_{3b} in that RIE_{SE} was significantly higher than RIE_{CB} ($RIE_{SE} = 47\%, RIE_{CB} = 8\%; \Delta\chi^2(1) = 5.05, p < .05$).

Test of the moderated relative indirect effect hypotheses. The remaining hypotheses (H_4–H_6) required that we test whether the prioritization tactics' relative indirect effects differed across moderating conditions. As Preacher and Hayes (2008) indicate, there is no established approach for doing so. For our study, the selected approach had to fulfill two basic requirements. First, it had to allow us to assess the moderators' impact along two chains of effects that include multiple mediators. Second, it had to allow us to determine whether the moderators significantly altered the ratio of the competing prioritization tactics' indirect effects on the outcome variable rather than simply altering the magnitude of each indirect effect in isolation. Whereas multigroup analysis, path analysis, and interaction analysis can be used to fulfill the first requirement (Edwards and Lambert 2007), only multigroup procedures fulfill the second requirement (Homburg, Grozdanovic, and Klarmann 2007). Consequently, we used multigroup SEM to test the proposed conditional relative indirect effect hypotheses (Hayes 2009; Iacobucci, Saldanha, and Deng 2007). To do so, we performed median splits to create high versus low subsamples for the competitive intensity and dyadic tenure moderators (which was not necessary for the already binary "prioritization transparency" moderator).

We then extended the analytical procedures outlined in Equation 1 to evaluate the conditional relative indirect effect hypotheses. We illustrate the procedure for H_4, which posits that the ratio of core benefit provision's negative indirect effect on profit growth to its positive indirect effect decreases as dyadic tenure increases. We began our analysis by estimating an unconstrained multigroup model using the two subsamples, low versus high dyadic tenure. As in Equation 1 (but considering different moderator values for the same tactic), we then estimated the ratio of core benefit provision's indirect negative effect on profit growth and the sum of its indirect negative and indirect positive effect (RIE_{CB}) for the low and high dyadic tenure subsamples separately. Formally:

$$(2) \quad \text{RIE}_{\text{CB},c} = \frac{|\gamma_{c,21}\beta_{c,42}\beta_{c,54}|}{|\gamma_{c,21}\beta_{c,42}\beta_{c,54}| + |\gamma_{c,11}\beta_{c,31}\beta_{c,53}|} \times 100\%,$$

where c stands for the value of the moderator such that 1 = low value and 2 = high value. To test whether the relative indirect effect was statistically different across moderator subsamples, we estimated a multigroup SEM model with $\text{RIE}_{\text{CB},c}$ constrained to be equal across both subsamples. Using chi-square values, we compared the fit of this model with that of the unconstrained model and interpreted a significant chi-square difference test (with one degree of freedom) as offering support for the moderation hypothesis. We found no significant difference between the low and high dyadic tenure conditions ($\text{RIE}_{\text{CB},1} = 34\%$, $\text{RIE}_{\text{CB},2} = 5\%$; $\Delta\chi^2_{(1)} = .58$, $p > .05$) and thus concluded that the data do not support H_4. Using the same procedures, we found that the data support H_5 because the ratio of preferential treatment's negative versus positive indirect effect on profit growth is higher when competitive intensity is high than when it is low ($\text{RIE}_{\text{PT},1} = 6\%$, $\text{RIE}_{\text{PT},2} = 44\%$; $\Delta\chi^2_{(1)} = 4.23$, $p < .05$). Likewise, in support of H_6, the results indicated that the ratio of status elevation's negative versus positive indirect effect on profit growth is higher when prioritization transparency is high than when it is low ($\text{RIE}_{\text{SE},1} = 20\%$, $\text{RIE}_{\text{SE},2} = 72\%$; $\Delta\chi^2_{(1)} = 6.91$, $p < .01$). Table 4 summarizes these results as well as those for nonhypothesized moderation effects, none of which were significant ($p > .10$).

Rival model performance. We compared the fit of our model with the same rival model as in Study 1. The results mirror those of Study 1, thus offering support for the robustness of our findings.

Discussion of Study 2 Findings

Study 2 offers support for the generalizability of our findings by replicating Study 1 results in a different context. The results are consistent with prior research in that they indicate that customer prioritization does have desirable effects; that is, all three of the prioritization tactics enhance profit growth by increasing sales over time as a result of gratitude-driven customer behaviors. However, the results also reveal that customer prioritization has undesired consequences: both preferential treatment and status elevation increase entitlement, undermining profit growth by increasing the costs incurred to service customers. The findings also support our expectation that symbolic tactics that emphasize hierarchical differences between customers (e.g., status elevation) contribute relatively more to entitlement than gratitude when compared with tactics that provide more concrete benefits (e.g., core benefit provision).

