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Customer Prioritization: Does It Pay Off, and How Should It Be Implemented?

It seems to be common sense that to increase profits, firms should prioritize customers (i.e., focus their efforts on the most important customers). However, such a strategy might have substantial negative effects on firms' relationships with customers treated at a low priority level. Prior research does not indicate satisfactorily whether and how customer prioritization pays off. Moreover, although customer prioritization may be strongly present in firms' marketing strategies, firms frequently fail to implement such a strategy. Therefore, it is also important to investigate empirically by which means firms can facilitate implementation. The authors address both issues and conduct a cross-industry study with 310 firms from business-to-consumer and business-to-business contexts together with two independent validation samples. The results show that customer prioritization ultimately leads to higher average customer profitability and a higher return on sales because it (1) affects relationships with top-tier customers positively but does not affect relationships with bottom-tier customers and (2) reduces marketing and sales costs. Furthermore, the ability to assess customer profitability, the quality of customer information, selective organizational alignment, selective senior-level involvement, and selective elaboration of planning and control all positively moderate the link between a firm's prioritization strategy and actual customer prioritization.

Keywords: customer prioritization, customer relationship management, marketing strategy, marketing implementation, customer satisfaction

I t is widely accepted that companies should set clear priorities among their customers and allocate resources that correspond to these priorities (e.g., Zeithaml, Rust, and Lemon 2001). This idea of customer prioritization implies that selected customers receive different and preferential treatment regarding marketing instruments (e.g., Bolton, Lemon, and Verhoef 2004). In practice, firms often develop tiered levels of serving customers of different importance and assign customers to a particular tier according to their actual or potential sales volumes (e.g., Lacey, Suh, and Morgan 2007; Zeithaml, Rust, and Lemon 2001).

According to this logic, companies should implement a differentiated use of marketing instruments for different tiers of their customer base. Such a differentiation of marketing efforts is supposed to lead to higher firm profits because marketing efforts become more effective and efficient when concentrated on the top-tier customers (e.g.,

Rust, Lemon, and Zeithaml 2004; Zablah, Bellenger, and Johnston 2004b). Zeithaml, Rust, and Lemon (2001, p. 118) emphasize this logic: "While companies may want to treat all customers with superior service, they find it is neither practical nor profitable to meet (and certainly not to exceed) all customers' expectations. Further—and probably the more objectionable to quality zealots—in most cases it is desirable for a firm to alienate or even 'fire' at least some of its customers."

However, the principle of customer prioritization is also frequently challenged. Essentially, three arguments are put forth against setting priorities among customers. First, customer prioritization can leave lower-priority customers dissatisfied (Brady 2000; Gerstner and Libai 2006), and these dissatisfied customers might defect or spread negative word of mouth, leading to a decline in long-term sales and profits (e.g., Hogan, Lemon, and Libai 2003; Kumar and George 2007; Reichheld and Sasser 1990). Second, focusing preferential treatment on a limited number of customers may neglect possible economies of scale (Johnson and Selnes 2004, 2005). Third, a balanced portfolio of top-tier and bottom-tier customers might enable companies to hedge the risk of particular top-tier customer relationships (Dhar and Glazer 2003).

Against this background, it is not necessarily the case that customer prioritization leads to higher company profits. However, as we show in the subsequent literature review, prior research does not satisfactorily address performance outcomes of customer prioritization. Thus, our first research

question is related to this issue. We develop a framework for and corresponding hypotheses about (1) the effects of customer prioritization on firms' relationships with their top-tier versus bottom-tier customers, who are treated at high versus low priority with respect to marketing instruments, and (2) the resultant impact on performance outcomes.

An additional observation is that many firms intend to prioritize among their customers but fail to implement such a strategy properly (Peppers, Rogers, and Dorf 1999). In other words, although customer prioritization is strongly present in a firm's marketing strategy, it may not be present in the actual allocation of resources and the use of marketing instruments. Possible reasons for this problem include that an organization's structure, processes, and culture may not support a differentiated treatment of customers (e.g., Shah et al. 2006; Zablah, Bellenger, and Johnston 2004a). This observation parallels the seminal work of Mintzberg (1978), who distinguishes between intended and realized strategies and illustrates that many intended strategies remain unrealized. In a similar vein, Bonoma (1984, p. 69) notes that "it is invariably easier to think up clever marketing strategies than it is to make them work."

Against this background, we also address the issue of implementing customer prioritization. We develop a framework for and corresponding hypotheses about the impact of a prioritization strategy on actual customer prioritization. We argue that the degree to which a firm's prioritization strategy is implemented depends on the extent to which a firm's structure and internal processes, as well as cultural aspects, support a differentiated customer treatment.

In addition to being theoretically relevant, answering the question whether customer prioritization pays off and showing how its implementation can be ensured are important for practitioners. First, understanding how customers of different importance react to customer prioritization is fundamental to assess the effects of customer prioritization on a firm's customer portfolio. Second, knowing whether and how customer prioritization affects firm profits helps managers decide on a sound basis whether to prioritize customers or to treat them all equally. Third, because differentiating customers requires substantial organizational changes (Shah et al. 2006), managers need to know which crucial leverages make a prioritization strategy work.

In the next section, we provide a review of related literature. We then present the first framework and derive the hypotheses on performance outcomes of customer prioritization. After this, we present the second framework, which addresses the implementation of a prioritization strategy, and we delineate the hypotheses. The following section describes the methodology of our study. A key characteristic of our large-scale survey study is that to provide generalizable findings, we consider firms of different industries, including business-to-business (B2B) and business-to-consumer (B2C) markets. After reporting the results, we discuss the implications of our findings.

Related Literature

Our work is related to a large body of conceptual and empirical work from different backgrounds (e.g., customer relationship management [CRM], direct marketing, marketing metrics). Our literature review addresses selected work that provides important insights into (1) performance outcomes and (2) implementation issues of customer prioritization. Table 1 shows important studies that are related to our first research question—that is, whether prioritization pays off. Furthermore, Table 1 highlights key findings and characteristics of these studies and shows how our work is distinct.

Few studies have conceptualized the idea of customer prioritization. Reinartz, Krafft, and Hoyer (2004) show that CRM processes, including specific aspects of customer prioritization, moderately enhance firm performance. Furthermore, customer management strategies that maximize individual customer profitability or customer lifetime value (CLV) lead to higher firm performance (e.g., Rust and Verhoef 2005; Venkatesan and Kumar 2004). Other than these initial findings, however, no study satisfactorily answers the question whether customer prioritization pays off. Four major observations lead to this conclusion (see Table 1).

First, performance measures of the studies that incorporate customer prioritization aspects are either financial (e.g., Reinartz, Krafft, and Hoyer 2004) or customer related (Yim, Anderson, and Swaminathan 2004). However, there is a call for an integration of both to explain why financial effects occur (Hogan, Lemon, and Rust 2002, p. 10; Kumar and George 2007).

Second, and related to this call, most of the studies focus on a limited number of industries or companies in which sophisticated CRM systems are widely used (e.g., Venkatesan and Kumar 2004). However, firms can prioritize customers without relying on sophisticated CRM systems (Jayachandran et al. 2005). Thus, there is a lack of generalizability of prior results. Furthermore, nearly all studies are conducted in B2C markets (e.g., Reinartz, Krafft, and Hoyer 2004). Relatively little is known about whether firms in B2B markets should prioritize customers.

Third, almost all studies addressing customer prioritization activities focus on specific aspects, such as product customization or communication activities (except for Ryals 2005). No empirical evidence shows that prioritizing customers across a broad set of marketing activities pays off.

Fourth, most studies do not differentiate between the effects of customer prioritization on different (tiers of) customers (except for Ryals 2005; Venkatesan and Kumar 2004). This is necessary to understand how customer prioritization affects customer-related and performance outcomes.

In this context, it is worth mentioning that direct marketing has a long tradition in targeting specific customers. However, direct marketing mostly focuses on optimizing the success of campaigns rather than customer relationships (Rust and Verhoef 2005, p. 477).

To summarize, the question whether firms should prioritize customers represents a major research gap. Our study addresses this gap (1) by simultaneously analyzing customer-related and financial outcomes, (2) by conducting a cross-industry study to derive generalizable results, (3) by incorporating a broad set of marketing activities to prioritize customers, and (4) by simultaneously analyzing effects of customer prioritization on different customer tiers.

