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Feeling Superior: The Impact of Loyalty Program Structure on Customers' Perceptions of Status

Joseph C. Nunes and Xavier Drèze

How can a firm make more customers feel special—without diluting the elite status of its best customers? This study investigates the tradeoff and offers some solutions.

Report Summary

Companies are increasingly using loyalty programs to retain customers. They group customers into distinct classes based on their purchase history, creating status hierarchies in which customers who are more loyal receive different and better experiences. They enable customers to exhibit their status via priority lines, special luggage tags, and lounges or other spaces for premier customers. The tradeoff facing any company that stratifies its customers in this way is between the number of customers it makes elite and the customers' perception of status.

The authors focus on assessing the impact of different hierarchical structures on perceptions of status. They define status as a person's rank on a socially relevant and recognized dimension; status motivates human behavior because people are prone to compare themselves with others. Their research focuses on two basic characteristics: (1) the number of tiers and (2) the relative size of each tier, and investigates the impact of different and changing structures.

From a managerial perspective, the authors shed light on the number of tiers a loyalty program should include and the impact of changes to its structure. A three-tier program (for example, gold, silver, and no status) is more satisfying to all involved than a two-tier program (gold and no status). They show that the size of the gold tier can be increased without affecting the status perceptions of those in the top tier by adding a silver tier. Thus, a firm can increase the total number of customers it recognizes in a loyalty program in two ways: by expanding the top tier and adding a second tier. In addition, the evidence suggests that adding a third elite tier benefits perceptions of status for those in the second tier, while not affecting those in the top tier. ■

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Introduction

Status in the broadest sense is defined as one's position in society. More specifically, a person with status possesses a high ranking that is socially recognized and typically carries prestige, power, or entitlement. Status matters because the need to compare one's self with others is so pervasive and often occurs whether or not individuals intend to do so (Gilbert, Giesler, and Morris 1995) and without their being aware of what they are doing (Stapel and Blanton 2004). Extensive prior research has shown that people compare themselves to someone who is either better off (upward comparison) or worse off (downward comparison), and that everyone engages in both at different times (Wood 1996). Such comparisons have an impact on people's evaluations of their satisfaction with life and are important when determining subjective well-being (Diener 1984). Not surprising, people feel better when they perceive themselves to be superior, as opposed to inferior, to others (Giordano, Wood, and Michela 2000; Locke and Nekich 2000).

Status structures, or hierarchies, are "patterned inequalities" among a group of people (Ridgeway and Walker 1995). Social status is only one type of status hierarchy. Corporate titles and military ranks also proscribe one's status in a hierarchy. Our research studies the status that firms bestow on customers within the hierarchies created in the firms' loyalty programs. Firms are increasingly segregating customers based on their level of commitment (spending) by creating well-defined classes (tiers) that help patrons identify what benefits—both tangible and intangible—they are entitled to as ordinary or extraordinary purchasers. Once the exclusive domain of the airlines, such "status programs" now exist in hotel chains (e.g., Starwood), casinos (e.g., Harrah's), cruise lines (e.g., Regent), spas (e.g., Spa Chakra), and even shoe stores (e.g., Famous Footwear). The result is what *BusinessWeek* has called "a whole new stratification of consumer society" with higher tiers enjoying unprecedented levels of personal attention (Brady 2000). Our interest lies in understanding how the hierarchical structure, created and put into place by firms that utilize these types of programs, has an impact on people's sense of status or standing within the program.

Compare Famous Footwear, which has only one elite tier (Gold), with most hotels that have at least three tiers (e.g., Marriott Rewards offers Silver, Gold, and Platinum) or Regent Cruise Line, which has five tiers (Bronze, Silver, Gold, Platinum, and Titanium). While myriad factors will determine what hierarchical structure is optimal for any individual firm, our focus is on two basic characteristics that affect subjective impressions of status: (1) the number of tiers and (2) the relative size of each tier in terms of its percentage of total customers. These characteristics warrant our attention as they constitute the critical determinants in the tradeoff encountered when marketers decide how many customers to bestow with status. On the one hand, a firm can make more customers feel special by adding elite tiers and/or increasing the size of any or all of the tiers. On the other hand, expanding the pool of elites can dilute the subjective perceptions of status among those customers who would qualify for status in a more restrictive scenario. Consider, for example, how Famous Footwear's Gold members' sense of status might change if their number were doubled, or if a Silver tier were added.

Further, we explore how top-tier customers (e.g., Gold) feel when a superordinate tier (e.g., Platinum) is introduced above them. This is what happened when United reportedly invited some 18,000 high-revenue Mileage Plus fliers to be Global Service members, relegating its formerly top-tier 1K fliers to de facto second-class status (Elliott 2007). Understanding the nature of the hierarchy and how changes to it affect consumers' perceptions of status is critical to firms like Virgin Blue airlines, which introduced status tiers into its loyalty program (Red, Silver, and Gold) in August 2007, and Southwest Airlines, which introduced an "A-List" group in October 2007. The influence of tier size and number is also interesting theoretically as it presents a new mechanism through which social comparison operates.

The remainder of this paper is organized as follows. We summarize the recent research on loyalty programs before turning to relevant work on social comparison as it pertains to status. Study 1 comprises three parts. Part I reveals that those in the top elite tier feel they have more status when there is a second elite tier separating them from the masses. Part II shows how the size of the second tier affects status perceptions for those in the top tier, while the inclusion of a third elite tier does not. Part III illustrates how a firm can increase the number of top-tier members without diluting their sense of status by simultaneously adding a second, subordinate elite tier. In Study 1, we provide respondents with both symbolic (e.g., Gold and Silver) and numeric (e.g., 5% and 15%) labels that indicate the relative exclusivity of each tier. In Study 2, we show that providing percentages is not necessary to achieve the results of Study 1. We reproduce the results using non-numeric status-laden labels.

In Study 3, we shift our attention to lower tiers. The results suggest that consumers focus first on where they stand relative to those above them and look below only if they are too low on the totem pole. In Study 4, we investigate the impact of the addition and deletion of tiers. Consistent with earlier results, we find that the presence of a subordinate tier after a change can help soften the impact of inserting a superordinate tier. We conclude by discussing managerial implications that emerge from our work, pointing out some of its limitations and suggesting fruitful avenues for future research.

