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REVIEW

Nomen est omen: formalizing customer labeling theory

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Abstract Organizations use a variety of labels to refer to their customers — the individuals who use their products and services. These labels (e.g., guests, students, clients, members, patients, users, etc.) suggest different meanings and connotations than being a simple customer. In this paper, we explore traditional labeling theory, and its roots in categorization and semiotic theories, to aid in the understanding of the customer-firm relationship. We then extend and formalize this to a customer labeling theory, in which we posit that a firm's labels for its customers may shape consumer and organizational attitudes. Therefore, if customers become what marketers call them, then these labels shape the dialog between organizations and their customers. Thus, customer labels indirectly impact the success of firms' customer relationship management efforts. We discuss customer labeling implications for firms and make suggestions for future academic research.

Keywords Labeling theory · Customer labels · Customer relationship management · Expectations management · Customer service quality · Psychological contracts · Organizational communication

Introduction

In business, the term "customer" is widely accepted as a generic label that is appropriate for all organizations to refer to individuals with whom they deal and who procure and consume their offerings. However, organizations might use other labels instead of customer. For example, airlines often call these individuals passengers, elite members or guests; universities refer to students; insurance companies call them clients; health care providers use the label patients; and fitness equipment providers talk about athletes. Different customer labels are everywhere in the market.

Labels are an important part of how managers describe the people who use their firm's services or products. A label is a metaphoric word or phrase that defines the labeled individual's identity and constructs the relationship between the labeled and the labeler (McDonald 2006). Thus, labels carry more weight than their dictionary meaning (McLaughlin 2009). Whether they are just used privately, within the organization, or externally, in public marketing communications, labels ascribe a very specific status and meaning to a firm's customers. This, we contend, has a considerable impact on a firm's customer relationship management efforts.

Despite the importance of labels, scant attention in the marketing literature has been given to the significance of choosing, or changing, customer appellations. In a response to calls for more theory development in marketing (Crittenden and Peterson 2011; Yadav 2010), we work from traditional labeling theory to formalize a customer labeling theory. This contributes to our understanding of the importance of customer labeling in two important ways. First, working from customer expectation theory, we put forward that a firm's labels for its customers alter how these individuals expect to be treated in their dealings with the firm. Second, building on research of customer service provision, we examine the constituting relationship between customer labels and customer relationship management, where one shapes and is shaped by the other. Thus, we propose that the firm's choice of customer labels will also affect how its employees and managers perceive and treat customers, and vice versa.

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We begin with a review of traditional labeling theory and add lenses of semiotics (Mick 1986) and categorization theory (Bitner 1992) before we discuss the nature of psychological contracts that labels produce. We then develop a marketing perspective of labeling theory and introduce propositions illustrated by well-known examples. After considering managerial implications of customer labeling, we conclude by proposing areas for future academic research.

Traditional labeling theory

Labeling theory's roots in symbolic interactionism theory were laid by Cooley (1902), and later further developed by Mead (1934), Tannenbaum (1938) and Lemert (1951). Cooley (1902) created the idea of the "looking glass self" in which he advocated that people define themselves according to society's perceptions of them. He claimed that the way individuals feel about themselves consists of three elements: (1) how we imagine we appear to others, (2) our imagination of how others judge our appearance, and (3) a resulting self-feeling. Mead (1934) adds that the self is the product of the mind's perception of social symbols and interactions. In this context, language becomes essential for any understanding of everyday life (Berger and Luckmann 1966) and human behavior in the constantly changing context of social interaction.

This importance of language helps define what we mean by *labeling*. Pfuhl and Henry (1993) provided a simple definition by stating that labeling occurs when nouns replace verbs to characterize people. For example, if the verb "to steal" ("that guy stole my purse!") is replaced by the noun "thief" ("that guy is a thief!"), that person is labeled as a thief. In other words, nouns used for labeling offer verbal and mental shortcuts with deeper meanings and inherent connotations that extend beyond the dictionary entry: a label activates a set of cognitions about a group, which has a profound effect on how members of the organization think about and act toward the group (Ashforth and Humphrey 1997). Labeling theorists reason that the primary motive for labeling is social control, with assignment of derogatory social identities to individuals by those with authority, status and power to maintain the status quo.

Many contributions to the development and advancement of labeling theory come from studies of criminology and deviant behavior (e.g., Becker 1963). Management scholars have applied labeling theory to organizational behavior, especially its focus on self-identification as defined by the groups to which individuals belong (Ashforth and Mael 1989; Ashforth and Humphrey 1997; Hogg and Terry 2000). For example, in strategic management, Smircich and Stubbard (1985) employed such an interpretative perspective and reasoned that organization and environment are enacted through social interaction. These authors contend that "environment" and "organizations" are convenient labels for patterns of human activity. Moreover, the meanings people ascribe to each other's actions have consequences for their future behavior (Thio 1988).