TABLE 1
Overview of Related Research

Author (Year)	Major Findings	Industries	Number of Companies (SBUs) Studied	Data	Level of Analysis	Customer Prioritization: Breadth of Conceptualization	Outcome Variables			
							Assessment at the Customer (Tier) Level	Assessment of Differential Effects on Different Customers/Customer Tiers	Assessment of Customer-Related Outcomes	Assessment of Profitability-Related Outcomes
Jayachandran et al. (2005)	Positive effect of organizational information processes relevant to CRM on customer relationship performance.	B2C (30%) and B2B (70%): no specification	172	Survey: 172 senior managers	SBU	None	No	No	Yes	No
Bowman and Narayandas (2004)	Positive effect of customer management efforts on customer margin and negative effect of customer management costs on customer margin.	B2B: vendor of processed metal	1	160 dyads of company and customer data	Individual customer	None	Yes	No	Yes	Yes
Yim, Anderson, and Swaminathan (2004)	Positive effect of focusing on key customers on customer satisfaction, leading to higher retention and sales growth.	B2C: financial services	215	Survey: 215 senior managers	Firm level	Narrow: customization of goods/services	No	No	Yes	No
Reinartz, Krafft, and Hoyer (2004)	Moderately positive effect of customer relationship initiation, maintenance, and termination on firm performance.	B2C: financial services, online retailing, hospitality, power utilities	211	Survey: 211 senior managers; performance data (98 companies)	SBU	Narrow: customization of goods/ services, cross- and up-selling activities	No	No	No	Yes
Venkatesan and Kumar (2004)	Marketing resource allocation based on CLV leads to higher return on marketing than a status quo allocation.	B2B: computer hardware and software manufacturer	1	Panel data: two customer cohorts: 1316 and 873	Individual customer/firm level	Narrow: communication activities	Yes	Yes	No	Yes

TABLE 1
Continued

Author (Year)	Major Findings	Industries	Number of Companies (SBUs) Studied	Data	Level of Analysis	Customer Prioritization: Breadth of Conceptualization	Outcome Variables			
							Assessment at the Customer (Tier) Level	Assessment of Differential Effects on Different Customers/Customer Tiers	Assessment of Customer-Related Outcomes	Assessment of Profitability-Related Outcomes
Rust and Verhoef (2005)	Marketing resource allocation maximizing individual intermediate-term customer profits leads to higher customer profitability than segment-based approaches.	B2C: insurance	1	Panel data: 1580 customers	Individual customer	Narrow: relationship magazines, direct mailing	Yes	Yes	No	Yes
Ryals (2005)	Positive effect of introducing customer management strategies based on CLV on firm performance.	B2C and B2B: bank, insurance	2	Case studies	Firm level	Wide: selective customer retention, differentiated resource allocation, service levels, pricing, and product strategy	No	Yes (qualitative statements)	No	Yes (qualitative statements)
Our study	Customer prioritization has an overall positive effect on performance outcomes when accounting for effects on relationship characteristics with top- versus bottom-tier customers.	B2C and B2B: ten industries	310	Survey: 310 senior managers and two validation samples	Customer tier/SBU	Wide: customer prioritization in product, price, sales, processes, and communication	Yes	Yes	Yes	Yes

Notes: SBU = strategic business unit.

Regarding our second research question, we are not aware of a study that has empirically examined how firms can facilitate implementation of a prioritization strategy. It is widely accepted that the implementation stage is crucial because many CRM initiatives fail (Zablah, Bellenger, and Johnston 2004a). However, work that analyzes how firms should implement CRM is of a qualitative nature (e.g., Payne and Frow 2006; Peppers, Rogers, and Dorf 1999; Raman, Wittmann, and Rauseo 2006). Moreover, empirical research on CRM implementation mainly focuses on technical aspects (Raman, Wittman, and Rauseo 2006, p. 42). As Payne and Frow (2005, p. 174) conclude, "We emphasize the importance of CRM implementation and related people issues as an area in which further research is urgently needed."

Against this background, the question of how firms can facilitate the implementation of a prioritization strategy has not sufficiently been addressed. Therefore, we analyze which specific supporting actions firms should pursue to ensure implementation of a prioritization strategy.

Framework and Hypotheses Regarding Performance Outcomes

Overview of Framework and Constructs

The basic rationale of our framework is that customer prioritization affects the characteristics of a firm's relationships with both its top-tier and its bottom-tier customers.[1] In this context, the top tier contains the firm's most important customers, and the bottom tier contains its least important customers. Importance refers to the relative importance a firm assigns to a particular customer based on firm-specific valuation criteria. Because firms can use different approaches and criteria, our framework does not prescribe how firms should assess customer importance. In practice, importance is often a function of customers' actual or potential sales (Zeithaml, Rust, and Lemon 2001), which parallels the descriptive results of our study.[2]

Our framework models the consequences of customer prioritization as a chain of effects with two basic elements: relationship characteristics and performance outcomes (e.g., Bolton, Lemon, and Verhoef 2004). We consider the effects of customer prioritization on relationship characteristics of top-tier versus bottom-tier customers. In addition, we analyze how these characteristics affect important performance outcomes on the overall level of the customer portfolio. Furthermore, we investigate the effect of customer prioritization on marketing and sales costs (e.g., Bowman and Narayandas 2004). Finally, we include two control variables that address the firm's customer valuation method because they might affect customer prioritization as well as performance outcomes (Boulding et al. 2005). The framework and the specific constructs appear in Figure 1.

We define customer prioritization as the degree to which customers are treated differently with respect to marketing instruments according to their importance to the firm. Thus, there is a high level of customer prioritization when top-tier customers receive clearly different and preferential treatment (i.e., value proposition) compared with bottom-tier customers regarding marketing instruments, such as product, price, sales, communication, and processes (Bolton, Lemon, and Verhoef 2004; De Wulf, Odekerken-Schröder, and Iacobucci 2001; Lacey, Suh, and Morgan 2007; Ryals 2005). The lowest possible level of prioritization is given when all customers are treated equally regarding these instruments.

For both customer tiers, we use three important characteristics of a relationship: customer satisfaction, customer loyalty, and the customer's share of wallet (e.g., Anderson and Mittal 2000; Bolton, Lemon, and Verhoef 2004; Verhoef 2003). First, we define customer satisfaction as the customer's overall (i.e., cumulative) evaluation of the total purchase and consumption experiences made with the supplier to date (Anderson, Fornell, and Lehmann 1994). Second, customer loyalty captures the degree to which a customer is willing to engage in a long-term relationship with the focal firm (Oliver 1997). Thus, the focus is on attitudinal loyalty. Third, we define share of wallet as the share of category purchases a customer conducts with the focal firm (Verhoef 2003). Thus, the focus here is on actual customer behavior. For each customer tier, we consider the respective average customer satisfaction, customer loyalty, and share of wallet.

The measures of performance outcomes on the overall level of the customer portfolio follow prior work that links marketing actions to profitability (Bowman and Narayandas 2004; Kamakura et al. 2002; Rust et al. 2004). In particular, we use average sales per customer, average customer profitability, and marketing and sales costs in relation to sales. Customer profitability is defined as (gross profit – marketing and sales costs)/net sales. In this context, gross profit captures net sales less the costs of goods sold (Bowman and Narayandas 2004). For sales and customer profitability, we consider the average value across all customers. Marketing and sales costs include direct and indirect costs (e.g., costs for internal marketing and sales departments) of marketing and sales (Bowman and Narayandas 2004). We define return on sales as the firm's operating income before tax in relation to sales (Ittner and Larcker 1998). Finally, the two control variables capture the extent to which customer valuation is based on past customer profitability and on expectations about future customer profitability.

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[1]In our company survey, we also addressed a middle tier, reflecting the logic of an "ABC classification." However, a model that also included the relationship characteristics of this middle tier did not provide any additional insights; the effects of customer prioritization on the middle tier were similar to those on the bottom tier.

[2]In our company survey, we assessed the degree to which firms use particular criteria and methods for customer valuation (1 = "not at all," and 7 = "very extensively"). Firms in our sample most extensively use past (M = 6.05) and expected (M = 5.52) sales for customer valuation and past (M = 4.05) and expected (M = 3.62) costs to serve to a lower extent. With respect to customer valuation methods, firms rely more extensively on ABC classification schemes (M = 4.38) than on sophisticated methods, such as CLV (M = 2.57).

FIGURE 1
Performance Outcomes of Customer Prioritization: Research Framework
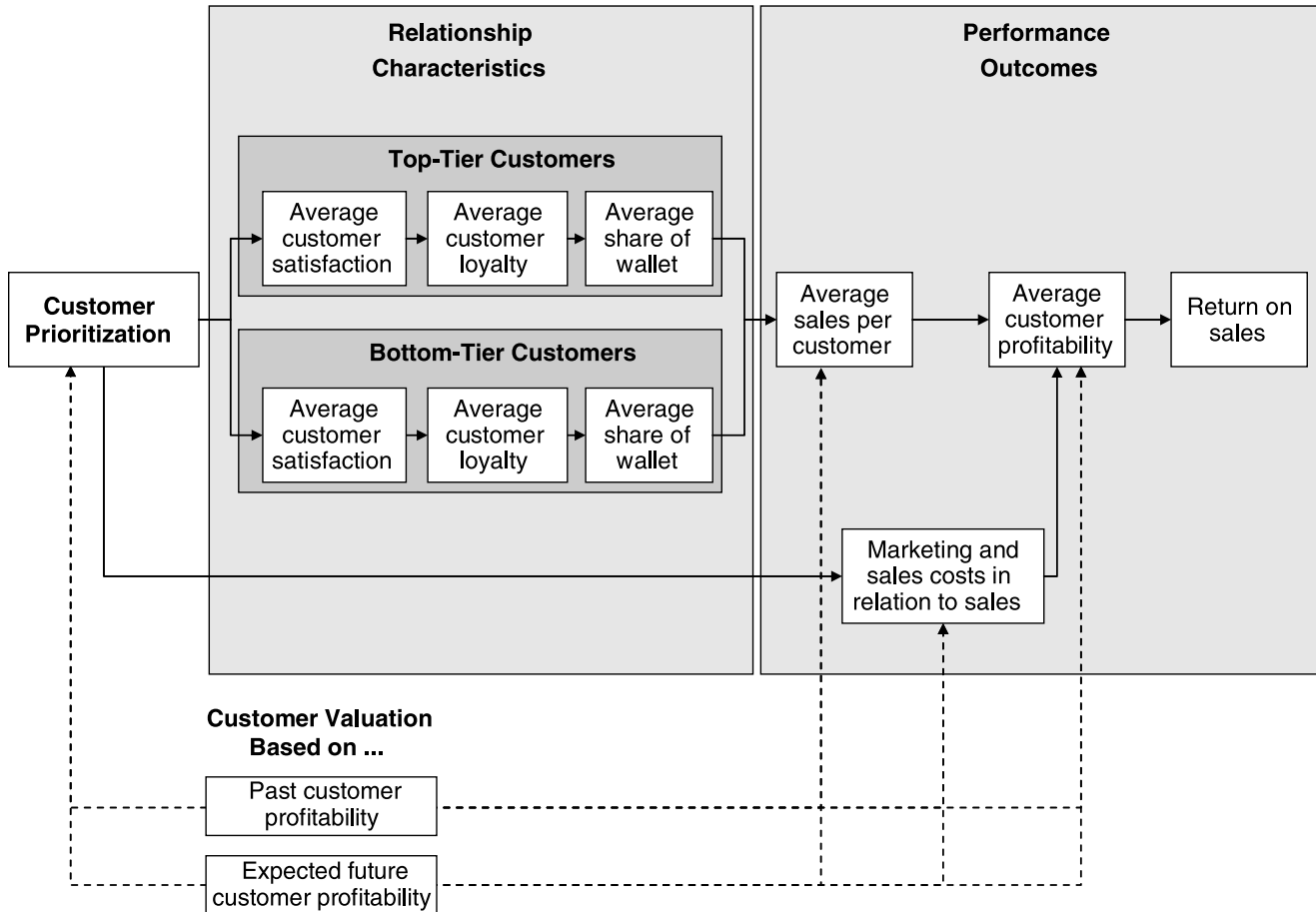
Hypotheses