To develop a clearer understanding of the profit implications of the two competing processes, we estimated the bootstrapped total indirect effects (i.e., the sum of each tactic's desirable and undesirable indirect effect on profit growth). Core benefit provision and preferential treatment have significant positive total indirect effects on profit growth ($\beta = .10$, $p < .01$, and $\beta = .09$, $p < .05$, respectively). The total indirect effect of status elevation on profit growth approximates zero ($\beta = .01$, $p > .05$). These results seem to indicate that customer prioritization's desirable effects prevail. However, these effects change remarkably when we consider the impact of moderators. Specifically, preferential treatment's total indirect effect on profit growth is positive and significant when competitive intensity is low ($\beta = .17$, $p < .01$), but it is nonsignificant when competitive intensity is high ($\beta = .02$, $p > .05$). Finally, the results indicate that status elevation's total indirect effect on profit growth is positive and significant when prioritization transparency is low ($\beta = .15$, $p < .05$) and negative and significant when it is high ($\beta = -.11$, $p < .05$). Thus, depending on context, prioritization tactics may have positive, negative, or negligible effects on customer profit growth.

General Discussion

Although previous researchers have devoted substantial effort to understanding the desirable effects of customer prioritization initiatives, their potential undesired consequences remained unexplored. In addressing this important oversight, we find across two studies that prioritization programs' profit-reducing effects temper their profit-enhancing effects. We also find that the extent to which this phenomenon occurs depends on the prioritization tactics employed and contextual factors. These findings have important implications for theory and practice, which we discuss next.

Theoretical Implications

Undesirable customer behaviors undermine prioritization programs' profit-generating potential. To the best of our knowledge, our research is the first to consider prioritization programs' counterbalancing effects on prioritized customers' profitability. In so doing, this study reaffirms customer gratitude's role as an important motivator of "bright side" customer behaviors, a role suggested by SET's well-accepted reciprocity norm (Palmatier et al. 2009). In addition, we introduce SET's rank equilibrium norm to the marketing literature and build on its precepts to theoretically justify customer entitlement's role as a mediator of prioritization's "dark side" effects on customer profitability. We find that prioritization can induce customers to engage in entitled behaviors that lead them to demand more for less from their suppliers, which reduces profit growth by increasing service cost growth. This finding offers a theoretical explanation for the hitherto unexplained variance in prioritized customers' revenue-to-service-cost ratios (Shin, Sudhir, and Yoon 2012). Overall, our research suggests that studies involving the financial consequences of prioritized relationship investments might fruitfully consider the role of customer entitlement and its underlying rank equilibrium norm.

The ratio of negative and positive indirect effects on profit growth differs across prioritization tactics. We extend prior research by comparing the ratio of distinct prioritization tactics' negative and positive indirect effects on profit growth. Our findings reveal that core benefit provision has a positive indirect effect on profit growth (through gratitude and sales growth), whereas its negative indirect effect (through entitlement and service cost growth) is negligible.

TABLE 4
Results of the Moderation Analyses

Independent Variable	Moderator Dyadic Tenure				Moderator Competitive Intensity				Moderator Prioritization Transparency			
	Hypothesis	Low	High	$\Delta\chi^2$ (d.f.)	Hypothesis	Low	High	$\Delta\chi^2$ (d.f.)	Hypothesis	Low	High	$\Delta\chi^2$ (d.f.)
Core benefit provision	H_4	$\frac{.02}{.02+.04}=34\%$	$\frac{.01}{.01+.21}=5\%$	.58 (1)	—	$\frac{.05}{.05+.13}=28\%$	$\frac{.01}{.01+.09}=10\%$	2.69 (1)	—	$\frac{.02}{.02+.08}=20\%$	$\frac{.02}{.02+.15}=12\%$	.65 (1)
Preferential treatment	—	$\frac{.04}{.04+.09}=31\%$	$\frac{.05}{.05+.18}=22\%$	.24 (1)	H_5	$\frac{.01}{.01+.16}=6\%$	$\frac{.07}{.07+.09}=44\%$	4.23 (1)*	—	$\frac{.05}{.05+.15}=25\%$	$\frac{.07}{.07+.12}=37\%$	.28 (1)
Status elevation	—	$\frac{.08}{.08+.05}=62\%$	$\frac{.06}{.06+.08}=43\%$	.37 (1)	—	$\frac{.09}{.09+.05}=64\%$	$\frac{.08}{.08+.11}=42\%$	.67 (1)	H_6	$\frac{.05}{.05+.20}=20\%$	$\frac{.18}{.18+.07}=72\%$	6.91 (1)**

*$p < .05$.
**$p < .01$.
Notes: Results presented in italics identify nonhypothesized relative moderation effects.