Social construction of labels

Labels interpret, organize and communicate socially constructed and symbolically mediated meaning within the organizational environment. Consequently, Ashforth and Humphrey (1997) suggest that a meaningful analytical lens should expand beyond labeling theory and include categorization theory and semiotics. The former, categorization theory, deals with the process of constructing categories (Bitner 1992), where these categories are used to simplify the social environment by interpreting individuals as members of understood and pre-defined groups. In the context of this work, labels are powerful ways of inducing one or more customer categories that in turn help firms and their employees simplify their environment and focus their interaction with customers.

To ascribe meaning to these categories, the complementary lens of semiotics helps shed light on how commonly understood and pre-defined perceptions of categories come to be shared (Mick 1986). By referring to signified objects (i.e., categories of individuals or groups) in terms of symbols or "signifiers", the signifier evokes a set of cognitions related to the signified object or group. For example, the term "architect" (i.e., the signifier) refers to an occupational group that performs certain functions, for instance drafting structures (i.e., the signified). The term evokes expectations about how people in the group will behave and, more importantly, how one should behave and feel toward such people. A shared understanding of the signifier engenders similar responses to the signified across the organization. Based on certain role or status criteria, people are sorted (i.e., by social convention, not necessarily by choice) into categories or groups. Labeled individuals lose their individuality and are treated as exemplars of the category or group to which they belong (Ashforth and Humphrey 1997).

By imposing a label, psychological and sociological forces are set in motion to validate the label. A label applied to a given act may cause those who observe or know of the act to see and behave toward the individual as a person likely to perform such acts. Eventually, through a process of self-labeling (Ashforth and Humphrey 1997) or social identification (Ashforth and Mael 1989), the labeled individual may internalize the social cues and define him- or herself in terms of the label.

Combined with the tenets of categorization theory and semiotics, labeling theory posits that "categorization is sufficient for identification to occur" (Ashforth and Mael 1989, p25). Individuals adopt the role ascribed to them, and act accordingly (Ashforth and Humphrey 1997) within the group (i.e., social context) in order to reduce uncertainty and manage expectations from their social environment (Hogg and Terry 2000).

Implications of label valence

Labeling theory holds that ascribing a label to someone may have profound consequences for the labeled person, especially when it involves morally weighted connotations (Pfuhl and Henry 1993) and positive or negative public labels. Positive labels, may invoke positive reactions in the person being named (e.g., Levin et al. 1982). For instance, being known as "a clever person" or "that funny guy" may induce positive feelings of self-worth in the person being labeled.

Labeled individuals become particularly entrenched in their ascribed roles (Mankoff 1971), especially if they have public labels that limit their ability to break free from the category or the commonly associated semiotic meaning (Ashforth and Humphrey 1997). Labeling theory suggests that these labels can even amplify people's labeled behavior as they come to accept that label (Gove 1980). In a sociological experiment, Rosenthal and Jacobson (1968) randomly assigned children within a larger group as "gifted" and subsequently informed their teachers that these students could be expected to "bloom" and "spurt" in scholastic performance. After a year, the children realized average gains in IQ that significantly exceeded the gains achieved by their control group's classmates - evidence that labeling matters and labels can become a self-fulfilling prophecy.

Negative labeling, on the other hand, is found to have adverse consequences for the labeled person. This is especially true in the lives of children, where being labeled a "nerd", "dork" or "tomboy" may raise serious questions of self-worth in the child. Similarly, negative labels limit employment prospects (Wiesner et al. 2010; Davies and Tanner 2003), bias people's perception (Jussim et al. 1995; Hornstra et al. 2010), and affect attitudes toward the mentally ill (Thoits 2011; Saddichha 2010; Socall and Holtgraves 1992; Link et al. 1989; Link 1987). An example of negative labeling is provided by Tannenbaum (1938), who studied juvenile participation in street gangs. He found the stigma placed on people when they are tagged as "deviant" caused them to fall deeper into nonconformist or deviant behavior. He concluded that the process of tagging, defining, identifying, segregating, describing, emphasizing, making conscious and self-conscious contributes to the making of a criminal. This labeling process becomes a way of stimulating, suggesting, emphasizing, and evoking the offending traits, thus causing the individual to become the person (s)he is described as being (Tannenbaum 1938). While the above research is important, it discusses the impact of labeling on the labeled individual but not the relationship that develops between the labeled and the labeler.

Labels and psychological contracts

A psychological contract signifies the mutual agreement on the shared beliefs, perceptions, and informal obligations between two parties, and defines the dynamics for their relationship (Rousseau 1989; Rousseau and McLean Parks 1993; Robinson 1996). Simon et al. (1950, p. 381–382) claim:

> each participant and group of participants receives from the organization inducements in return for which he makes to the organization contributions…each participant will continue his participation in an organization only so long as the inducements offered him are as great or greater than the contributions he is asked to make.

These exchanges between individuals and organizations are pervasive in human society: the social exchange of activities and goods. Gouldner (1960) finds that social exchanges are governed by a norm of reciprocity, which Blau (1964, p. 89) extends by claiming, "an individual who supplies rewarding services to another obligates him. To discharge this obligation, the second must furnish benefits to the first in turn." Thus, being labeled creates a psychological contract between the labeled customer and the labeling organization, and this explains how both parties' attitudes (beliefs, feelings, and actions) towards each other emerge. Labels convey expectations to labeled individuals about what benefits they should receive, as well as the obligations that are expected in return from the labeled. Similarly, labels form psychological contracts in the mind of labelers, as they give certain benefits and expect certain behaviors in return.