Customer behavior and satisfaction largely depend on the effort a company devotes to customers (Bowman and Narayandas 2004; Kamakura et al. 2002). In line with our definition of customer prioritization, this effort varies through a differentiated use of marketing instruments. Specifically, customer prioritization should enhance satisfaction of top-tier customers through their preferential treatment with respect to product, price, sales, processes, and communication.

Research has shown that the customization of goods or services has a positive effect on customer satisfaction (Fornell et al. 1996). Thus, to enhance the satisfaction of high-priority customers, firms can deliver higher value by customizing goods and services or by offering additional services (Yim, Anderson, and Swaminathan 2004). In addition, the perceived value of goods and services is determined by the relationship between the perceived quality and the price paid (Fornell et al. 1996). Thus, the overall perceived value of high-priority customers should also be increased by means of pricing (e.g., through favorable price conditions, more flexible payment targets). In terms of

sales, salespeople are essential in providing added value for customers (Weitz and Bradford 1999). For example, customer prioritization implies devoting higher levels of sales force attention to high-priority customers (e.g., visits by more qualified salespeople). Service research has emphasized the importance of processes in creating value (e.g., Grönroos 2000). Customers can be treated preferentially, for example, by means of faster and more flexible deliveries. Finally, in relation to communication, prioritizing in this context implies that top-tier customers receive information that creates additional value (e.g., specific or exclusive market know-how).

To summarize, when prioritizing customers, firms should be able to deliver higher value to high-priority customers by using diverse marketing instruments. Because research has shown that higher value leads to higher customer satisfaction (Fornell et al. 1996), we hypothesize the following:

H_1: Customer prioritization has a positive effect on the average satisfaction of top-tier customers.

However, we also argue that customer prioritization negatively affects satisfaction of bottom-tier customers.

Because a firm's marketing resources are limited, preferentially treating top-tier customers implies that marketing efforts for bottom-tier customers are reduced to a certain extent (see Bowman and Narayandas 2004; Kamakura et al. 2002). Thus, when firms devote less effort to satisfying bottom-tier customers (e.g., a reduced number of visits by salespeople, limited sales support; Brady 2000), these customers should experience a lower level of value and, ultimately, show a lower level of customer satisfaction. Accordingly, we hypothesize the following:

> H_2: Customer prioritization has a negative effect on the average satisfaction of bottom-tier customers.

We further argue that customer prioritization affects the firm's marketing and sales costs in relation to sales (see Figure 1). Firms that do not prioritize their customers might devote too much effort to small customers. This would be inefficient because small-volume customers cause higher marketing and sales costs in relation to sales than higher-volume customers (Niraj, Gupta, and Narasimhan 2001). As a result, prioritizing customers rather than treating all customers equally should lead to a more efficient use of marketing resources:

> H_3: Customer prioritization reduces marketing and sales costs in relation to sales.

In the following, we consider the effects that lead from average customer satisfaction to average sales per customer (see Figure 1). In this context, we do not distinguish between top-tier and bottom-tier customers, because our logic behind the hypotheses is identical.

With respect to the link between average customer satisfaction and loyalty in each customer tier, prior research has identified customer satisfaction as a key driver of customer loyalty (Fornell et al. 1996; Szymanski and Henard 2001). Furthermore, loyal customers are supposed to allocate a greater share of wallet to the focal firm for two basic reasons. First, firms can win new business more easily as they gather a more profound knowledge about customer needs and how to serve them (Bowman and Narayandas 2004). Second, loyal customers are more willing to expand their existing relationship with the firm (Dwyer, Schurr, and Oh 1987). Finally, average share of wallet of both customer tiers should be positively related to average sales per customer (i.e., total sales/total number of customers). This is expected to hold because, all other things equal, an increase in average share of wallet of top-tier customers should lead to higher total sales. The same should hold for bottom-tier customers. Given a fixed number of customers, higher total sales lead to higher average sales per customer. Thus, for the effects linking average customer satisfaction to average sales per customer, we hypothesize the following:

> H_{4a}: Average customer satisfaction has a positive effect on average customer loyalty for both (i) top-tier customers and (ii) bottom-tier customers.
>
> H_{4b}: Average customer loyalty has a positive effect on average share of wallet for both (i) top-tier customers and (ii) bottom-tier customers.
>
> H_{4c}: Average share of wallet has a positive effect on average sales per customer for both (i) top-tier customers and (ii) bottom-tier customers.

In H_1 and H_2, we argue that customer prioritization should have opposite effects on the average satisfaction of top-tier (positive effect) and bottom-tier (negative effect) customers. Together with H_{4a-c}, customer prioritization should lead to higher average sales per customer through the relationships with top-tier customers but to lower average sales per customer through the relationships with bottom-tier customers. Thus, the overall effect on average sales per customer through the relationships with top-tier and bottom-tier customers depends on which effect is dominant (see Figure 1). We address this issue empirically.

The remaining effects in our framework (see Figure 1) are well established in the literature. Thus, we do not develop explicit hypotheses for them. First, all other things being equal, an increase in average sales per customer should lead to higher average customer profitability because of economies of scale (Bowman and Narayandas 2004; Niraj, Gupta, and Narasimhan 2001). Second, marketing and sales costs in relation to sales should negatively affect average customer profitability (e.g., Bowman and Narayandas 2004; Kamakura et al. 2002). Third, average customer profitability should have a positive effect on return on sales.

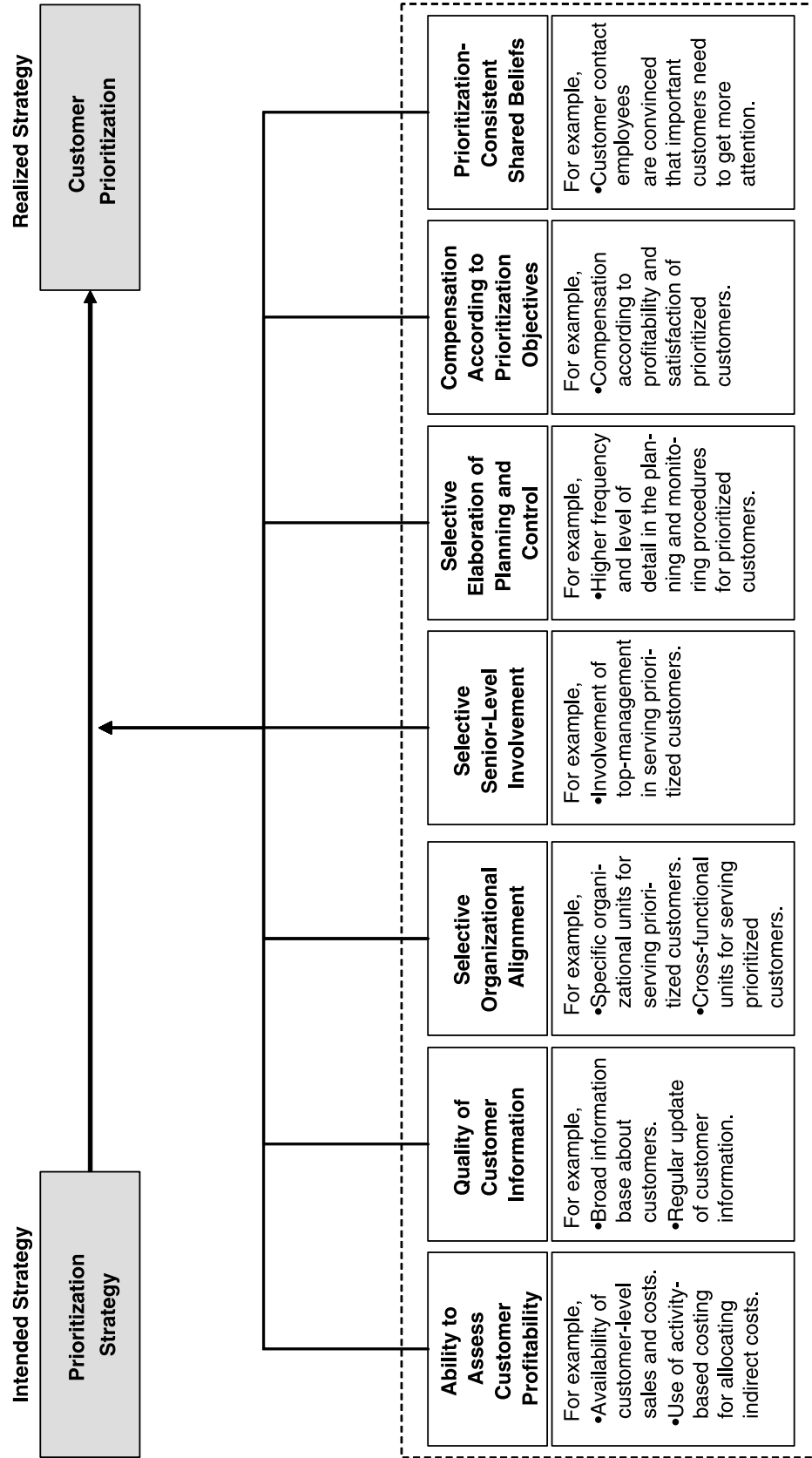## Framework and Hypotheses Regarding Implementation Issues