Loyalty Programs, Status, and Social Comparison

One purpose of loyalty programs is to reward repeat purchases. An abundance of research looks at the structure of loyalty programs. This research has concentrated on two components that have an impact on consumers' psychological response: the purchases required and the nature of the contingent reward. Numerous studies have investigated the impact of the perceived effort required to earn a reward (Kivetz and Simonson 2003; Nunes and Drèze 2006), the nature of the rewards offered (Roehm, Pullins, and Roehm 2002; Kivetz and Simonson 2002), distribution frequency of rewards (Drèze and Nunes 2007), and the qualities of the alternative currency utilized (Hsee et al. 2003). But many loyalty programs involve more than simple payoffs to customers who make multiple purchases; they are designed to provide special benefits to the firm's best customers.

Practitioners (Uddin 2001; Gaughan and Ferguson 2005) have divided the benefits of loyalty programs for consumers into two broad classes: hard benefits (rewards) and soft benefits (recognition). Soft benefits include special privileges, individually tailored communications, and, most important for our purposes, making the firm's best customers feel special—a sense of elevated status. Consider Centura Banks Inc. of Raleigh, N.C., which divides its 2 million customers into five classes according to profitability. The company's CEO calls highly profitable customers to wish them happy holidays (Brady 2000). No research of which we are aware has explored how status, or status programs within loyalty programs, have an impact on customers' feelings of prestige and superiority.

Status programs divide or stratify specific groups of customers into different tiers based on their purchase behavior, creating a hierarchical structure dictating what benefits each tier of customers receives. For example, United

Airlines has five classes of frequent fliers, including four elite tiers labeled Premier, Premier Executive, 1K, and Global Services. Each group is entitled to unique benefits that either are exclusive from or exceed those granted to consumers in lower tiers. Lacey, Suh, and Morgan (2007) have shown that higher levels of preferential treatment in terms of hard benefits can result in an increase in future purchases. This includes, for example, earning miles at accelerated rates, restricted check-in counters, priority on wait lists, and discounts on a Red Carpet Club membership. Such material benefits are accompanied by soft benefits such as United's telephone operators beginning each call with 1K members by thanking them for their loyalty, which is intended to make the airline's more valuable customers feel special.

Status bestowed on a firm's best customers is comparable to what is known among social psychologists as *achieved* status, because it comes as the result of effort. This differs from notions of *endowed* status, such as hereditary titles, or *face-to-face* status, which includes the status that accompanies race, gender, and other characteristics beyond the individual's control. In the context of a loyalty program, achieved status is a purely ordinal characteristic. Notions of achievement and order are important because finding oneself in a higher tier (Gold) versus a lower tier (Silver) is unambiguous regarding rank—a higher tier is objectively superior in terms of status.

The order of tiers allows us to view consumers' perceptions of status through the lens of social comparison theory. In his seminal article on the topic, Festinger (1954) proposed that people have a drive to evaluate their abilities through comparisons with others. Wood (1996) defines social comparison more generally as "the process of thinking about information about one or more people in relation to the self." People often make social comparisons because such comparisons are forced on them by circumstances (Wheeler and Miyake 1992; Wood 1989); and while this is certainly the case with many loyalty programs—as airline passengers queue according to their status and certain areas of casinos are off limits to non-elites—people often make deliberate comparisons to see where they stand (self-evaluation) and make themselves feel better (self-enhancement).

Status comparisons, like other forms of social comparison, can involve a target that is above the self (upward comparison) or below (downward comparison). We focus first on consumers in the top tier for whom there is only one way to look—down. In general, downward comparison is believed to enhance one's subjective well-being. People want to believe that they are better than others (Taylor and Brown 1988), and comparisons with less privileged others can enhance their self-appraisal and self-esteem (Wills 1981; Giordano, Wood, and Michela 2001; Locke and Nekich 2000; Olson and Evans 1999). According to social identity theory (Tajfel and Turner 1979), social comparisons between low- and high-status groups should yield favorable outcomes for high-status groups.

However, when those customers who are in the top tier of a loyalty program look down, different hierarchical structures determine exactly what they see, differentially affecting their self-evaluation (what it means to be at the top) and the degree of self-enhancement (perceptions of how high they rank). Two important features of the hierarchy will have an impact on how special elite customers feel and, in turn, their sense of status. The first is the exclusiveness of their group, which can be facilitated by dividing an overly inclusive category (elites) into more exclusive subgroups (tiers of elites). The second is the size of the subgroup to which the customer belongs: the smaller, the more distinctive (Pickett, Silver, and Brewer 2002). The notion that exclusivity can enhance an individual's sense of status drives our first formal hypothesis.

H0: The fewer people granted elite status, the more superior these people will feel.

It is important to point out that social status and group size can be independent (Brewer, Manzi, and Shaw 1993). In different contexts, membership in the majority or minority equates to power and status. However, in the domain of loyalty programs, we predict that perceptions of status will increase as the group size, or number of elites, decreases. For elite consumers, however, their perception of status is expected to be affected by comparisons to other elites, as self-evaluation is facilitated by comparisons with people whose abilities are similar (Wood 1989). Being ranked above other elites is different from being above the masses. Consequently, we expect the presence of a second elite tier to benefit those at the top by further clarifying their position and making them feel a greater sense of superiority. Tesser's self-evaluation maintenance (SEM) model helps us understand how the perceived closeness of those with whom we compare ourselves influences our reactions (Tesser 1988; McFarland, Buehler, and MacKay 2001). The model predicts that a contrast effect will occur when individuals engage in social comparison with individuals who are close or similar to them on an important dimension, or what Zanna, Goethals, and Hill (1975) call "related attribute similarity." In other words, we expect that when a downward social comparison is made with other consumers who are deemed to be similarly loyal patrons, self-enhancement is more likely to occur. This leads to Hypothesis 1a.

H1a: A second elite tier will elevate perceptions of status among consumers in the top tier.

Work by Lockwood (2002) suggests that the presence of a second elite tier may have other benefits as well. He argued that when one considers one's situation relative to that of an inferior other, one may either delight in one's superiority or feel alarmed at the prospect of falling prey to a similarly unhappy fate. A second elite tier may appear as a safety net for those at the top; even if their purchases wane, they can still remain elite. While this may make the program more attractive overall, we would not expect it to affect how special someone in the top tier feels.

For those in the top tier to consider those in the second tier as similar, there must be some commonality with respect to their achieved state (Ashmore, Deaux, and McLaughlin-Volpe 2004). In other words, the purchase behavior of those in the second tier cannot vary too widely from those at the top in order to have consumers in the second tier regarded as similar. As the second tier becomes more and more inclusive (i.e., larger), it naturally admits those who are less and less similar to those at the top. Accordingly, we expect that a second tier that is too large will diminish the perceived similarity between its members and members in the top tier. Consequently, it will fail to make those at the top feel any more special. This leads to Hypothesis 1b, which proposes tier size as a moderator for the status effect proposed in Hypothesis 1a.