When individuals feel that they have upheld their own obligations but their exchange partner has not, they are likely to perceive that their psychological contracts have been violated. For example, when individuals perceive an organization has violated the psychological contract created, they react in two ways. First, they respond by adjusting their obligations to the violating organization by lowering them (Robinson et al. 1994; Sapienza et al. 1997) and reducing their attachment feelings to that organization (Epitropaki 2013). Second, and following from the first, individuals also adjust their behaviors in ways that are detrimental to the organization (Hannah 2004). For example, in the context of personnel management, employees who believe their psychological contracts have been violated are less likely to engage in voluntary behavior that benefits their employers (Robinson and Morrison 1995; Robinson 1996), are more likely to be absent from work (Deery et al. 2006), and are more likely to eventually leave their employers (Robinson et al. 1994).

Thus, labeled customers who feel that the psychological contract, created by the customer label, has been violated will lower their obligations to the violating firm (e.g., spreading less positive word of mouth to peers, or reducing consumption of the firm's market offerings), reduce their attachment feelings to the firm (e.g., begin looking for substitute suppliers), and will display behaviors that may be detrimental the firm (e.g., spreading negative word of mouth, or ending the customer relationship with that firm). In sum, we contend that customer labels create psychological contracts that specify the inducements and obligations afforded to both the customer and the firm, and have important consequences should the firm not live up to the label.

Advancing labeling theory

A primary source of criticism of labeling theory is that it is hard to apply and test empirically (cf. Douglas and Waksler 1982; Orcutt 1983; Thio 1988). Nonetheless, the theory has been explored extensively in areas as diverse as mental illness (e.g., Thoits 2011; Saddichha 2010) and education (e.g., Hansen and Jones 2010; Hornstra et al. 2010, Rosenthal and Jacobson 1968). Fiske and Neuberg (1990) first tested labeling theory in the general business context and business scholars have since then applied it to various fields of management (e.g., McLeod et al. 2010). Ashforth and Humphrey (1997) contended that categories and labels are widely utilized by individuals in organizational settings to help structure and simplify the social environment, primarily for reasons of understanding, consensus, and control. Thus, perceived attributes are the outcome of labeling, not the cause. Individuals come to view their labels as reliable mirrors of reality to the extent that they will reinterpret perceived behavior by the object (observed member of a particular category) to be consistent with the classification, even if it is not. In this way, "the perceiver's actions create a self-fulfilling prophecy" (Ashforth and Humphrey 1997, p48).

In a study of labeling used as a sense-making process in service personnel's dealings with individual clients, Ashforth and Humphrey (1997) find that "a service agent, like any perceiver, will have a natural tendency to rely upon categorical information in constructing the client. Also, the agent will tend to interpret ambiguous and inconsistent information so as to confirm an initial label, and to both think about and act toward the client in a manner that confirms the label" (p. 49). Prior research showed that service personnel are most likely to rely on categorical information when the task is complex, control is limited, the clients are numerous and heterogeneous, and the duration of the interaction is weak (Mennerick 1974; Waegel et al. 1981). Poor service, therefore, can be seen as a reflection of the inappropriate, but automatic, application of labeling tendencies (Ashforth and Humphrey 1997).

Labeling theory in marketing

Many institutions have their own labels to refer to 'generic' customers who purchase, consume or use their offerings (e.g., users, guests, members, clients, partners, patients). Thus, the organization that actually calls its customers "customers" is less common than might be expected.

We reason that labeling theory holds in marketing. Organizations employ *public customer labels*, where the organization labels its customers in public communications. At the same time, organizations might use *private customer labels* internally, behind their backs, as it were. Customers are typically unaware of the existence of these labels. The (mis)alignment of these two labels has important implications for how representatives of the organization perceive and manage customers. Customers become what they are called, and their perceptions of the label shape their expectations of service from, and attitudes towards, the organization.

The potential consequences for marketers are profound. For instance, the perception of *public customer labels*, such as "prestige", "elite" and "super elite" builds a psychological contract that shapes relatively high levels of expectations and obligations among customers and representatives of the organization respectively. This psychological contract becomes more complex when organizations have private and public customer labels and can be perceived differently. For the abovementioned public customer label examples, using private customer labels such as "passenger" may result in comparatively low levels of service provision by the organization's representatives. This misalignment of public and private customer labels and the resulting levels of service provision could result in a violation of the psychological contract, negatively affect the attitudes of both parties, and harm the customer relationship irreparably.

Labeling theory suggests that it is important for organizations to consider the implications of both their public and private labeling of customers. It is clear that any public admittance of an individual's role, regardless of whether that role is an accurate descriptor or not, has definite implications for the customer and the organization. We now explore some of these possible consequences.