Overview of Framework and Constructs

This framework addresses the second issue of our study: the link between intended and implemented customer prioritization. The basic rationale of our framework is that the degree to which a firm's strategic objective to prioritize customers leads to actual customer prioritization (i.e., a differential customer treatment through different value propositions) should depend on the degree to which the latter is supported through important organizational contingencies. In particular, we consider their moderating effects on the link between a firm's prioritization strategy and actual customer prioritization (see Figure 2).

This assumption is in line with recent conceptual work that suggests that firms face major internal barriers when moving to a customer-centric organization (Shah et al. 2006). Yet there is a need to investigate these barriers empirically in specific contexts (Payne and Frow 2005; Shah et al. 2006). Customer prioritization implies that a firm is highly customer centric for the most important customers and at a lower level for less important customers.

On the basis of Shah and colleagues' (2006) framework and a review of research on strategy implementation, we consider the following supporting factors highly relevant for the implementation of a prioritization strategy: the ability to assess customer profitability, the quality of customer information, selective organizational alignment, selective senior-level involvement, selective elaboration of planning and control, compensation according to prioritization objectives, and prioritization-consistent shared beliefs (e.g., Desphandé and Webster 1989; Galbraith and Nathanson 1978; Homburg, Workman, and Jensen 2000; Noble 1999; Slater and Olson 2000). Figure 2 provides an overview of these factors and the issues they cover.

FIGURE 2
Implementation of Customer Prioritization: Research Framework

Intended Strategy							Realized Strategy

Intended Strategy

Prioritization Strategy

Realized Strategy

Customer Prioritization

Ability to Assess Customer Profitability	Quality of Customer Information	Selective Organizational Alignment	Selective Senior-Level Involvement	Selective Elaboration of Planning and Control	Compensation According to Prioritization Objectives	Prioritization-Consistent Shared Beliefs
For example, •Availability of customer-level sales and costs. •Use of activity-based costing for allocating indirect costs.	For example, •Broad information base about customers. •Regular update of customer information.	For example, •Specific organizational units for serving prioritized customers. •Cross-functional units for serving prioritized customers.	For example, •Involvement of top-management in serving prioritized customers.	For example, •Higher frequency and level of detail in the planning and monitoring procedures for prioritized customers.	For example, •Compensation according to profitability and satisfaction of prioritized customers.	For example, •Customer contact employees are convinced that important customers need to get more attention.

We define a firm's prioritization strategy as the degree to which its market strategy aims to treat customers differently and to allocate resources according to their importance. The customer prioritization construct is identical to that in the first framework of this study and captures the degree to which customers are treated differently according to their importance with respect to marketing instruments. Thus, we employ Mintzberg's (1978) basic distinction between intended and realized strategies (see Figure 2). In the next section, we define the moderators of the link between prioritization strategy and customer prioritization and derive the corresponding hypotheses.

Hypotheses

Employees in contact with customers should be more likely to act in a strategy-consistent way when provided with goal-relevant information. With respect to the implementation of a prioritization strategy, the firm's ability to assess customer profitability and the quality of a firm's customer information should be important (Jayachandran et al. 2005; Shah et al. 2006).

We define the ability to assess customer profitability as the degree to which a firm's information systems enable the assessment of sales and costs for customers or customer segments. When provided with such information, customer-contact employees should be able to evaluate the profitability impact of particular marketing actions and, thus, to better prioritize customers in their daily business (Venkatesan and Kumar 2004). In addition, they should be more motivated to act in favor of the strategic objective to prioritize customers (Shah et al. 2006) because their uncertainty about how to act in line with the firm's prioritization strategy (i.e., which customers should be preferentially treated) should be reduced. Thus:

> H_{5a}: The firm's ability to assess customer profitability positively moderates the effect of prioritization strategy on customer prioritization.

The quality of customer information captures the degree to which a firm has broad and up-to-date information about its customers. In addition to profitability information, firms should rely on qualitative customer information (e.g., customers' word of mouth) to improve the customer valuation process (Berger et al. 2002). As a result, customer-contact employees should be able to evaluate more comprehensively the impact of particular marketing actions and, thus, to better prioritize customers. Furthermore, having broad and up-to-date information about customers enables firms to better adapt their offers to customer needs (Yim, Anderson, and Swaminathan 2004). When customer-contact employees have access to such information, they should be able to deliver higher value to top-tier customers:

> H_{5b}: The quality of customer information positively moderates the effect of prioritization strategy on customer prioritization.

Adapting the organizational structure is an important prerequisite for responding to customer needs (Homburg, Workman, and Jensen 2000; Shah et al. 2006). With respect

to customer prioritization, this suggests an organizational alignment especially for the most important customers. Such an approach should enhance the organization's ability to address the specific needs of these important customers (Workman, Homburg, and Jensen 2003).

Therefore, we refer to selective organizational alignment as the degree to which a firm installs customer-responsive structures and internal processes depending on the customer's importance. Specifically, firms should create distinguished organizational units that are solely responsible for serving the most important customers (Yim, Anderson, and Swaminathan 2004). Thus, employees of these units are then focused on serving these customers. In addition, these units should include personnel from different functions to better address the complex needs of the most important customers (Workman, Homburg, and Jensen 2003). Therefore, a selective organizational alignment should facilitate implementation of a prioritization strategy:

> H_{5c}: Selective organizational alignment positively moderates the effect of prioritization strategy on customer prioritization.

Furthermore, prior work has stressed the importance of senior-level involvement to ensure the alignment of different organizational levels to the strategy (Noble and Mokwa 1999; Shah et al. 2006). In our context, we define selective senior-level involvement as the degree to which top management differentiates its involvement in managing customers depending on the customer's importance. In particular, senior-level management should be involved in the firm's interactions with the most valuable customers (Workman, Homburg, and Jensen 2003). Thus, the importance of customer prioritization to the senior-level management is signaled to all employees involved in customer care (Shah et al. 2006). As a result, employees should be more motivated to implement a prioritization strategy (Noble and Mokwa 1999). Thus:

> H_{5d}: Selective senior-level involvement positively moderates the effect of prioritization strategy on customer prioritization.

An adequate planning and control system is vital for translating an abstract strategy into explicit goals and for monitoring the achievement of these goals (Daft and Macintosh 1984). Specific and detailed planning and control should (1) facilitate strategy implementation as strategic goals are broken down into manageable pieces (John and Martin 1984) and (2) enhance the employees' adherence to the plan (Choi, Dixon, and Jung 2004; Jaworski and MacInnis 1989). As a result, marketing plans with respect to customer prioritization should contain goals and corresponding resource allocations for specific customers/customer tiers. These plans should be combined with monitoring procedures to evaluate the effectiveness and efficiency of specific marketing actions (Bell et al. 2002; Hogan, Lemon, and Rust 2002).

Selective elaboration of planning and control refers to the degree to which a firm differentiates the comprehensiveness and rigidity of internal planning and monitoring proce-

dures depending on the customer's importance. Therefore, the degree of elaboration of planning and control procedures should increase with the customer's importance. This is because the more important customers are, the more important the achievement of the specific goals should be. In particular, a more detailed and frequent planning and monitoring for high-priority customers should facilitate the implementation of a prioritization strategy as the plans for these customers get more specific and accurate. Furthermore, a control system that allows for smaller critical discrepancies from planning figures for high-priority customers should enhance the employees' efforts in not exceeding the critical discrepancies for the most valuable customers. This means that relatively small deviations in terms of, for example, sales volume or customer satisfaction should induce an investigation of the circumstances that lead to this deviation. Thus:

> H_{5e}: Selective elaboration of planning and control positively moderates the effect of prioritization strategy on customer prioritization.