However, we also find that preferential treatment and status elevation can have detrimental effects on profit growth because both trigger a negative indirect effect on profit growth that undermines their positive indirect effect; status elevation does so to a greater degree than preferential treatment. These findings indicate that the more symbolic benefits a tactic offers, the higher its profit-undermining potential. We attribute this finding to the notion that symbolic tactics send a strong signal to customers that they hold a distinguished position in the customer hierarchy (Barone and Roy 2010), and such information is a critical driver of entitlement. Thus, our findings suggest that researchers should discriminate between tactic types, rather than focusing on one tactic or commingling tactics, to understand prioritization's profit impact adequately.

The ratio of prioritization tactics' negative and positive indirect effects on profit growth varies across contexts. Our study offers insight into how moderators alter the ratio of prioritization tactics' negative versus positive indirect effect on profit growth, thus identifying conditions under which certain prioritization tactics are more or less likely to threaten customer profitability. Our findings reveal that returns from core benefit provision are positive regardless of moderating conditions because its positive indirect effect from gratitude largely determines its total indirect effect on profit growth. Furthermore, the results suggest that preferential treatment's negative indirect effect is dominated by its positive indirect effect on profit growth when competitive intensity is low, but the effects offset each other when competitive intensity is high. Finally, status elevation's negative indirect effect is dominated by its positive indirect effect when prioritization transparency is low. When it is high, however, its negative indirect effect prevails. Thus, under unfavorable conditions (high competitive intensity and transparent prioritization), prioritization efforts may be the perfect recipe for undermining profit growth from the firm's most important customers.

These findings challenge conventional thinking about prioritization tactics in two ways. Counter to the belief that preferential treatment is critical to realizing competitive advantages (Lacey, Suh, and Morgan 2007), our results suggest that when competition for customers' business is intense, preferential treatment may not contribute to profit growth. Furthermore, common wisdom suggests that prioritization transparency is desirable because it can help induce desirable customer responses by offering a clear connection between customers' behaviors and the benefits suppliers confer on them. Our results indicate that prioritization transparency may actually be detrimental to account profit growth because it seems to motivate customers to become overly demanding in response to the elevated status they have "earned."

Managerial Implications

For managers, our study results highlight the challenges associated with developing profitable prioritization programs. Broadly speaking, our results suggest that the success of prioritization programs depends on managers' ability to minimize entitlement-driven customer behaviors while maximizing the programs' impact on gratitude-driven customer behaviors through a careful selection of tactics depending on context and underlying goals. To this end, our results reveal that across conditions, managers would be well advised to make concrete tactics (e.g., core benefit provision) the focus of their prioritization efforts because doing so seems to strongly encourage grateful behaviors without priming entitled behaviors.

Furthermore, our findings reveal that the ratio of status elevation's negative and positive indirect effects on profit growth is larger than preferential treatment's ratio. Thus, managers should favor the latter over the former when the provision of symbolic benefits is part of the prioritization program. Preferential treatment, however, is not universally effective. Our results suggest that preferential treatments' total indirect effect on profit growth dissipates in highly competitive contexts. Therefore, when profit growth is the goal, firms should focus preferential treatment on customers who are not heavily pursued by competitors. For those that are the object of substantial competitor attention, preferential treatment should only be used to defend the relationship while sacrificing profitability (Lacey, Suh, and Morgan 2007).

Finally, our results suggest that purely symbolic tactics such as status elevation must be managed the most carefully. They are certainly meaningful when the goal is to prevent a particular customer from defecting (Drèze and Nunes 2009). However, when the desired outcome is profit growth, managers should be aware that status elevation is likely to trigger profit-undermining entitlement. Importantly, our results suggest that status elevation's positive indirect effect on profit growth is fully dominated by its negative indirect effect when firms are open about the prioritization scheme they employ. Given the widespread popularity of customer loyalty programs, which transparently and formally link status to customers' purchase history, these results counter many firms' intuitive beliefs that openly sharing their prioritization scheme encourages favorable customer behaviors. Rather, we suggest that managers treat details of their prioritization scheme as confidential and not share them with customers.