Consequences of customer labeling for the customer

Having assigned a customer to a category or group (e.g., passenger or patient), social classification enables individuals to define themselves in the particular social context (Ashforth and Mael 1989). We have outlined how, once labeled in a specific way, irrespective of emotional connections or whether the labeling is accurate or not, customers will eventually start to think of themselves as *being* what they are labeled, until that becomes their identity every time they deal with the organization, and they then act accordingly. This label will dictate not only how customers act towards the organization but also *how* they expect to be treated and reacted to by the organization. This perspective has important implications for marketers and organizations, for it suggests that how organizations refer to customers *does* matter, and in fact possibly matters a great deal more than we used to think.

Consider customers of a public transit company who are generally referred to as "passengers". This label will have certain consequences. As passengers, their expectation will be that a train will transport them from one point to the next in a reasonable amount of time, more or less on time. As passengers, these labeled customers will neither expect nor receive any special attention. They also know that the train will not wait for them if they are late, and that they will have to haul their bags and belongings on board themselves. Passengers accept that should a train be late, they might need to delay further travel and business appointments, Service expectations are low, because the label "passenger" has no real service connotation. A passenger is merely someone taking a passage - in a very passive role of being transported from one point to another. However, if a rail company begins to refer to the passenger as a "premier traveler", "guest" or even just customer, as British Rail did (West 2009), the story may be completely different: they might expect improved levels of service for the duration of their journey, someone to help them with baggage, and some kind of compensation when delays become intolerable. In short, the label chosen by a firm for its customers impacts the type of service they expect. Any change in the label can also change customer expectations. The implications these label-derived expectations can have for organizations are discussed next.

Consequences of customer labeling for the organization

Labeling others has consequences for the community and/or the individuals that apply the label. The definition of "out-group" by those with social identification within the "in-group" enables the group to have an inner sense of cohesion and cooperation and be able to identify the difference between in- and out-groups (Ashforth and Mael 1989). Extrapolating this to the organization would mean that how organizations *label* their customers erects boundaries around what and who these customers are. These labels are useful in that they distinguish customers from non-customers and also define how the organization acts towards and reacts to them. It gives the organization identity because it dictates how it looks at customers, thus "preserving stability" (Erikson 1962).

Building on the strong brand loyalty of its customers, in 1983 Harley Davidson labeled its official riding club "HOG" (i.e., Harley Owners Group), and specific members of HOGs are also "Posse Riders", who go on long company sponsored rallies (see Schouten and McAlexander 1995; McAlexander et al. 2002). Both of these customer groups interact with the company and its brand, its dealers, and also with managers and other employees. By so doing the company not only positively labels customers who cultivate its image, build relationships and create advocacy for them, but also indicates to owners of rival motorcycle brands that they are <u>not</u> customers. This in-group versus out-group boundary (e.g., between those who are Posse Riders and those who are not) could further attract riders of other motorcycle brands, those who want to belong to the posse and thus become Harley Davidson customers and join HOGs. Thus through labeling a customer group that has significant brand "buy-in", Harley may have increased potential revenue.

Most importantly coming from traditional labeling theory, how a firm refers to its customers will not only shape the way customers think about themselves, but also the way in which representatives of the firm view and treat them. This claim goes beyond how organizations (as institutions) communicate and interact with customers, and maintains that each individual of the organization will also see and treat customers according to their labels. For instance, The Walt Disney Company has cleverly chosen all of its labels to create a consistent experience for its customers. So called "guests" can expect to be treated as such when they approach "guest services" (rather than customer services) or engage with any of the firm's cast members (aka employees) at any of the "parks" or "resorts" (i.e., hotels). The label "guest" suggests that these customers are well liked, always invited, and can expect the hospitality of the host. These guests can "make themselves at home" and "stay as long as they like". It also implies that the host aims to provide the best experience possible, through perfecting facilities, services and entertainment. At Disneyland, for instance, each cast member (from maintenance worker to manager) is to use his or her discretion to go beyond the call of duty to ensure that guests are at "the happiest place on earth" (Cockerell 2008). The labels tourist, visitor, or traveler, although all correct, would suggest another, more distant relationship, not only for customers, but also for the employees and their approach to dealing with these individuals.

Formalizing customer labeling theory

Traditional labeling theory proposes that the act of labeling produces category-prototypical behavior in the labeled individual. Therefore, while the original research grounded in labeling theory established that labeling both ramified and amplified deviance, this paper reasons that labeling shapes behavior regardless of the valence of either the label or the behavior. Figure 1 illustrates how customer labels, both public and private, affect the attitudes of the customer and the organization towards one another. From our discussion

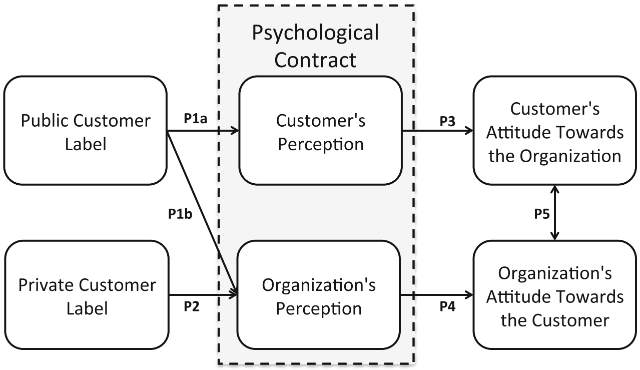


Fig. 1 Customer labeling model

above, we offer this customer label affects model, and propose:

P1: A *public customer label*, socially constructed through categorical and symbolic meanings, forms a *psychological contract* that outlines expectations and obligations between the labeled customer and the labeling organization.