Prior work has stressed that strategy implementation critically depends on incentive schemes that motivate and reward for strategy-consistent behavior (Govindarajan and Gupta 1985; Walker and Ruekert 1987). Compensation according to prioritization objectives captures the degree to which variable compensation is based on key performance metrics for relationships with high-priority customers (Shah et al. 2006; Yim, Anderson, and Swaminathan 2004). In particular, compensation according to criteria such as customer satisfaction or sales volume of high-priority customers should encourage salespeople to act in favor of a prioritization strategy, for example, by providing higher value to top-tier customers (Banker et al. 1996). Thus:

> H_{5f}: Variable compensation according to prioritization objectives positively moderates the effect of prioritization strategy on customer prioritization.

Finally, prioritization-consistent shared beliefs is the degree to which customer-contact employees are convinced that prioritization is a valuable and appropriate strategy (Shah et al. 2006). Shared beliefs are an important driver of employee behavior (Desphandé and Webster 1989; Schwartz and Davis 1981). However, the guiding beliefs of senior managers who formulate strategies and those of managers at lower organizational levels might differ (O'Reilly 1989). Strategy implementation should be facilitated (1) when there is a fit between the guiding beliefs and the strategy and (2) when members of different organizational levels and functions share the same beliefs (Homburg and Pflesser 2000; O'Reilly 1989). Against this background, when customer-contact employees are convinced that prioritizing customers is a valuable strategy, they should be more likely to act in favor of such a strategy in their day-to-day business:

> H_{5g}: Prioritization-consistent shared beliefs positively moderate the effect of prioritization strategy on customer prioritization.

Methodology

Data Collection and Sample

We employed a survey methodology for data collection. The unit of analysis was a business unit within a firm or (if no specialization into different business units existed) the entire firm. We identified a company sample (n = 2023) using data from a commercial provider. The sample covered a broad range of services and manufacturing industries representing B2C and B2B markets. For 1987 cases, we identified the manager with primary responsibility for customer prioritization. Subsequently, a questionnaire was sent to these managers. After four weeks, we followed up with telephone calls. We received 310 usable questionnaires, resulting in a response rate of 15.6%. We present respondent characteristics in Table 2.

We assessed nonresponse bias by comparing early and late respondents (Armstrong and Overton 1977). We also analyzed whether the firms we initially addressed and the responding firms differed in terms of industry. Both tests indicate that nonresponse bias is not a problem.

TABLE 2
Sample Composition

Industry	%
Banking/insurance	16
Utilities	13
Pharmaceuticals	11
Machinery	11
Transport	10
Information technology/telecommunications	10
Chemicals	8
Mail order	6
Wholesale	3
Construction	2
Others	9
Missing	1

Position of Respondents	
Managing director, chief executive officer	26
Head of marketing	26
Head of sales	13
Head of marketing and sales	13
Head of strategic business unit	5
Head of other departments	4
Others	12
Missing	1

Annual Revenues (in Millions of Dollars)	
<10	14
10 < 25	18
25 < 50	17
50 < 100	18
100 < 200	9
200 < 500	7
500 < 1,000	5
>1,000	7
Missing	5

Collection of Validation Samples

To validate the managers' responses, we collected two additional sets of data. First, we validated the managers' evaluations of relationship characteristics with customer evaluations. We recontacted all managers who returned questionnaires and requested a list of ten top-tier and ten bottom-tier customers. In total, 33 managers provided this information. Then, we conducted telephone interviews with the corresponding customers. We obtained at least three responses per customer tier and company, which led to 265 interviews. In this validation sample, we asked customers about their satisfaction with and loyalty to the focal firm.[3] For subsequent analysis, we averaged the customer responses for each firm and tier.

We then correlated the customer satisfaction and customer loyalty assessments with the managers' initial evaluations. The results show high correlations for both customer satisfaction (.80 for top-tier customers and .78 for bottom-tier customers; $p < .01$) and customer loyalty (.76 for top-tier customers and .69 for bottom-tier customers; $p < .01$) assessments. This indicates the validity of the managerial assessments of customer satisfaction and customer loyalty.

Second, we collected independent performance data to ensure the validity of the managers' assessments of their firms' return on sales as a performance measure. Because performance assessments based on self-reported data can be problematic as a result of effects such as common method bias (Podsakoff et al. 2003), we tested whether the managerial assessments and the independently collected performance measures sufficiently converged.

Using financial databases, we were able to collect the necessary data for 121 firms of our sample (39%). We correlated the return on sales as assessed by the managers with the return on sales as indicated by our secondary data. The correlation between both measures shows a high degree of convergence (.74; $p < .01$). This indicates that the managers' performance assessments are valid and can be used as dependent measures.

Measure Development and Assessment

Given the scarcity of prior empirical research on customer prioritization, the scales for this construct were newly generated. We measured customer prioritization using reflective multi-item scales. We defined the construct as the prioritization of important customers in the use of marketing instruments (i.e., product, price, sales, processes, and communication). We measured each of the five dimensions with three items. A complete list of all items and their psychometric properties appears in the Appendix.

Our measurement philosophy for this construct is based on the item-parceling approach that has been suggested as an appropriate way to reduce the complexity of constructs measured through a large number of indicators (Bagozzi and Edwards 1998; Little et al. 2002). The basic logic of this approach is to average items on the level of each dimension (product, price, sales, processes, and communication) so that the focal construct can be measured with a smaller number of aggregated indicators (i.e., the five facets of customer prioritization).

Using confirmatory factor analysis, we analyzed measure reliability and validity for customer prioritization with its five facets. The results show that our measurement approach exhibits desirable psychometric properties. More specifically, we obtain a Cronbach's alpha of .82, which exceeds Nunnally's (1978) suggested threshold value of .70. The construct reliability is .83, which is well above the suggested threshold value of .60 (Bagozzi and Yi 1988). In addition, the individual item reliabilities are above the supposed minimum value of .40 (Bagozzi and Baumgartner 1994). Finally, all factor loadings are highly significant, representing an additional indicator for convergent validity (Bagozzi, Yi, and Phillips 1991). Table 3 reports psychometric properties and overall fit statistics of the focal construct.

To measure relationship characteristics, we used single-item measures (assessed on seven-point rating scales anchored by 7 = "very high" and 1 = "very low") for the top-tier and bottom-tier customers' average customer satisfaction (Bowman and Narayandas 2004), average customer loyalty, and average share of wallet. For further analysis, we centered measures on the mean of the corresponding industry to rule out systematic cross-industry differences.

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[3]In the validation sample, we assessed customer satisfaction and customer loyalty with multiple items, such as the overall satisfaction, the degree to which the supplier meets expectations (for customer satisfaction), the repurchase intention, the intention to buy from the specific supplier for a long time, and the intention to buy additional goods/services from the supplier (for customer loyalty).

TABLE 3
Measurement: The Five Facets of Customer Prioritization

Construct Name (Aggregated Indicator)	M (SD)	Item-to-Total Correlation	Item Reliability	t-Value of Factor
Customer prioritization in product	4.18 (1.61)	.60	.44	11.78
Customer prioritization in price	4.31 (1.59)	.56	.45	11.41
Customer prioritization in sales	4.51 (1.55)	.69	.59	14.21
Customer prioritization in processes	3.49 (1.82)	.66	.53	13.40
Customer prioritization in communication	3.46 (1.73)	.58	.49	12.28

Notes: Overall fit statistics: Cronbach's α = .82, construct reliability = .83, average variance extracted = .50, comparative fit index = .97, root mean square error of approximation = .08, and standardized root mean square residual = .04.

We assessed all outcome measures with single items on seven-point rating scales and captured them as the average across the last three years in relation to industry competitors (7 = "significantly above industry average," and 1 = "significantly below industry average"). We chose a three-year period to control for potential time lags in performance effects of customer prioritization (Reinartz, Krafft, and Hoyer 2004; Rust, Moorman, and Dickson 2002).

With respect to the two control variables, we assessed each variable with two items (7 = "very extensively," and 1= "not at all") that capture the extent to which firms valuate their customers on the basis of (expected) sales and (expected) costs of serving customers. For further analysis, we averaged the two items for each construct. Table 4 shows summary statistics for the constructs of the first framework and the correlation matrix.

For the construct prioritization strategy, we used a reflective multi-item scale. We also measured the seven supporting factors of customer prioritization with reflective multi-item scales. We developed these scales on the basis of an extensive literature review (e.g., Jayachandran et al. 2005; Noble 1999; Reinartz, Krafft, and Hoyer 2004; Shah et al. 2006).

The results of the corresponding confirmatory factor analyses show that, with few exceptions, our scales exhibit desirable psychometric properties (see the Appendix). In addition, we used Fornell and Larcker's (1981) criterion to assess discriminant validity among the constructs of our second framework. The results indicate that there are no problems with respect to discriminant validity. For the second framework, Table 5 shows summary statistics for each construct and the correlation matrix.

Results

Performance Outcomes

We estimated the structural equation model reported in Figure 3 using LISREL 8.72 (Jöreskog and Sörbom 1996). The fit statistics indicate an acceptable fit of the model with the data (χ^2/d.f. = 1.52, comparative fit index = .90, root mean square error of approximation = .052, and standardized root mean square residual = .075).[4]

H_1 predicts a positive effect of customer prioritization on the average customer satisfaction of top-tier customers. This hypothesis is confirmed because the parameter esti-

mate is positive and significant (β_{21} = .26, p < .01). H_2 predicts a negative effect of customer prioritization on the average customer satisfaction of bottom-tier customers. The parameter estimate is negative but not significant (β_{51} = –.07, p > .10). Thus, we find no support for H_2.[5]

As we argued previously, customer prioritization should also enhance the efficiency of CRM. Accordingly, H_3 predicts that customer prioritization leads to lower marketing and sales costs in relation to sales. Because the corresponding parameter estimate is negative and significant ($\beta_{11,1}$ = –.17, p < .05), H_3 is confirmed.