H1b: The smaller the size of the second tier, the greater the perception of status among consumers in the top tier.

Pragmatically speaking, H0 implies that status and the attendant feelings of superiority would decrease as the number of customers in the top tier increases. However, as H1a and H1b suggest, feelings of superiority among those at the top can increase as the overall number of elites is increased, conditional on the new elites being categorized differently and their subordinate group not being too large. These opposing forces lead to two important implications tested explicitly in this research. The first is stated as follows:

I1: Firms can offset a dilution in perceptions of status accompanying a larger top tier by having a second elite tier.

It is counterintuitive to believe that a firm can increase the total number of customers with elite status without diminishing perceptions of status, particularly among its most elite. What we show is that a firm can do just that by increasing the size of the top tier while simultaneously adding even more elites in a separate, second tier. If the inclusion of a second tier shields those in the top tier from a horizontal threat to their status (i.e., expanding the top tier), we suspect it should aid in a vertical threat as well (i.e., adding ultra-elites in a new tier above what was previously the top tier). This leads to our second implication.

I2: Having a second, subordinate tier in place can offset a dilution in perceptions of status brought about by the introduction of a new superordinate tier.

To this point, we have argued that the presence of a second elite tier will enhance the perception of status among those above them. This is because second-tier customers are considered both similar and subordinate to consumers in the top tier. However, less active customers in lower tiers, while subordinate, are unlikely to be viewed as similar. And it is more informative to gauge one's standing relative to similar others than dissimilar others (Miller 1984). Additionally, comparisons with dissimilar others have been shown to have little effect on self-evaluation or behavior (Wood 1989). Therefore, we expect the sense of status among those at the top to be unaffected by lower tiers with whom they have little in common. We state this more formally as Hypothesis 2.

H2: The presence of additional tiers below a second elite tier will not have an impact on the perception of status among those consumers in the top tier.

In a number of our studies, we assess the impact of tier size by providing explicit information regarding the percentages of customers in each tier. These percentages are not known by consumers participating in most loyalty programs. Rank is usually conveyed by using labels that are recognized as corresponding to increasingly selective standards (e.g., Silver, Gold, and Platinum member). It is widely known that colors can be imbued with meaning that can evoke a variety of responses. For example, Bottomley and Doyle (2006) demonstrated how colors can be congruent and thus complement a brand's desired image and positioning. Similarly, we believe color can convey valuable information about rank and therefore status. Bronze, Silver, Gold, and Platinum represent increasing levels of rarity due to their relationship with precious metals. In Roman times, gold and silver coins were the most valuable and were issued by the emperor, with bronze coins minted by the Senate. In modern history, the custom of gold, silver, and bronze for the first three places at the Olympics dates back to 1904 and has been adopted by numerous other competitions. Therefore, we predict that:

H3: Consumers derive information about the structure of the hierarchy from status-laden labels.

To this point we have concerned ourselves with perceptions of status among only those at the top. Next we explore how those in the middle respond to different hierarchical structures. Our principle question of interest is whether these consumers tend to look up, look down, or look in both directions when formulating perceptions of status. A significant amount of work has examined the underlying motives when people opt to compare themselves with others who are above or below. Work by Medvec, Madey, and Gilovich (1995) finds Bronze medal winners at the Olympics appear happier than Silver medal winners, presumably because Silver medal winners look up (the counterfactual of missing the Gold), while Bronze medal winners look down (the counterfactual of not getting a medal at all). While Bronze medal winners may feel happier, we are confident that Silver medal winners would feel superior. The results of Study 3 support this belief.

In general, people are believed to look up for self-evaluative purposes and down for self-enhancing purposes, although recent research suggests upward comparisons can also be self-enhancing (Collins 1996). Numerous studies have attempted to determine which motive usually wins by exploring what people do more frequently. The general consensus is that people tend to compare themselves to those who are slightly better than themselves first (Wood 1989). However, if an upward comparison were to result in a threat to a person's esteem or sense of status, that individual can be expected to look downward in an attempt to enhance him- or herself (Wills 1981). This leads us to our next two hypotheses:

H4a: For those in the middle, perceptions of status depend primarily on the number of tiers above.

H4b: If the tiers above threaten one's perceived status, a consumer will look at the number of tiers below for status enhancement.

Hypotheses 4a and 4b address how consumers perceive different structures and respond to a perceived threat to their status. They do not address how consumers would respond to a change in the hierarchy, specifically the insertion of a superordinate tier. We expect that a consumer who enjoys top-tier status would be threatened by the introduction of a new tier above them. In response to this threat, we expect consumers to look down for reaffirmation of their status. This leads to our next hypothesis:

H5: When introducing a superordinate tier, adding or preserving a subordinate tier will lessen the negative impact of the introduction.

Taken together, our theorizing is intended to help explain how different hierarchical structures impact perceptions of status among consumers who participate in loyalty programs. The following studies were designed to test these hypotheses directly.