P1a: The *public customer label* shapes the customer's perception of the psychological contract that defines their service level expectations.

P1b: The *organization's perception* of its *public customer label* shapes its perception of the psychological contract that defines their service level obligations.

P2: The *organization's perception* of its *private customer label* shapes its perception of the psychological contract that defines their service level obligations.

P3: *The customer's attitude towards the organization* is influenced by the customer's perception of the *psychological contract*.

P4: The *organization's attitude towards the customer* is influenced by the organization's perception of the *psychological contract*.

P5: The *organization's attitude towards the customer* influences the *customer's attitude towards the organization* and vice versa.

It will be noted in the propositions above that we use the term "service level" to refer to the nature, amount, or intensity of service that a customer can expect. In many B2B marketing realtionships, particularly in the area of outsourced computing services for example, the term "service level agreement" (SLA) is frequently used. SLAs are formal contracts between a service customer and a service provider that typically specific the level of service that the customer can expect, and that the provider is expected to offer, and the penalties to both contractors should this not occur (Benaroch et al. 2010; Goo et al. 2009). The service level we refer to here is not so much contractual in a formal sense, as implicit. "High" or "low" service level cannot in themselves refer to anything without there being a base from which to compare. Thus a customer has an expectation of the level of service they might receive in a particular setting (Parasuraman et al. 1988), and this might form the "base level". Changes in aspects of the setting however, might change the *level* (or amount, or intensity) of expectation from this base. These changes could be within the antecedents of service expectations according to Parasuraman et al. (1988), such as communication by the firm, customer experience, customer needs and word-of-mouth, but also, we contend, as a result of changes to customer label.

Now that we have formalized how customer labels affect customers' and organizations' attitudes and relations, we go into further detail on the implications of customer labels.

We contend that the relational metaphors — labels — used by firms to describe their customers are socially constructed using categorical and symbolic meanings. These labels form a psychological contract between the labeled customer and the labeling organization. Through the lens of the label, these parties perceive the psychological contract and form service expectations and obligations. To better illustrate the resulting relationships, we have plotted some common customer labels on a "relationship ladder" (see Fig. 2).

While the relative positions of the different labels in the two-dimensional space are debatable (e.g., a client could be above or below a member on either or both axes), the point made is hopefully clear: different labels indicate different levels of service provision and customer expectation. As discussed above, labels such as "passenger" create a psychological contract where the labeling organization has a relatively low service provision obligation to the labeled customer (and this is not necessarily bad). Similarly, where organization and customer are both described as partners