For both customer tiers, H_{4a} and H_{4b} posit positive effects of average customer satisfaction on average customer loyalty and of average customer loyalty on average share of wallet. For top-tier customers, the corresponding estimates are positive and significant (β_{32} = .20, β_{43} = .31; p < .01), in support of $H_{4a(i)}$ and $H_{4b(i)}$. The same holds for bottom-tier customers: $H_{4a(ii)}$ and $H_{4b(ii)}$ are supported because the corresponding parameter estimates are positive and significant (β_{65} = .37, β_{76} = .45; p < .01).

In addition, H_{4c} predicts positive effects of average share of wallet on average sales per customer, which is supported for top-tier customers (β_{84} = .16, p < .05) but not for bottom-tier customers (β_{87} = .05, p > .10). Thus, $H_{4c(i)}$ is supported, but $H_{4c(ii)}$ is not.

These results have implications for the overall effect of customer prioritization on average sales per customer. An overall positive effect would occur if the positive effect of customer prioritization through the relationship characteristics of top-tier customers outweighed the supposed negative effect through the relationship characteristics of bottom-tier customers (Figure 1).

For top-tier customers, the results show that all path coefficients along the chain are positive (β_{21} = .26, β_{32} = .20, β_{43} = .31, and β_{84} = .16) and significant (at least p < .05). Thus, average sales per customer are positively affected by top-tier customers' average share of wallet, which itself is positively affected by customer prioritization through customers' average satisfaction and loyalty. For bottom-tier customers, however, the effects of customer prioritization on average customer satisfaction (β_{51} = –.07) and of average share of wallet on average sales per customer (β_{87} = .05) are not significant (p > .10). Thus, the results indicate a positive indirect effect of customer prioritization on average sales per customer through relationship characteristics with top-tier customers but no indirect effect through those with bottom-tier customers (Shrout and Bolger 2002; Ye, Marinova, and Singh 2007).

Furthermore, the results indicate that average sales per customer are positively related to average customer prof-

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[4]We tested our proposed framework against four rival models. In particular, we checked alternative ways through which customer prioritization and relationship characteristics of top-tier and bottom-tier customers might affect average sales per customer. We began with a rival model that assumes seven direct effects of customer prioritization and relationship characteristics of top-tier and bottom-tier customers on average sales per customer (Lacey, Suh, and Morgan 2007; Morgan and Hunt 1994). Then, we constructed the two mediating chains in three steps by sequentially defining relationship characteristics as mediators. The results show that none of these four models lead to a better fit with respect to the χ^2/d.f. value, the comparative fit index, the root mean square error of approximation, the standardized root mean square residual, and Akaike's information criterion.

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[5]We acknowledge that for bottom-tier customers, there might be reasons for a potential decline in customer loyalty and share of wallet other than satisfaction, such as getting a better deal with a competitor. However, additional analyses show that the results with respect to the effect of customer prioritization on bottom-tier customers' satisfaction, loyalty, and share of wallet are not substantially altered when we control for competitive intensity, the availability of other suppliers, and the importance of the good/service for the customer.

TABLE 4
Framework 1: Correlations and Summary Statistics

Variable						Correlations							
	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Customer prioritization	1.00												
Top Tier													
2. Average customer satisfaction	.24	1.00											
3. Average customer loyalty	.16	.20	1.00										
4. Average share of wallet	.07	.11	.31	1.00									
Bottom Tier													
5. Average customer satisfaction	–.09	.20	.11	–.15	1.00								
6. Average customer loyalty	–.03	.16	.18	–.08	.37	1.00							
7. Average share of wallet	.01	–.03	.08	.37	.14	.45	1.00						
8. Average sales per customer	–.07	.00	.00	.17	–.03	.08	.11	1.00					
9. Average customer profitability	–.12	.05	–.01	.07	–.03	.05	.09	.32	1.00				
10. Return on sales	–.07	.00	–.02	.08	–.06	.01	.03	.15	.34	1.00			
11. Marketing and sales costs in relation to sales	–.22	–.10	–.03	–.05	–.01	.11	.01	.09	–.11	.00	1.00		
Customer Valuation Based on …													
12. Past customer profitability	.27	.15	.11	.16	–.09	–.08	.07	–.02	–.05	–.01	–.22	1.00	
13. Expected future customer profitability	.35	.25	.21	.36	.06	–.07	.07	.05	.03	–.04	–.18	.46	1.00
Summary Statistics													
M	3.96	.01[a]	–.02[a]	.01[a]	.03[a]	.02[a]	.00[a]	4.13	4.18	4.53	3.81	5.05	4.56
SD	1.26	.96	1.03	1.59	1.34	1.54	1.58	1.14	1.06	1.28	1.29	1.17	1.32

[a]For each case, variables are centered on the mean of the corresponding industry.

TABLE 5
Framework 2: Correlations and Summary Statistics

Variable	Correlations								
	1	2	3	4	5	6	7	8	9
1. Prioritization strategy	1.00								
2. Customer prioritization	.59	1.00							
3. Ability to assess customer profitability	.22	.30	1.00						
4. Quality of customer information	.46	.32	.54	1.00					
5. Selective organizational alignment	.59	.64	.22	.29	1.00				
6. Selective senior-level involvement	.62	.26	.12	.10	.68	1.00			
7. Selective elaboration of planning and control	.37	.41	.23	.21	.49	.35	1.00		
8. Compensation according to prioritization outcomes	.28	.35	.14	.35	.26	−.16	.29	1.00	
9. Prioritization-consistent shared beliefs	.48	.42	.18	.26	.39	.24	.28	.14	1.00
Summary Statistics									
M	5.56	3.99	4.56	4.71	4.72	5.32	4.32	3.32	5.05
SD	1.08	1.27	1.49	1.47	1.39	1.36	1.67	1.47	1.41

itability (β_{98} = .32, p < .01) and that marketing and sales costs in relation to sales are negatively related to average customer profitability ($\beta_{9,11}$ = −.15, p < .05). Finally, average customer profitability is positively related to return on sales ($\beta_{10,9}$ = .35, p < .01).

With respect to the control variables, both are positively related to customer prioritization (γ_{11} = .15, p < .10; γ_{21} = .29, p < .01). Except for a negative effect of customer valuation based on past customer profitability on marketing and sales costs in relation to sales ($\gamma_{11,1}$ = −.15, p < .10), there are no significant effects on performance outcomes (γ_{81}, γ_{82}, γ_{91}, γ_{92}, and $\gamma_{11,2}$; p > .10).

These results are important because marketing-mix intervention models in CRM are often subject to endogeneity (Boulding et al. 2005; Rust and Chung 2006). This phenomenon occurs because CRM strategies are often formed on the basis of expectations about future customer profits. Therefore, we controlled for customer valuation criteria as antecedents of customer prioritization. An endogeneity problem would occur when these antecedents also affect customer profitability. Because this is not the case, endogeneity is not a major problem in our model (Boulding et al. 2005; Echambadi, Campbell, and Agarwal 2006; Hitt, Boyd, and Li 2004). To summarize, the results indicate that customer prioritization implies a higher return on sales as average customer profitability is increased (1) by indirectly increasing average sales per customer through top-tier customer relationship characteristics and (2) by decreasing marketing and sales costs in relation to sales.

Implementation Issues

Before testing the corresponding hypotheses, a descriptive result of our analysis is worth mentioning. The results indicate that 83% of the firms in our sample intend to prioritize their customers to a high extent (i.e., having a mean rating across the items for "prioritization strategy" ≥5 on a seven-point scale). In contrast, only 38% indicate that they actually prioritize customers to a high extent (i.e., having a mean rating across the items for "customer prioritization" ≥5 on a seven-point scale). Thus, the descriptive results

indicate a substantial implementation gap between intended and actual customer prioritization.

To test H$_{5a–g}$, we assessed the influence of the seven moderator variables on the link between prioritization strategy and customer prioritization. We performed multiple-group LISREL (Jöreskog and Sörbom 1996) for each moderator and compared the link between prioritization strategy and customer prioritization in two conditions: when the values of the moderator variable are low and when the values are high. We used a median split to identify the respective groups.[6]

We compared two models for each moderating effect. The two models differ only with respect to the effect of prioritization strategy on customer prioritization. The first (general) model allows the effect of prioritization strategy on customer prioritization to vary across groups (high versus low moderator value). The second model restricts this effect to be equal across groups.

We tested whether the imposition of the equality constraint leads to a model that fits the data significantly worse than the unrestricted model. This would indicate the presence of a moderating effect. The significance of the change in model fit is assessed by the chi-square difference between the general and the restricted model. Because the difference in degrees of freedom between both models is 1, the critical value for the chi-square statistic is 3.84 (p < .05).