Avenues for Further Research

Our study suggests several avenues for further research. First, our choice of competing mediators enabled us to advance a robust theoretical model for explaining why prioritization triggers both desired and undesired financial outcomes. Our finding that prioritization tactics' profit impact is fully mediated by gratitude and entitlement supports the juxtaposition of these two constructs because it indicates that they are meaningful counterparts that counterbalance each other's effects (Rucker et al. 2011). This finding is also consistent with recent research suggesting that gratitude is a more important "bright side" mediator than commitment and other relational variables, especially as it relates to behavioral outcomes (Palmatier, Dant, and Grewal 2007; Palmatier et al. 2009). Nonetheless, our finding of full mediation through gratitude and entitlement does not justify neglecting other theoretically important mediators. Recent

research (Rucker et al. 2011; Zhao, Lynch, and Chen 2010) has noted that a nonsignificant direct effect of tactics on profit growth might indicate that other well-known bright side mediators, such as commitment, may offer additional explanatory value (Morgan and Hunt 1994) that is suppressed by other unknown dark side mediators (netting an insignificant direct effect). It would thus be fruitful for future studies to consider mediators beyond gratitude and entitlement with the goal of developing an integrated framework that includes "traditional" bright side mediators, such as trust and commitment, and "novel" dark side mediators.

Second, the providers in our study used all three prioritization tactics simultaneously, which enabled us to assess the concurrent effects of different tactics and how they behave relative to one another. Further research could examine whether specific tactic combinations yield incremental benefits under different conditions (Henderson, Beck, and Palmatier 2011). Third, our study data did not allow us to consider the costs associated with each tactic's implementation and usage. Considering such costs could offer valuable insight regarding each tactic's cost–benefit ratio. Finally, we focus on B2B markets. In business-to-consumer (B2C) markets, prioritization is spread across a more anonymous customer base. Thus, B2C customers provided with symbolic benefits might be more likely to respond with gratitude for being recognized as individuals and less likely to feel entitled, because they have limited market power. Thus, it could be promising to compare the relative magnitude of the competing paths initiated by prioritization tactics across B2B and B2C markets.

APPENDIX A
Measurement Items

Scale	Loadings	
	Study 1	Study 2
Core Benefit Provision (Adapted from Tuli, Kohli, and Bharadwaj 2007)		
[Supplier X] aligns products to our needs.	.54	.85
[Supplier X] offers our firm valuable market know-how.	.96	.90
[Supplier X] offers our firm excellent price deals.	.94	.72
[Supplier X]'s sales person(s) suggest(s) products and services that best solve our problems.	.61	.78
Preferential Treatment (Adapted from De Wulf, Odekerken-Schröder, and Iacobucci 2001; Lacey, Suh, and Morgan 2007)		
We feel that [Supplier X] gives our firm better treatment than most customers get.	.85	.89
We feel that [Supplier X] gives our firm faster service than most customers get.	.96	.90
We feel that [Supplier X] does things for our firm that it doesn't do for most other customers.	.93	.79
Status Elevation (Adapted from Drèze and Nunes 2009)		
We believe that our firm has a high standing as a customer of [Supplier X].	.85	.86
We believe that [Supplier X] appreciates us as a customer more than most of its other customers.	.74	.93
We believe that we are a very important customer of [Supplier X].	.76	.72
Customer Gratitude (Adapted from Palmatier et al. 2009)		
[Supplier X] receive opportunities to earn additional business from our firm as payback for their past efforts.	.81	.86
We do business with [Supplier X] because we feel gratitude for the extra effort they put into dealing with our firm.	.84	.91
We give more business to [Supplier X] because we owe it to them.	.87	.82
Customer Entitlement (Adapted from Campbell et al. 2004)		
We claim significant effort from [Supplier X] because we deserve it.	.91	.78
We demand the best possible level of service from [Supplier X] because we feel we are entitled to it.	.93	.77
We demand the best from [Supplier X] because we are worth it.	.91	.73

Appendix B: Additional Tests to Account for the Effects of Data Pooling

We pooled data from customers serviced by two competing suppliers in the same national market and employed a matching procedure to ensure that sample idiosyncrasies did not unduly influence study results. To assess further whether differences between the two companies influenced our findings, we specified and tested the proposed structural model using data provided by nonprioritized customers from both firms (we did not use these data to test the other models considered in the study). Specifically, we also surveyed nonprioritized customers of both suppliers and received usable answers from 156 (135) customers of Supplier 1 (2). We then specified and tested the proposed structural model using the SEM multigroup procedure, using data from each supplier for each subgroup. Using nested model comparisons, we tested for differences in the structural path estimates across the two companies. This analysis revealed no significant differences ($p > .10$) in the structural model coefficients across the groups. From these results, we conclude that company-specific factors are unlikely to have influenced the results of our study, particularly those regarding the moderating role of prioritization transparency.

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