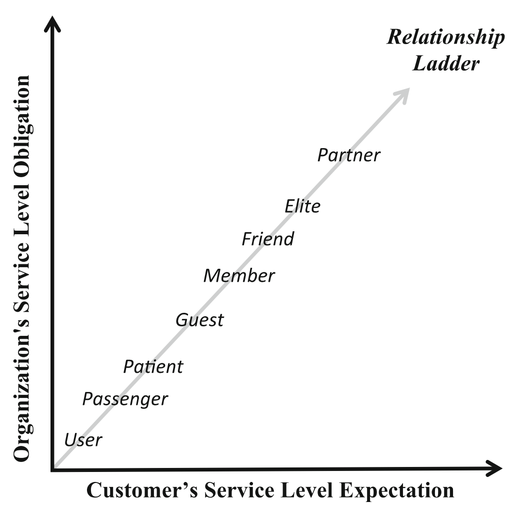


Fig. 2 Customer label relationship ladder

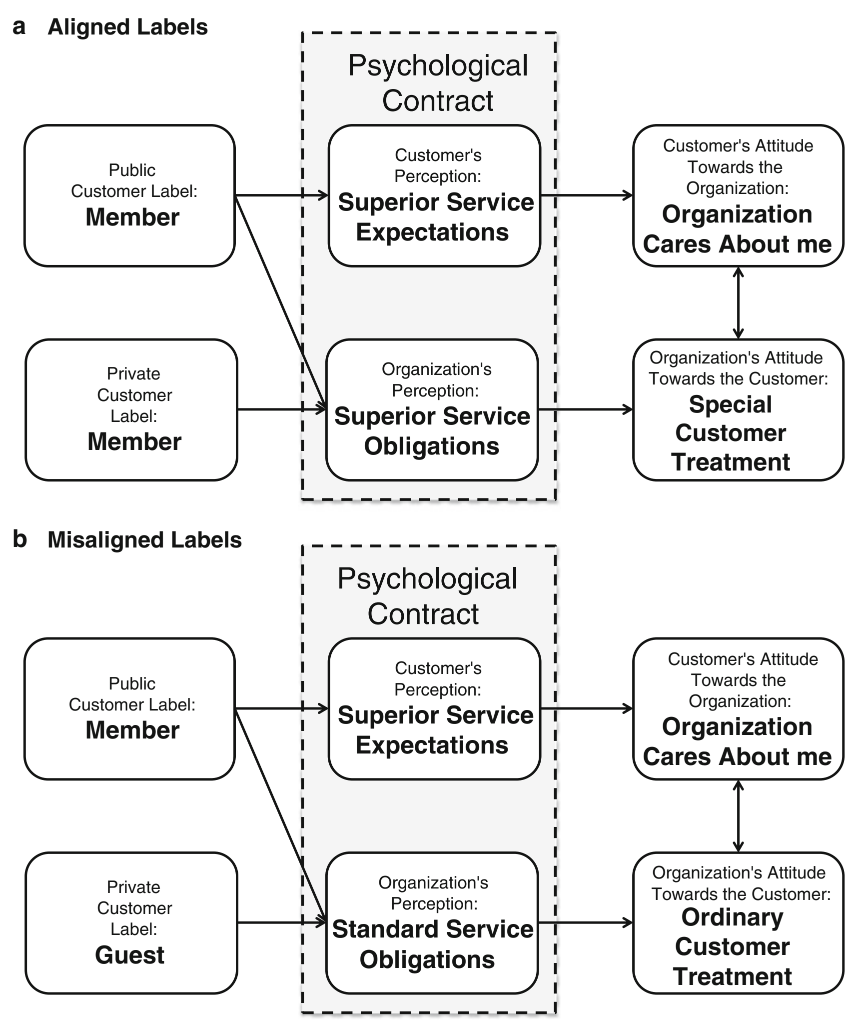
(and again, is not necessarily good), this creates a psychological contract that implies considerable expectations and relatively high service obligations.

Figure 2 also suggests what might happen when an organization changes a customer label. For example, a hotel might use the term "guest" as a label for customers, but if the customer decided to join the hotel's loyalty program, then the firm might decide to change this to "member" in order to convey a sense of belonging. A guest is "one who is a recipient of hospitality at the home or table of another", or "one to who entertainment or hospitality has been extended…" (The American Heritage Dictionary of the English Language 2012). Similar to the Disney example above, hotels may have tried to imply "homeliness" and personalized warmth by using this label. Of course being a guest carries certain expected behaviors — observing the rules and customs of the host, being invited and being willing to leave, and generally treating the host's employees and property with respect.

Among the meanings of the word "member" is "one that belongs to a group or an organization, […] a club member" (The American Heritage Dictionary of the English Language 2012). For example, the members of a club are not only its customers, but are also its governors, and sometimes its owners. Thus, members can make decisions about the organization's future concerning its financial standing, its assets, its property, and its employees. When the label "member" is used by a firm such as a hotel or leisure resort, it may well convey that feeling of higher status, ownership, belongingness and security that some customers value. However, it will also communicate a sense of higher commitment to the member by the organization (i.e., the member expects to have greater control over the organization), than would be expected for a mere guest.

When customers and organizations use the same public and private label, their perceived psychological contracts, service expectations and obligations are aligned (see Fig. 3a). However, there are situations in which organizations use different labels to refer to their customers in public and in private. Figure 3b shows an example of the impact misaligned labels can have on the psychological contract, expectations, obligations and customer and organizational attitudes.

Fig. 3 Public and private customer label alignment



The move from an extablished label to one with higher expectations can also be considered in the context of the move to relationship marketing being pursued by an increasing number of organizations. It is often reasoned that it is less expensive to retain current customers than to constantly acquire new ones. The challenge is therefore to create committed and engaged customers. Re-labeling could be an important component in this regard, if the offering provided is consistent with the implied expectations resulting from the re-labeling that is being proposed. In this process, it is important that the new label is used not just publicly, but also wholeheartedly adopted privately, so as to avoid the negative impact of private-public customer label misalignment. Indeed, such sincere re-labeling could potentially be thought of in terms of a relationship ladder as customers are moved up from "guests" to "members" and ultimately to "partners" of the organization. Since the fundamental purpose of a customer label is to identify and to differentiate customer groups who are important to the organization from those that are not, the label an organization accords a particular group of customers will be reflected in the relations it has with these customers and vice versa, as identified by P5. For example, when an airline (such as British Airways) changes the label of a group of customers from "economy class" to "world traveller" it might be implying that these are no longer just customers who purchase cheap tickets, but indeed, people who frequently indulge in international travel, and have some experience of doing this — albeit, still seated in the less comfortable, least expensive seats. If implemented properly, such a labeling strategy could successfully differentiate the airline from its competitors — who continue simply to sell cheap seats to whoever wants to purchase them. In the long term, this could result in a competitive advantage the organization may benefit from customer label differentiation.

Organizations have to think carefully about how they label their customers. The crucial question is therefore how do organizations utilize the labeling of customers to such an extent that it, at a basic level, improves their customer relations, and at a strategic level, affords competitive advantage? The next section provides tentative answers.