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[6]Prior work has frequently used median splits in similar analyses (e.g., Palmatier, Scheer, and Steenkamp 2007). To analyze whether the results remain stable when other split criteria are used, we conducted a sensitivity analysis. We conducted three other splits to identify groups of high and low value of the moderator: by comparing (1) the top 45% and the bottom 45% (i.e., eliminating 10% of the cases around the median), (2) the top 40% and the bottom 40%, and (3) the top 33% and the bottom 33%. We then performed multiple-group LISREL for each moderator using these different split criteria. The results across all analyses remain stable.
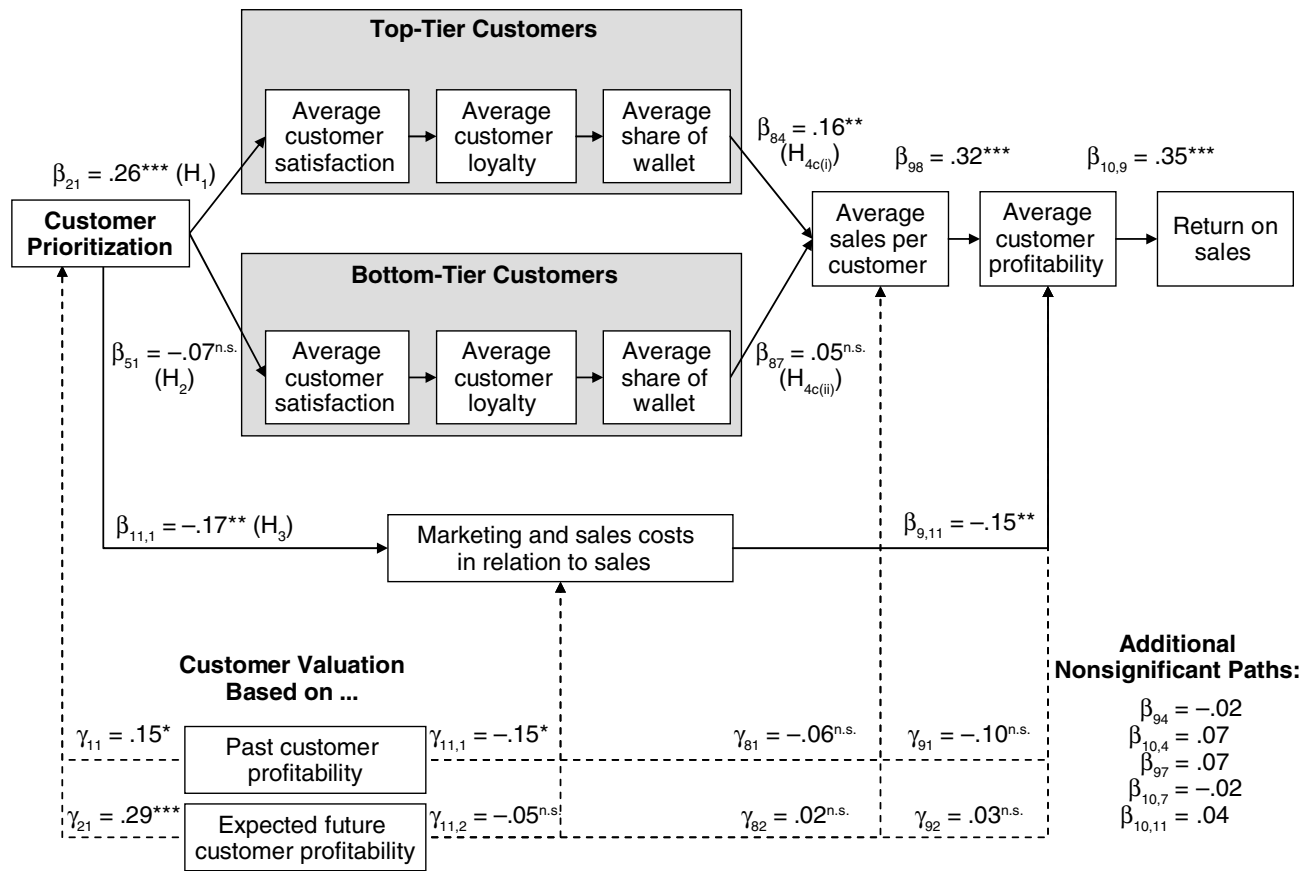
$*p < .10.$
$**p < .05.$
$***p < .01.$
Notes: Completely standardized coefficients are shown. n.s. = not significant.

For all seven moderators, the results show that the link between prioritization strategy and customer prioritization is stronger when the moderator value is high (see Table 6). Furthermore, the chi-square statistic is significant at the 1% level for the ability to assess customer profitability ($\Delta\chi^2 = 12.94$), the quality of customer information ($\Delta\chi^2 = 7.02$), selective organizational alignment ($\Delta\chi^2 = 7.54$), selective senior-level involvement ($\Delta\chi^2 = 7.65$), and selective elaboration of planning and control ($\Delta\chi^2 = 10.81$). These five factors have a positive moderating effect on the link between a prioritization strategy and customer prioritization. Thus, H_{5a-e} are supported. With respect to compensation according to prioritization outcomes, we find a weak positive moderating effect ($\Delta\chi^2 = 2.79$, $p < .10$). Thus, there is only weak support for H_{5f}. Regarding the moderating effect of prioritization-consistent shared beliefs, the chi-square statistic is not significant ($\Delta\chi^2 = 2.15$, $p > .10$), and therefore H_{5g} is not supported. Table 6 shows the results of the multiple-group analyses.

Discussion

Research Issues

The point of departure of this study was the question whether firms should prioritize their customers. Although it seems to be common sense that prioritizing customers can enhance profits, this has been frequently challenged by substantial counterarguments (e.g., Brady 2000; Kumar and George 2007). In addition, prior research has not satisfactorily answered the question whether customer prioritization really pays off.

Based on a cross-industry sample including B2B and B2C markets, our findings show that customer prioritization positively affects firm profits compared with treating all customers equally by two mechanisms. First, customer prioritization affects important customer relationship characteristics (customer satisfaction, customer loyalty, and share of wallet) of top- versus bottom-tier customers differently. Whereas prioritizing customers affects average satisfaction

TABLE 6
Results of Multiple-Group Analysis

Moderator Variable (Hypothesis)	Hypothesized Effect of the Moderator	Link Between Prioritization Strategy and Customer Prioritization		χ^2 Difference Between General and Restricted Model (Δd.f. = 1)
		Path Coefficient (γ_{11})		
		Group with Low Value of Moderator	Group with High Value of Moderator	
Ability to assess customer profitability (H_{5a})	+	.30**	.70**	12.94**
Quality of customer information (H_{5b})	+	.38**	.69**	7.02**
Selective organizational alignment (H_{5c})	+	.28**	.65**	7.54**
Selective senior-level involvement (H_{5d})	+	.33**	.70**	7.65**
Selective elaboration of planning and control (H_{5e})	+	.33**	.73**	10.81**
Compensation according to prioritization outcomes (H_{5f})	+	.44**	.66**	2.79*
Prioritization-consistent shared beliefs (H_{5g})	+	.36**	.56**	2.15[n.s.]

*$p < .10$; $\Delta\chi^2 > 2.71$.
**$p < .01$; $\Delta\chi^2 > 6.63$.
Notes: n.s. = not significant.

of top-tier customers positively, the average satisfaction of bottom-tier customers is not negatively affected. Furthermore, average sales per customer are positively affected by top-tier customers' average share of wallet. The latter is positively affected by customer prioritization through average satisfaction and loyalty of this tier. However, for bottom-tier customers, this indirect effect of customer prioritization on average sales per customer through important relationship characteristics is not significant. Second, customer prioritization increases average customer profitability because the former reduces marketing and sales costs in relation to sales. This increased efficiency of marketing and sales efforts leads to higher average customer profitability.

Thus, our results show that customer prioritization allows for a simultaneous increase in financial returns through operational efficiencies and revenue enhancements by increasing top-tier customer satisfaction. This finding is important because prior work has stressed that there are conflicts between a revenue expansion and a cost reduction strategy (Rust, Moorman, and Dickson 2002). Furthermore, prior research has provided mixed results as to whether a dual emphasis on both enhances performance (Mittal et al. 2005; Rust, Moorman, and Dickson 2002).

Why does customer prioritization not negatively affect average customer satisfaction of bottom-tier customers? The confirmation/disconfirmation paradigm on customer satisfaction formation offers one potential explanation for this finding. According to this paradigm, satisfaction (or dissatisfaction) is the result of a cognitive and affective evaluation, in which the actual perceived performance is compared with a standard. The latter is affected by performance expectations and prior experiences with the focal firm or by external sources (e.g., Anderson and Sullivan 1993; Oliver 1997). Usually, customers (especially in a B2B context) can assess more or less accurately how impor-

tant they are to their suppliers. As this assessment affects performance expectations, bottom-tier customers should have lower expectation levels than top-tier customers. When a firm treats all customers equally, the performance delivered to its bottom-tier customers is likely to be higher than necessary to meet their expectations. Thus, a reduction in performance for those customers to the level of their expectations may not influence satisfaction because no negative disconfirmation occurs.

Another explanation for this finding might be that firms that prioritize customers might have sufficient marketing resources to maximize the profitability of top-tier customers and also to allocate sufficient marketing resources to ensure that the bottom-tier customers are not dissatisfied with the firm. Thus, when firms have sufficient resources, they might be able to "delight" the top-tier customers and to satisfy bottom-tier customers.[7]

Furthermore, we found no positive effect of average share of wallet of bottom-tier customers on average sales per customer. A potential explanation might be related to the criteria firms use to evaluate customers. Firms often rely on (potential) sales for customer valuation (see n. 2). Thus, the bottom tier should contain customers with fairly low (potential) sales volumes. Thus, an increase in average share of wallet of bottom-tier customers might not have a significant effect on average sales per customers because of the relatively low level of sales.