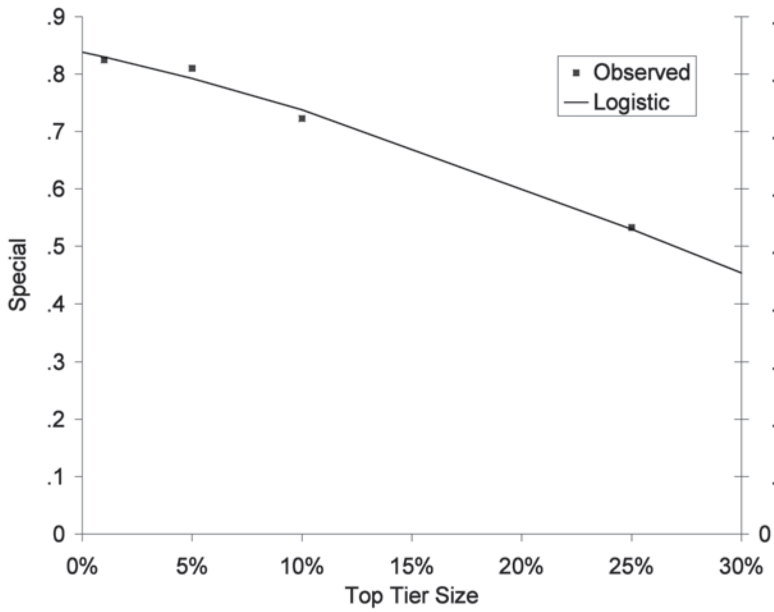
Pilot study

We conducted several pilot studies that validated H0 as well as guided the design of the studies included in this research. It is useful to describe briefly one such study and its results before going forward. We surveyed 548 undergraduate business students utilizing a loyalty program scenario similar to those in the studies subsequently reported here. Respondents were told that they were in the top 1% of customers in a fictitious loyalty program and therefore qualified as Premier Customers. They were then told that only 1% (or 5%, 10%, 25%) of all customers qualified for premier status. Respondents were asked to consider other options in terms of the percentage of elites and to indicate which percentages would or would not make them feel special. Logistic regression (see Figure 1) confirmed our expectation that the more exclusive the program, the greater the number of respondents who would feel special ($M_{1\%}$ = 82%, $M_{5\%}$ = 81%, $M_{10\%}$ = 72%, $M_{25\%}$ = 53%, β = –.061, χ^2 = 34.68, p < .01). These results support H0 in that the greater the number of elites (or less exclusive the group), the less status or special customers feel. In future studies, whenever specified, we describe the relative size of the top tier utilizing either 1% or 5%, as each made more than 80% of customers feel special, and a planned contrast indicated no statistically significant difference between them (χ^2 = .10, n.s.).

Study 1: A View from the Top

In this study, we explore consumers' reactions to different hierarchical structures, given that they are at the top of the hierarchy. In other words, we investigate how the number of tiers and the relative size of the tiers affect perceptions of status for those in the top tier. Study 1 comprises three parts. In each part, the basic

Figure 1
Pilot Study: Logistic Regression



scenario was the same. Respondents were told to imagine that they were customers of a firm that segregates its customers based on their spending history, and that they were "near the very top." They were also told that the firm placed them in "a class of customers recognized as Gold Customers." We utilized both a description of the tiers (Gold, Silver, Bronze, and nonstatus) and percentages describing the relative size of each tier in the hierarchy. We recognize that this is not common in practice, and future studies replicate key findings without providing percentages.

Part I: From elite to super-elite

Method. Participants in this study were 30 executive business students at a major university who completed the survey voluntarily. We utilized a single factor design that varied the number of tiers in the hierarchy. Respondents in the first condition were told that they were in the top 5% of all customers based on their spending history and thus were Gold members, while the remaining 95% of customers possessed no status (i.e., two tiers).[1] In the opposing condition, respondents also were told they were in the top 5% of all customers and thus were Gold members. However, they were told that a Silver tier existed with an additional 10% of customers (i.e., three tiers). It was made clear that the benefits awarded to Silver members did not impinge on the benefits afforded to Gold members.

Perceptions of status were measured using four different nine-point scales, intended to gauge members' perceptions. These measures included how special the program made them feel (not at all—very), the degree of status attained (low—high), how difficult it would be for others to earn similar status (not at all—very), and the disparity in attention they would expect relative to a nonstatus customer (none at all—a great deal). Together these measures were intended to describe how superior respondents would feel relative to other customers.

Results. First, in light of the high correlation between the four measures ($\alpha = .90$), we collapse them into a composite measure we call *superiority*. As expected, Gold members in the three-tier program reported feeling more superior than Gold members in the two-tier program ($M_{\text{Gold-Silver}} = 7.09$ vs. $M_{\text{Gold}} = 5.81$, $F = 27.7$, $p < .01$). The addition of a second elite group (Silver members) bolstered the feelings of superiority held by the top tier members (Gold), making them feel super-elite. These results support Hypothesis 1a.

Part II: Looking down, but not too far

Method. Participants in this study were 49 executive business students at a major university who completed the survey voluntarily. We utilized a 2 (number of tiers: three vs. four) x 2 (second-tier size: 5% vs. 10%) between-subjects design. Respondents were told they were in the top 1% of all customers, based on their spending history. To vary the size of the subordinate group, respondents were told that a Silver tier existed with either an additional 5% or an additional 10% of customers. Also, we varied the total number of elite tiers by including either a Bronze tier (an additional 25% of customers) or no tier. In summary, respondents were at the top of a hierarchy that included either three or four tiers, and right below them (the second tier) were either 5% or 10% of customers.

Results. As in Part I, given the high correlation between our measures ($\alpha = .90$), we collapsed them into one that we call *superiority*. An ANOVA on this measure revealed a main effect of second-tier size such that perceptions of status or members' sense of superiority decreased as the second tier grew ($M_{5\%} = 7.33$ vs. $M_{10\%} = 6.45$, $F = 27.5$, $p < .01$). No other effects were significant. These results suggest that those at the top of the hierarchy look down, but only so far. In other words, Gold members are made to feel more elite when a Silver class is added, but we find no evidence that the addition of a Bronze class below Silver further heightens perceptions of status. In addition, while having a second-tier elite class makes those at the top feel super-elite, increasing the size of the second tier can dilute those feelings of superiority. These results support hypotheses 1b and 2.

Part III: Adding elites without diluting status

Method. Participants in this study were 104 executive business students at a major university who completed the survey voluntarily. We utilized a single-factor, between-subjects design with three conditions. Respondents in the first condition were told that they were in the top 1% of all customers based on their spending history and thus were Gold members, while the remaining 99% of customers possessed no status (i.e., two tiers). In the second condition, the percentage of Gold members was 10%, while the remaining 90% possessed no status. In the third condition, the percentage of Gold members was also 10%, but a second Silver tier was included comprising an additional 15% of members, leaving 75% in the nonstatus tier. By comparing conditions one and two, we can assess the impact of expanding the size of the top tier (replication of the pilot study—H0). Looking at the third condition, we can test if adding a second tier offsets any dilution in perceptions of status or superiority that occurred from expanding the size of the first tier from 1% to 10% (Implication 1).

Results. Again, we collapsed our measures into one ($\alpha = .87$). We analyzed the data as a one-by-three ANOVA and report pairwise *t*-tests. We find that the two-tier program with a smaller top tier is preferred to a program with a larger set of elites ($M_{1\%} = 7.42$ vs. $M_{10\%} = 6.49$, $p < .01$), which replicates the results of our pilot study (H0). We also find that the three-tier program is preferred to the two-tiered ($M_{10\%\text{-}15\%} = 7.23$ vs. $M_{10\%} = 6.49$, $p < .05$), which replicates the results from Part II (H1a). More importantly, adding a second high-status tier offsets the loss of status created by the larger top tier such that the three-tier program with a large top tier is rated as highly as the two-tier program with a smaller top tier ($M_{1\%} = 7.42$ vs. $M_{10\%\text{-}15\%} = 7.23$, $p = .58$). These results support Implication 1.