Aligning customer label expectations and service provision

This section examines the alignment of the customer service expectations and the firm's provision of that customer service. Service quality is conceptualized as the gap between expectations and perceptions of performance, operationalized by a set of service attributes (Parasuraman et al. 1985). The impact of these attributes of the service results in customer satisfaction. We have mapped four situations for organizations that

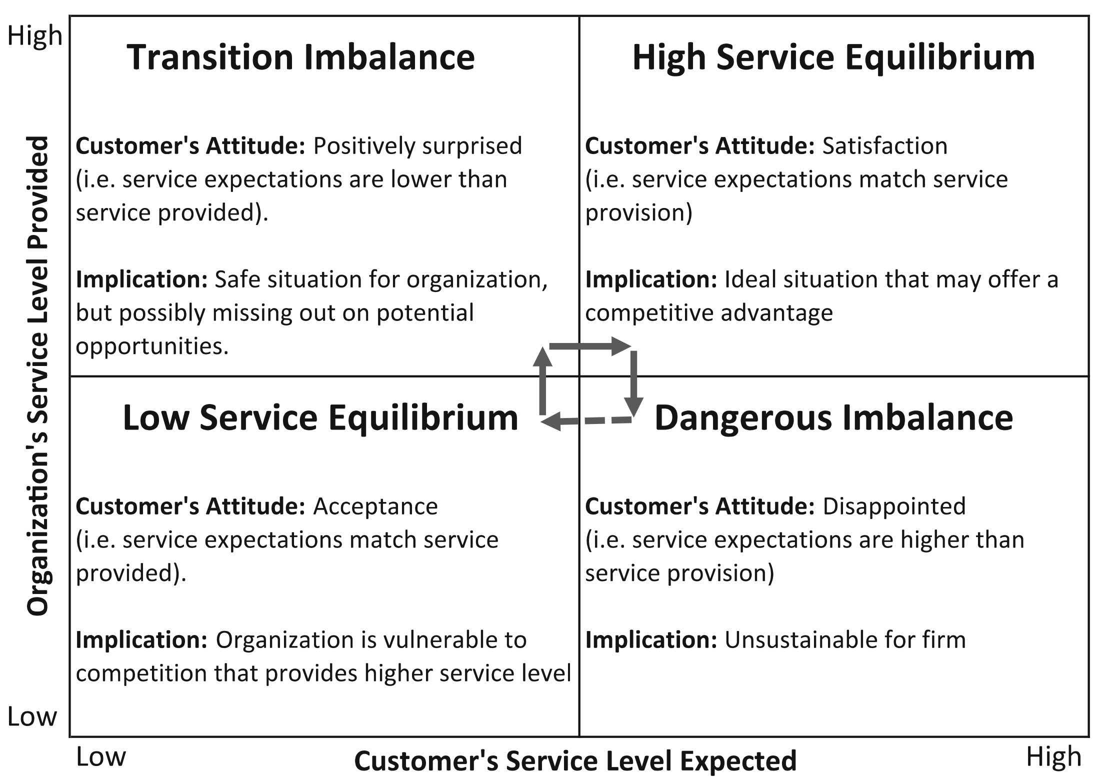


Fig. 4 Alignment of label-specific service level

label their customers, depending on the variations of customer expectations and the organization's provision of service (see Fig. 4).

High service level equilibrium

The ideal situation is for a customer to be in the top right quadrant in Fig. 4, with a high service level expectation as indicated, and for the customer to receive a high level of service from the organization. We term this a high service level equilibrium where the customers' label accurately reflects the way they are treated by the organization. It may be dangerous for organizations to find themselves in any of the other locations in the matrix, because of the customer and market implications of the other quadrants. Of course, service provision and expectations are relative, and this framework is useful for examining the use of customer labels in a firm's own sector, not across sectors. For instance, low-cost airlines that position themselves in a low service level equilibrium need to be aware that they are extremely vulnerable. Another low-cost airline may create a competitive advantage among the low-cost travel sector by striving for a higher level of service level provision and using a customer label that reflects customer expectations. Of course, when compared to high-end carriers, where customers have a justified reason for expecting more, low-cost airlines might find a high service level equilibrium unachievable.

Transition imbalance

When a customer's label indicates that they should expect a low level of service from the organization, but in reality they receive a high level of service, there is a transition imbalance. The organization should see this position as an evolutionary phase in the move to a high service level equilibrium. While the organization might be safe in this quadrant because customers are surprised to get more than their label indicates they should expect, the organization might be losing out on branding and positioning opportunities. It might be possible to change the customers' label to reflect the level of service they actually receive, and this could be emphasized in marketing communication and promotion. The presumption is that an appropriate label will attract other customers because of the levels of service indicated by the label, and retain existing customers because of the prestige conferred by the label.

Low service level equilibrium

A low service level equilibrium exists when customers expect a low level of service from the organization because of their label, and the organization delivers that level of service. The organization might decide to stay in this quadrant if the label reflects its intended service level accurately. However, if the organization intends to provide a higher level of service, it should improve its service level first (move to transition imbalance) before changing a customer's label and moving to high service level equilibrium. An organization in this quadrant may also be vulnerable to competitors from the transition imbalance or high service level equilibrium quadrants.

