

Go for the gold (or silver): Status tiers promote loyalty

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How special does that gold card offered by a hotel or airline make you feel? A new study in the *Journal of Consumer Research* explores the connection between status and loyalty.

Many businesses create loyalty programs to confer a sense of status to their customers. Examples are platinum, gold, and silver charge cards, or red and blue membership levels. The study provides insight for planning programs that enhance consumers' perception of status.

Authors Xavier Drèze (University of Pennsylvania) and Joseph C. Nunes (University of Southern California) studied the limits of customer loyalty, testing how far an organization can go in adding status levels to a loyalty program before customers feel they are not so special anymore.

The authors tested a variety of options for expanding loyalty programs. In six separate studies, they added tiers and people to customer loyalty programs in varying combinations to determine how people would feel if an organization added people to a top-tier program. They asked respondents how they felt when they added more tiers on top of them (platinum on top of gold), or added more tiers below them.

"We find that increasing the number of elites in the top tier dilutes their perception of status, but adding a subordinate elite tier enhances their perceptions of status," write the authors. "Thus, if the firm creates a larger top tier while adding a second status tier rather than persisting with a single small top tier, it can recognize more customers without

decreasing the perceptions of status among its most elite." In other words, being in the gold level is more special if there is a silver level below.

"A possible drawback a firm always confronts when providing preferential treatment to an elite few is whether it might disenfranchise the masses. Our study shows this concern to be unfounded. We find that given the choice between alternative firms, respondents favor companies that offer elite programs even when it is clear they would not qualify for the lowest elite tiers. In other words, those at the bottom of the pyramid do not begrudge the success of those at the top," the authors conclude.

More info: Xavier Drèze and Joseph C. Nunes. "Feeling Superior: The Impact of Loyalty Program Structure on Consumers' Perceptions of Status." *Journal of Consumer Research*: April 2009.

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