Discussion. Study 1 focused on how the number of tiers and their relative size affect the perceptions of status or superiority among those at the top. The results from Part I reveal that the addition of a second tier can bolster perceptions of status among top-tier members, transforming elites into super-elites. The results from Part II illustrate that increasing the size of the elite class in the second tier dilutes the perceptions of status among those above them, while adding a third elite tier did not affect their perceptions. Taken together, these results suggest that those at the top (Gold) perceive their status most favorably when there is a small second tier (Silver). The results from Part III reveal that a detriment to consumers' perceptions of status brought about by expanding the top tier, as illustrated by the results of our pilot study, can be offset by adding a second tier. The results of Study 1 support H1a, H1b, I1, and H2.

The observed effects are due to the hierarchical structure imposed. It is important to point out that we are not claiming these results will hold irrespective of the percentages assigned to each tier size. We have replicated the basic pattern of these results in several studies, omitted here for the sake of brevity. However, every study included a hierarchical structure in which higher tiers were significantly smaller than lower tiers (a basic pyramid structure). In all the aforementioned studies, we utilized both a status-laden color classification (Gold, Silver, and Bronze) and percentages to define the nature of the hierarchy (increasing selectivity). More common in practice is that firms set thresholds, which result in a pyramid structure, rather than assign customers on the basis of specific percentages. Firms represent hierarchy solely by classifying customers with colors (e.g., Platinum, Gold) or by assigning semantic labels (e.g., premier, premier executive). In Study 2, we demonstrate how color classifications perform like the percentages utilized in Study 1, but only when they come to symbolize an increasingly selective hierarchy.

Study 2: Status Consciousness

Study 2 comprises two parts. In Part I, we examine the impact of describing a consumer's status in terms of tiers affiliated with colors that have no hierarchical meaning. In other words, rather than utilize the conventional gold, silver, and bronze classifications provided in Study 1, we described a program in which customers were classified as blue if in the top tier, red if in the second tier, and yellow if in the third. In Part I, no percentages were attached. Color preference studies suggest that the preference ordering of hues is blue, green, purple, red, and yellow (Whitfield and Wiltshire 1990), which is consistent with the ordering of our tiers. These colors have been found to convey other things as well. For example, red is seen as active and blue as dependable. Yet we know of no reason, after exploring the research on color and considering other possible connotations, to believe these colors imply any hierarchy. In Part II, we again used generic colors (blue and yellow specifically), but in a separate condition, we also provided percentages. Two additional conditions utilizing hierarchical tier colors (i.e., gold and silver) were included, one with and one without percentages.

Part I

Method. Participants in this study were 112 undergraduate business students at a major university who completed the survey as part of a course requirement. We utilized a single-factor, between-subjects design with three conditions. The scenario was similar to that in Study 1. Respondents in the first condition were told that they were in the top tier of all customers based on their spending history and thus were Blue members, while the remaining customers possessed no status (i.e., two tiers). In the second condition, there was a second elite tier and those who qualified were Red members. Finally, in the third condition, there were Blue, Red, and Yellow elite members. The relative size of each tier in percentage terms was never mentioned; however, it was made clear that benefits allotted to lower tiers did not impinge on those provided to higher tiers. In both parts of Study 2, we replace the disparity measure with a measure of purchase intentions in order to determine whether respondents' expectations of future behavior would correlate with perceptions of status.

Results. Given their high correlation, we collapsed our measures ($\alpha = .71$). A single-factor ANOVA revealed no significant effects ($F = .3$, $p = .74$). The number of tiers (two, three, or four) had no discernible impact on perceptions of status. It appears that adding a second tier does not provide any benefit when the hierarchy is described with labels not imbued with a sense of status (gold implies achievement) and rank (gold is superior to silver). These results are consistent with Hypothesis 3. While we recognize that failing to reject the null hypothesis (that these conditions

Figure 2
Study 2: Word Search

U	E	L	B	A	D	I	M	R	O	F	T	A	K	E	G	D	S
P	N	O	R	D	E	R	R	E	R	P	F	H	J	N	M	E	G
R	Y	S	X	M	K	Y	H	C	R	A	R	E	I	H	L	T	R
E	E	H	U	I	Y	C	A	M	I	R	P	L	O	E	A	N	E
E	M	I	G	R	A	T	I	O	N	A	B	E	C	A	I	U	A
M	E	G	V	A	P	E	R	E	R	M	D	T	E	R	D	O	T
I	R	H	S	T	T	A	J	H	A	O	I	W	V	T	N	C	E
N	P	E	T	I	N	G	S	G	R	U	O	F	O	F	U	C	S
E	U	R	L	O	F	I	R	S	T	N	V	O	B	E	S	A	T
N	S	E	Z	N	S	O	R	B	E	T	A	C	A	L	P	N	I
T	P	A	R	A	C	H	U	T	E	D	Q	U	T	T	E	U	P
E	D	A	C	E	D	E	N	T	E	R	T	S	E	B	D	H	J

Status-Related Words	**Status-Unrelated Words**
Above	Avoid
Admiration	Formidable
Best	Take
Elite	Enter
First	Focus
Greatest	Gambling
Hierarchy	Heartfelt
Higher	Decade
Order	Rodeo
Paramount	Parachute
Preeminent	Emigration
Primacy	Placate
Select	Sorbet
Supreme	Sundial
Unsurpassed	Unaccounted

do not differ) does not ensure the null hypothesis is true, we draw from Part I in our design for Part II of this study.

Part II

Method. Participants in this study were 111 undergraduate business students at a major university who completed the survey as part of a course requirement. We utilized a (number of tiers: two vs. three) x 2 (percentages: present vs. absent) x 2 (colors: Gold-Silver vs. Blue-Yellow) between-subjects design. We varied the number of tiers, the presence of percentages, and the colors associated with each tier. Along with the standard measures used throughout Study 1, we included a word-search task designed to tap into participants' mental processes. We hypothesized a priori that specific color labels affect how consumers process information about hierarchies. We predicted that the Gold as well as Gold-Silver conditions would prompt people to think about hierarchy, while the Blue and Blue-Yellow conditions would not. To test this hypothesis, we included an 18- by 12-letter grid that concealed 15 words related to status and 15 words unrelated to status (see Figure 2). The words were balanced in terms of length (ranging from 4 to 9 letters) and pretested to ensure similarity in their level of difficulty. Following the initial task, respondents were instructed to find 15 words with 4 or more letters hidden within the grid and record them in the order in which they found them.