Another key issue that our study addressed was the question of how firms can facilitate the implementation of a prioritization strategy. Research has shown that implementation is a critical link between strategic initiatives and organizational performance (Noble and Mokwa 1999). We find

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[7]We thank an anonymous reviewer for this idea.

that the positive relationship between a prioritization strategy and actual customer prioritization is stronger when important internal prerequisites are met (see Table 6). These results underscore the importance of empirical research on marketing implementation issues.

In particular, the results show that the link between a prioritization strategy and customer prioritization is positively moderated by the ability to assess customer profitability, the quality of customer information, selective organizational alignment, selective senior-level involvement, selective elaboration of planning and control, and (to a lower extent) compensation according to prioritization objectives. However, although the link between a prioritization strategy and customer prioritization is stronger when there is a high degree of prioritization-consistent shared beliefs of customer-contact employees, the moderating effect on the strategy–implementation link is not significant. Therefore, the alignment of "hard factors" tends to be more important in implementing a prioritization strategy. This finding is particularly notable because research has increasingly focused on the role of "soft factors," such as culture, for the implementation of marketing strategies (e.g., Dobni and Luffman 2000).

Limitations

This study is also subject to several limitations, which in turn provide avenues for further research. First, our study uses data obtained from customers only to a limited extent. For example, it was not possible to validate average share of wallet with customer data because customers in our validation sample were reluctant to provide such information. Further research in this field should use customer data to a greater extent to achieve a deeper understanding of the processes that drive customer reactions to customer prioritization. In this context, further research might address the effects of word of mouth in interactions of customers in different tiers or with different prospects.

Second, our study uses perceptual measures of performance outcomes to conduct a cross-industry study. Although we validate the managers' assessments of return on sales with secondary data and find a high convergence between both assessments, we cannot validate the managers' assessments of average customer sales and profitability as well as marketing and sales costs in relation to sales. Thus, further research might study performance outcomes of customer prioritization by using customer account data. However, such an approach would be practical only on a company level and would reduce the generalizability of the results.

Third, we assess performance outcomes on the level of the entire customer portfolio. Further research could analyze in greater detail how customer prioritization affects customer profitability in each tier. In particular, research could analyze whether customer prioritization enhances the profitability of both customer tiers and whether profitability changes in each tier are due to sales effects or cost effects (or both). Such an analysis would require detailed customer account data and therefore would be practical only by studying a limited number of companies.

Fourth, the focus of this study is on answering the fundamental question whether customer prioritization in general pays off. Further research could examine in greater detail whether firms apply different approaches of customer prioritization (e.g., some firms might focus on prioritization in price, whereas others might focus on sales) and whether these different approaches lead to different performance outcomes.

Fifth, with respect to the implementation of a prioritization strategy, we focus on a specific aspect of culture by addressing prioritization-consistent shared beliefs of customer-contact employees. However, organizational culture is a more complex phenomenon consisting of values, norms, and artifacts (Schein 1992). Thus, further research could examine in greater detail the role of organizational culture in implementing a prioritization strategy.

Managerial Implications

A first implication of this study is that managers should strive for customer prioritization. The results indicate that customer prioritization positively affects average sales per customer. Our study shows that customer prioritization has a positive effect on the relationships with top-tier customers, but we do not find a negative effect on the relationships with bottom-tier customers or the entire customer portfolio. Therefore, customer prioritization enables firms to develop important relationships that ultimately drive sales and profitability. In this context, firms can use relationship characteristics of top-tier and bottom-tier customers to monitor tier-specific outcomes of customer prioritization. In addition, customer prioritization drives customer profitability by reducing marketing and sales costs and thus implies a more efficient use of marketing resources. Thus, managers can simultaneously enhance the efficiency of their CRM efforts and increase sales by prioritizing customers.

Second, our study shows that a prioritization strategy in itself does not necessarily mean that a firm will implement it. Our results imply that firms should meet important prerequisites for achieving the implementation of a prioritization strategy. We find that the ability to assess customer profitability and a selective elaboration of planning and control have the highest impact on the strategy–implementation link. Therefore, strong emphasis should be placed on planning and control on a customer (segment) level for the most valuable customers and on the assessment of customer profitability. In addition, firms should assist prioritization efforts by aligning their organizational structure, for example, by creating customer-responsive units for the most valuable customers. Furthermore, senior-level management should especially be involved in CRM for the most valuable customers. Our study also shows that firms need to have broad and up-to-date customer-based information to be able to address their most important customers' needs appropriately. With respect to reward systems, we can conclude that incorporating performance outcomes of customer prioritization in a variable compensation scheme facilitates implementation. Thus, managers should place a strong emphasis on the alignment of hard factors when implementing a prioritization strategy.

Construct	Items	Individual Item Reliability	Average Variance Extracted	Composite Reliability/ Coefficient Alpha
Customer Prioritization in …	To what extent do you differentiate between customers/customer segments in relation to the following aspects?			
Product[a]	•Offer of goods/services	.55	.64	.84/.83
	•Offer of individualized goods/services	.79		
	•Offer of additional services	.58		
Price[a]	•Price level	.46	.60	.81/.79
	•Price conditions (e.g., rebates, discounts)	.86		
	•Flexibility of payment targets	.46		
Sales[a]	•Distribution model (e.g., direct versus indirect, cross-functional teams for serving customers)	.41	.50	.74/.71
	•Quality of the sales personnel	.35		
	•Frequency of contacts initiated by the sales force	.73		
Processes[a]	•Rapidity of processes	.86	.76	.90/.90
	•Flexibility of processes	.85		
	•Transparency of processes	.65		
Communication[a]	•Quality of information given to the customers	.72	.63	.83/.83
	•Timing of information transfer	.77		
	•Costs of communication efforts	.60		
Prioritization Strategy[b]	Our customer management strategy states that …			
	•Specific customers/customer segments obtain priority.	.66	.55	.88/.88
	•Customers/customer segments are served differently according to their importance.	.55		
	•The allocation of marketing and sales resources to customers/customer segments depends on their importance.	.61		
	•The form of customer care is differentiated according to the importance of customers/customer segments.	.62		
	•We invest in important customers/customer segments.	.44		
	•We want to build long-term relationships with important customers/customer segments.	.42		
	With respect to the design of your information systems, to what extent do you agree with the following statements?			
Ability to Assess Customer Profitability[b]	•We can assess sales for different customers/customer segments.	.26	.54	.82/.82
	•We can assess costs of goods sold for different customers/customer segments.	.58		
	•We can assess costs of customer care for different customers/customer segments.	.71		
	•We can allocate indirect costs of customer care to each customer (segment) by using activity-based costing.	.61		
Quality of Customer Information[b]	•We have a lot of qualitative data to determine the importance of customers/customer segments (e.g., reference impact, information provided by the customers).	46	.64	.84/.82
	•We have a very broad information base about our customers/customer segments.	.90		
	•We update our customer information regularly.	.55		

Construct	Items	Individual Item Reliability	Average Variance Extracted	Composite Reliability/ Coefficient Alpha
	The more important the customers/customer segments are ...			
Selective Organizational Alignment[b]	•The more likely specific organizational units are installed to serve them.	.56	.52	.81/.81
	•The more persons from different functions are involved in serving them.	.67		
	•The shorter the internal paths of escalation in case of customer inquiries are.	.53		
	•The easier it is for our employees in customer care to get the necessary input from other functional units (e.g., research and development, production, logistics, information technology).	.32		
Selective Senior-Level Involvement[b]	•The more centralized decision competencies are.	—	—	—/.75
	•The more involved the top management is in CRM.	—		
Selective Elaboration of Planning and Control[b]	•The more often the control of planning and implementation of customer- (segment-) specific actions is conducted.	.74	.77	.91/.91
	•The smaller critical discrepancies from planning figures are.	.74		
	•The more detailed the control of planning and implementation is.	.83		
Compensation According to Prioritization Objectives[c]	How much are the following aspects considered in your variable compensation scheme?			
	•Customer profits (sales less variable costs and fixed costs of production and sales) of high-priority customers/customer segments.	.58	.57	.87/.86
	•Share of sales of high-priority customers/customer segments.	.44		
	•Share of customer profits of high-priority customers/customer segments.	.71		
	•Satisfaction of high-priority customers.	.46		
	•Loyalty of high-priority customers.	.67		
Prioritization-Consistent Shared Beliefs[c]	How typical are the following statements for the thinking of your employees in customer care?			
	•Important customers/customer segments have to get more attention than less important ones.	.45	.66	.85/.94
	•A differentiated approach of customer care helps us to better exploit the potential of each customer (segment).	.71		
	•Clearly defined priorities concerning customers/customer segments are a means of augmenting the efficiency of customer care.	.83		

[a]Seven-point rating scales anchored by 1 = "not at all—we treat all customers equally" and 7 = "very much with respect to their importance."
[b]Seven-point rating scales anchored by 1 = "totally disagree" and 7 = "totally agree."
[c]Seven-point rating scales anchored by 1 = "not at all" and 7 = "very much."

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