Dangerous imbalance

Where the label would indicate high service expectations and the reality is that a low level of service is delivered, the organization finds itself in a state of dangerous imbalance. A customer's disappointment about unmet expectations (based on their label) in this quadrant is unsustainable in the long term. There are two options in this situation. The first would be to change a customer's label to more accurately reflect the level of service they actually receive, thereby moving into low service level equilibrium, and then following the appropriate strategy to get to high service level equilibrium as described in the previous paragraph. However, this may be a risky strategy (indicated by the dashed arrow), as customers might not forget the promise of their former label, and the strategy might merely add insult to injury, or be the marketing equivalent of kicking someone when they're down. The second option would be to lift the level of service so that customers receive the service level that their label indicated they should expect in the first place.

The two imbalance situations are transitional in nature and their quadrants should void over time. The 'transitional imbalance' position represents poor use of resources while the 'dangerous imbalance' position is unsustainable. In considering all four quadrants in Fig. 4 it is assumed that the firm will be able to use its marketing tools in a sufficiently effective way in order to succeed in communicating to the targeted customer group the implications in the meaning of the changes in the labels as the customer is guided up the relationship ladder.

Concluding thoughts: implications and future research

Organizations do not always call their customers "customers", but often use more specific traditional-, market- or industry-based appellations to refer to those who take up their offerings. It would be easy to dismiss this matter as trivial, for after all, what's in a name? According to an old Latin proverb, however *"Nomen est omen", suggesting that* "the name is a sign", a destiny, a fate. In this paper we have introduced traditional labeling theory with its roots in the sociological study of deviance, to marketing. Labeling theory would reason that what marketers name their customers is critical, for it will shape the subsequent behavior of these customers. One could go further, and reason that what marketers call their customers matters most because this will structure the dialog that they have with these customers, and that dialog lies at the heart of the marketing relationship.

A number of researchable propositions based in labeling theory from a marketing perspective have already been suggested. P1 implies that the way an organization publicly labels its customers will create a psychological contract between the customer and the organization that specifies the expectations and obligations that are socially constructed by the categorical and symbolic meanings of the customer label. One type of study could be a quantitative longitudinal investigation of customer service quality expectations using, for instance, a SERVQUAL questionnaire (Parasuraman et al. 1988) over two periods, the second of which should be after a customer label change. Alternatively depth and focus group interviews with customers before and after a significant label change might also yield significant insights into the creation of the psychological contract.

P2 suggests that the way an organization labels its customers will affect the customer's attitude toward the organization. Researchers might approach this issue from a number of perspectives. Quantitative surveys might determine the extent to which customers across a range of organizations are aware of their designations, and then ascertain whether this affects actual behaviors and intentions toward, and impressions of these organizations. Qualitative case studies might investigate label changes in organizations and their consequences. For example, in the case of an IT company that has consciously changed from calling customers "users" to some other more grandiose tag, what have the effects on customer behavior been? Have the number and nature of complaints, and customer interactions with service staff changed? Have customers' attitudes changed? What have the effects been internally — have staff attitudes towards customers changed, and do staff respond differently to customers?

The focus becomes internal in the case of P3 and P4. The way an organization labels its customers, both publicly and privately, will influence the organization's behavior towards these customers. A number of issues could be investigated from this perspective. Cultural anthropologists and organizational behaviorists may wish to eavesdrop on conversations within the firm to note how its members talk about customers — what names do they call them, how do these differ from the official labels, and what impact does this have on dealings with customers? It would also be worthwhile to survey members of an organization, and determine the extent to which they believe that the labels accorded are appropriate, and whether these reflect the experience that customers have with the organization.

Ultimately the way an organization labels its customers should foster stronger relationships between customers and organizations. This is reflected in P5, and results from the mutual commitment that develops as customers move up the relationship ladder. The ability to build strong relationships enables stronger differentiation in the market that provides a valuable basis for competitive advantage and ultimately bottom line performance. An interesting study could reverse the previously suggested relationship and ask customers what label they would choose for themselves. Their choices would be informative for these three propositions, and might indicate the "health" of the firm-customer relationship, possible imbalances between customer expectations and the service level provided by an organization, and issues related to timing of label introductions or changes.

Organizations often have a large variety of labels that they accord to those who serve customers. Just as the labels accorded to customers might shape their behavior, so might the labels given to customer contact personnel — nurses, caregivers, teachers, instructors, drivers, pilots, stewardesses, hostesses, etc. An ordinary restaurant might employ a wine waiter, for example, while a starred restaurant might offer customers the services of a sommelier. It would be important to know how the customer's behaviors and expectations might change, depending on the job title (label) of the person serving them.

The implications of labeling theory for managers and marketers are substantial. We propose that it will be worthwhile in the long run to resist the temptation to make a customer name change that is merely window dressing. The new name will create a new customer, with different expectations of the degree to which the firm is committed to the customer. Unless the organization itself has changed, and that as a result of this it will change the way it converses with customers, then the consequences could be grave. An extension to this issue is that firms should consider not only what they call customers, but also how they talk about them. A marketing team might want to ask itself whether it would talk differently, and indeed act differently, if customers were privy to their marketing strategy meetings.

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