We predicted that in the Gold and Gold-Silver conditions, with and without percentages present, respondents would be sensitized to hierarchy and therefore would find more status-related words and find them faster (i.e., higher on the list) than words unrelated to status. Similarly, those who saw percentages in the Blue and Blue-Yellow conditions would be sensitized to the hierarchical structure of the program and thus would be inclined to find more status words and find them faster as well. This effect was expected to disappear for those who saw only Blue and Blue-Yellow without the percentages. Because these respondents would be less sensitive to hierarchy, they were expected to find fewer words related to status and find them less quickly than in the other six conditions. This pattern would suggest that status-laden color classifications (Gold, Gold-Silver) can work as well as explicit percentages in conveying an increasingly selective hierarchy. However, not all colors impart this meaning.

Results. We collapsed our four measures (special, status, difficulty in attainment, and purchase intentions) into one collective superiority measure ($\alpha = .76$). An ANOVA revealed the main effects of percentage ($F = 4.49$, $p < .05$) and levels ($F = 6.33$, $p < .05$) as well as an interaction between color and percentage ($F = 3.98$, $p < .05$). No other effects are significant. The main effect of levels replicates the results of Study 1, Part I—showing how the addition of a second tier makes those at the top feel more superior—with and without percentages being present. This lends additional support to H1a.

Individual contrasts show that when using nonstatus-laden colors, the addition of a second status tier does not improve the evaluation of the program ($M_{Blue} = 6.07$ vs. $M_{Blue\text{-}Yellow} = 6.43$, $p = .29$). However, adding percentage information to the generic colors increases overall perceptions of status ($M_{Color\text{-}No\%} = 5.76$ vs. $M_{Color\text{-}\%} = 6.74$, $p < .01$).

When using status-laden colors (Gold and Silver), the number of tiers matters ($M_{Gold} = 5.97$ vs. $M_{Gold\text{-}Silver} = 6.80$, $p < .05$), but the addition of percentage information does not alter overall perceptions ($M_{SC\text{-}No\%} = 6.42$ vs. $M_{SC\text{-}\%} = 6.35$, $p = .84$). This shows that status-laden colors, similar to percentages, convey the notion of an increasingly selective hierarchy.

To test our theory that providing status-laden colors serves the same function as percentages because they evoke hierarchy, we analyze the results of the word-search exercise. Looking at the number of status words found in each condition, we find the main effects of color and percent. Respondents found more status-related words when exposed to the Gold or Gold-Silver (status-laden) scenarios than when exposed to the Blue or Blue-Yellow (nonstatus-laden) scenarios ($M_{Non\text{-}status} = 3.98$ vs. $M_{Status} = 6.87$, $F = 96.06$, $p < .01$). They also found more status words when percentage information is added to the color descriptions ($M_{No\%} = 4.98$ vs. $M_{\%} = 5.88$, $F = 10.74$, $p < .01$). No other effects are significant.

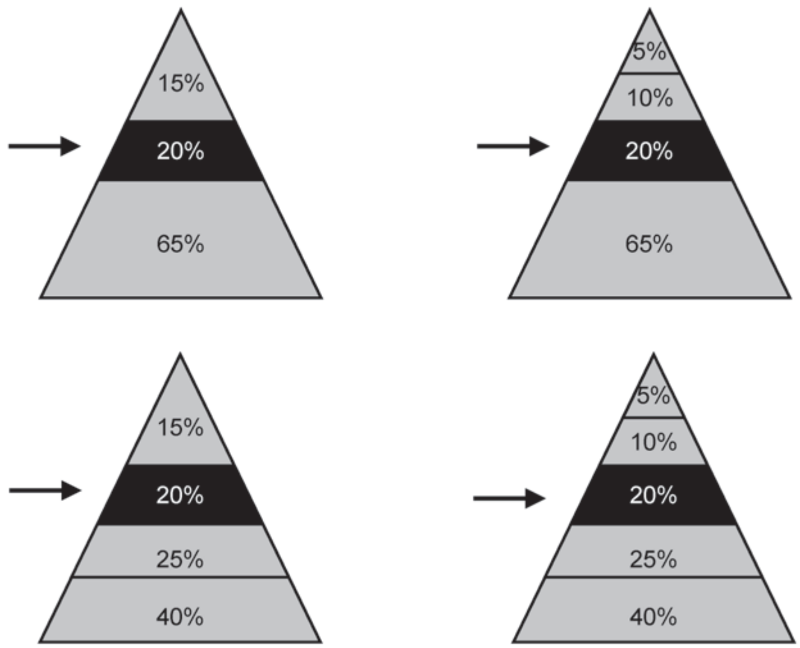
In addition to the number of status-related words, we looked at the rank of the first status word found. We find a main effect of color ($M_{Non\text{-}status} = 3.23$ vs. $M_{Status} = 2.30$, $F = 5.22$, $p < .05$) as well as an interaction between color and percent ($F = 4.17$, $p < .05$), such that when using nonstatus-laden colors, there are no differences in the rank of the first status word between percentage and no percentage ($M_{Generic\text{-}No\%} = 2.92$ vs. $M_{Generic\text{-}\%} = 3.53$, $p = .29$), but when using status-laden colors, the first status word is found faster when percentages are used in addition to the status-laden color than when they are not ($M_{Status\text{-}laden\text{-}No\%} = 2.82$ vs. $M_{Status\text{-}laden\text{-}\%} = 1.71$, $p < .01$).

Discussion. In Study 2, we highlight how marketing conventions associating status tiers with status-laden colors such as gold, silver, bronze, etc., sensitize consumers to notions of hierarchy. The use of gold and silver mimicked describing groups in terms of the relative percentage of consumers in each tier. Consequently, the impact of adding a second tier is observed when using status-laden colors, but not when using generic colors. This replicates the results of Study 1, Part I, without the use of explicit percentages. This provides support for Hypothesis 3 and increases the ecological validity of our findings.

Study 3: Looking Up or Looking Down

Studies 1 and 2 explore how consumers respond to different hierarchical structures when they are members of the top tier. In Study 3, we look at different hierarchies from the viewpoint of someone in the middle. The key question is whether perceptions of status depend on the size and structure of tiers comprising those consumers below the focal consumers in the hierarchy, those above, or both.

Figure 3
Study 3: Figures for Stimuli



According to a survey of the social comparison literature, we expect that consumers would first look up in order to get a better sense of precisely where they stand in comparison to those directly above them (Collins 1996). However, if members' self-esteem is threatened by their place, they will next look down for reassurance that they are superior (Wills 1981).

Method. Participants in this study were 390 undergraduate business students at a major university who completed the survey as part of a course requirement. We utilized a 2 (number of tiers above: one vs. two) x 2 (number of tiers below: one vs. two) between-subjects design. More specifically, respondents were told that they fell into a tier (including 20% of customers) illustrated in a picture of a pyramid (see Figure 3) that had either one or two tiers above (15% or 5% and 10%, respectively), and either one or two tiers below (65% or 25% and 40%, respectively).

Results. We collapsed our four measures (special, status, exclusivity, and disparity in attention) into one collective measure ($\alpha = .88$). An ANOVA revealed the main effects of the number of tiers above ($F = 15.50$, $p < .01$) as well as below ($F = 4.64$, $p < .05$). The latter result demonstrates how the effects of Study 1 apply to second-tier members—those in the second tier perceived more status when there were two tiers below them. The first result demonstrates how one feels a greater sense of status in tier two than in tier three, which is a different order than Medvec, Madey, and Gilovich (1995) found for happiness among Silver and Bronze Olympic medal winners.

To test hypotheses 4a and 4b directly, we performed paired t-tests. In support of Hypothesis 4a, we find that when there is only one tier above, the number of tiers below does not matter ($M_{1Up\text{-}1Down} = 5.26$ vs. $M_{1Up\text{-}2Down} = 5.44$, $p = .33$). Conversely, when there are two tiers above, respondents show a marked preference for having two tiers below rather than one ($M_{2Up\text{-}1Down} = 4.59$ vs. $M_{2Up\text{-}2Down} = 5.01$, $p < .05$); this provides support for Hypothesis 4b. These results suggest that respondents first look up, and if they don't like what they see (i.e., their position is too low), they then look down.

Study 4: Changing the Pyramid

All our studies until this point have been static. They involve between-subject designs that assess evaluations made separately. In Study 4, we change this by utilizing stimuli that test the impact of altering the program midstream. Our interest lies in understanding how consumers respond to changes in the hierarchy of their status program. More specifically, we test the impact of inserting a new superordinate tier.

Method. Participants in this study were 119 undergraduate business students at a major university who completed the survey as part of a course requirement. We utilized a 2 (tiers in current program: two vs. three) x 2 (tiers in new program: three vs. four), between-subjects design with four conditions. Initially, all respondents were told that they were Gold Passport holders for a premier hotel chain and were presented with a list of benefits. In two conditions, there were no other elite tiers (two tiers), and in two conditions, there was a second, lower, Silver Passport level (three tiers). Respondents were also told that they had gone to great lengths to consolidate their purchases in order to achieve this level of status, surpassing the threshold of 25 nights by staying an average of 30 nights per year for the past five years. In telling them this, we conveyed the impression that changes in purchase behavior and thus status were unlikely in the near future. We then asked respondents to report how special the program made them feel, the degree of status associated with their level, how exclusive their level made them feel, and how distinctive their Gold Passport was to them on separate nine-point scales.

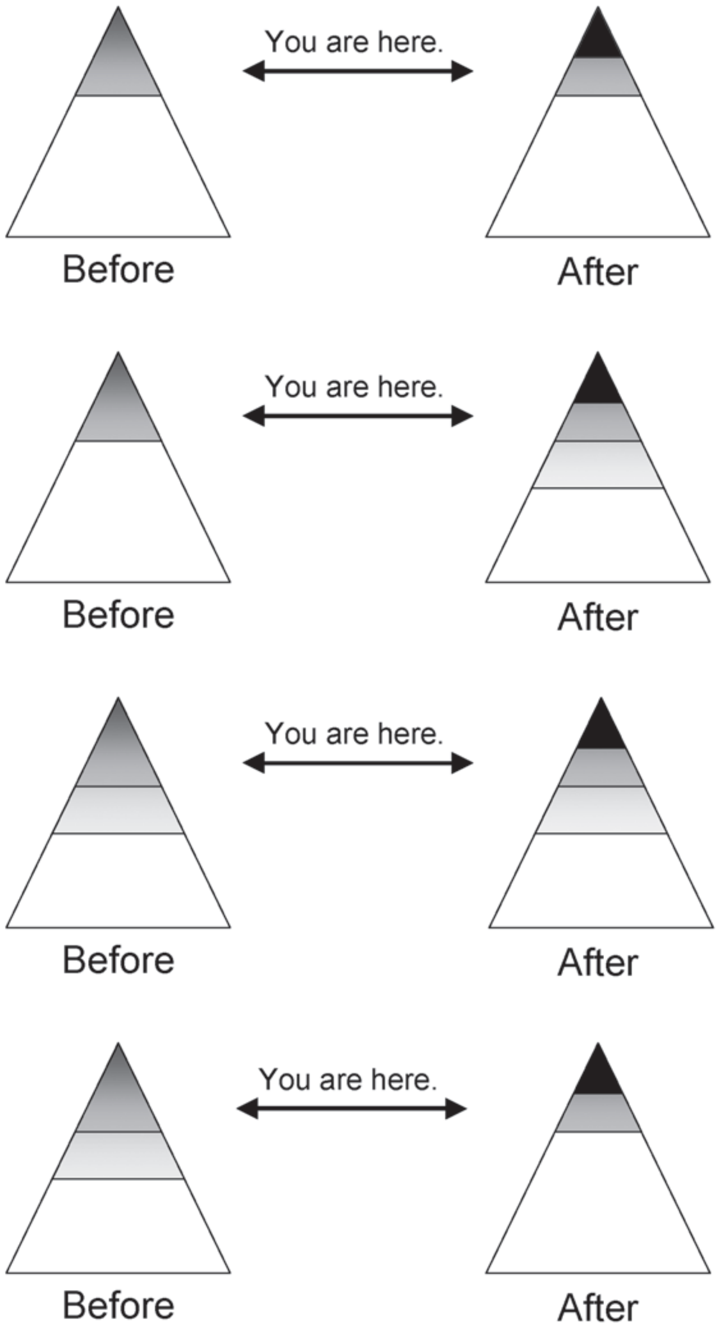
Next, on a separate page, each respondent was informed that the hotel chain was changing the structure of the program. The new program structure had two variations. One program offered a Platinum tier and a Gold tier, in which the Platinum tier (50 nights or more is required to qualify) stands above the Gold. Figures were provided (see Figure 4) representing the change so that it was clear the Platinum members were being drawn from the pool of Gold Passport members, which shrank as a result, and that the respondent would not qualify for it (i.e., the benefits to the respondent do not change, only the relative status). The second program offered three tiers, the same Platinum tier as the first program and a lower Silver tier.

The two new programs were crossed with the two original programs so that half the members of the two-tier programs moved from only Gold to a Platinum-Gold (addition of a tier above) program and the other half moved from only Gold to Platinum-Gold-Silver (addition of a tier above and one below). Similarly, half those in the three-tier program moved from Gold-Silver to Platinum-Gold (deletion of the tier below and insertion of a tier above), while the other half moved from Gold-Silver to Platinum-Gold-Silver (addition of a tier above).

The constant across all four scenarios is the addition of a new Platinum tier above the current Gold tier that demotes the participants from first-class to second-class members. What varies is the relative impact of demotion as a function of the existence of a lower Silver tier before and/or after the program is changed. We expect the presence of a Silver tier before the program change to negatively affect the evaluation of the change as it moves people not just from an elite position to a second-class position, but from a super-elite position to a second-class one. Further, we expect the presence of a Silver tier in the final program to reduce the impact of the demotion; although the new program demotes participants, it still puts them in a class where they are superior to some elites.

Results. We collapsed the four measures taken before the change (special, status, exclusive, and distinction) into one collective measure ($\alpha = .86$). We did the same for measures taken after the change ($\alpha = .67$). Our dependent variable of interest was the difference between these two measures. We analyzed the data using a 2 x 2 ANOVA. We find significant main effects of both the number of tiers in the original program and the number of tiers in the new programs. Participants who start with a program that had a Silver tier feel worse than those who do not start with a Silver tier ($M_G = -.45$ vs. $M_{GS} = -1.00$, $F = 23.47$, $p < .01$), after moving from super-elite to second class. Consistent with H4b and the results of Study 3, those who finish in a program with a Silver tier feel better than those who do not finish with a Silver tier ($M_{PGS} = -.54$ vs. $M_{PG} = -.91$, $F = 10.86$, $p < .01$). These results provide support for H5. We also find a margin-

Figure 4
Study 4: Figures for Stimuli



ally significant interaction between the two main factors (F = 3.73, p = .056), so that removing the Silver tier and adding Platinum in one step leads to an even greater decrement to consumers' perceptions of status. The removal of the Silver tier transforms the consumer from super-elite to simply elite. The introduction of a Platinum tier places a new super-elite class above the consumer. Combined, the consumer has gone from being at the top of the elites to being an entry-level elite.

General Discussion

Status is most commonly considered one's position in society, which is driven in large part by specific status characteristics such as wealth, race, and occupation. Marketers recognize people's desire to feel superior and have begun designing loyalty programs that capitalize on individuals' desire to be recognized and feel superior to others. The status that firms bestow is extremely context-specific, whether it is awarded to customers flying the 100,000 miles necessary in one year to become Executive Platinum on American Airlines or awarded to customers staying 50 nights at a Hyatt to secure Diamond Membership. Any sense of status and the accompanying feelings of superiority should apply only toward other customers who are destined not to be treated with the same regard. In our studies, perceptions of status were always highly correlated with future purchase intentions, whenever both were measured.

The focus of our research is on assessing the impact of different hierarchical structures on consumers' perceptions of status. While perfect customization may be the ultimate desire for both firms and customers, businesses today predominantly group customers into distinct classes, creating a status hierarchy whereby a better customer receives a differentiated and better experience. Firms also enable customers to exhibit their status, which includes establishing priority queues, providing premium customers with special luggage tags, and having lounges or other publicly appointed spaces for premier customers. The tradeoff facing any firm that stratifies its customers is between how many customers the firm makes elite and the perception of status these customers will feel. Our research addresses this tradeoff and presents potential solutions to a firm wanting to make more customers feel special without disenfranchising its best customers by diluting their elite status.

Our results suggest a simple solution. A three-tier program (e.g., Gold, Silver, and nonstatus) is more satisfying to all involved than a two-tier program (Gold and nonstatus). We show that the size of the Gold tier can be increased with little or no decrement to status perceptions among those in the top tier when a Silver tier is added. Thus, the firm grows the number of customers it recognizes in two ways: by expanding the top tier and adding a second tier. In addition, we have evidence (Study 3) to suggest that adding a third elite tier would benefit perceptions of status for those in the second tier, while we do not have evidence to support its affecting those in the top tier. The expected caveat applies—the size of these subordinate tiers must not be so large as to suggest that the firm is lowering its standards. We find that the larger the second tier, the less special the top tier feels, so that the net impact of too large a second tier may very well be negative for those at the top. We also show that a second elite tier can help shield those in the top tier from program changes, especially when a new, superordinate tier (e.g., Platinum) is added.

From a managerial perspective, this research sheds light on the number of tiers a status program should include and the impact of changes to a status program's structure. We believe we are the first to investigate the design of status hierarchies within loyalty programs. From a theoretical perspective, this work is a first step toward understanding how the structure of a status hierarchy affects perceptions of status. In this way, we contribute to the literature on social comparison. That literature has focused predominantly on how individuals compare specific levels of achievement and utilize this information. In comparison, we have focused on how individuals respond to rankings of a group to which they belong. In addition, our work reveals how the presence of a subordinate but elite group benefits those who look down, either because it is the only direction possible, or because looking up threatens their perceived status.

This work adds to the social comparison literature by studying the impact of status program tiers as social categories. We extend the existing research in this area by examining the impact of an artificially created hierarchy with elite tiers on perceptions of status. Further, we have identified a robust phenomenon that has not been documented before: the existence of subordinate elite tiers can benefit those who are immediately above.

This work is not without limitations. First, we explore only a fraction of the possible hierarchical structures that could be employed. In our studies, higher tiers were always more selective (i.e., a pyramid). This need not be the case. We focus on an increasingly selective hierarchical structure (i.e., a pyramid). We ignore other possible structures such as equal tier sizes or an inverted pyramid. Second, we focus on perceptions of status and, thus, feelings of superiority as our dependent measure. We do not relate our findings directly to actual purchase behavior. We believe that the material benefits provided to consumers in each tier are typically stronger motivators of short-term behavior. Yet, for many consumers, relative benefits will matter more than absolute benefits. Future work may examine disparities in the material benefits provided and their corresponding impact on perceptions of status.

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Notes

1. In this paper, the number of tiers refers to the total number of different customer classes and not only to the elite tiers. For instance, a program that has two elite tiers (e.g., Gold and Silver) in addition to a nonstatus group has three tiers.

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