Formatting Exchanges, Shaping Markets:
the US airline industry 1981-1991 and the birth of Frequent Flyer Programmes

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Outline

• Marketing and its relation to markets
• How do we account for market regularities?
• Investments in form (Thévenot, 1984)
• The US Airline Deregulation Act (1978) and its consequences
• Frequent Flyer programmes (FFPs) as a market form (1981-1991)
• Conclusions
Marketing and Exchange

- Marketing is “…the discipline of exchange behavior” (Bagozzi 1975: 39)

- “In marketing, the unit of analysis is the exchange, and not the aggregation of buyers or sellers […] Our disciplinary focus is not the investigation of markets, but the study of customers.” (Houston and Gassenheimer 1987: 15, my italics)

- “Paradoxically, the term market is everywhere and nowhere in our literature.” (Venkatesh et al 2006: 252)
Marketing and Markets

• Markets as “organised behaviour systems” (Alderson, 1965)

• Market and marketing investments (Johanson and Mattsson, 1985)

• “To confuse markets with exchange is a category mistake; it is a confusion of institutions and activities. An exchange is an event . . . it is something that happens. A market is a setting within which exchange may take place…” (Loasby 1999: 107)
The issue: organized market regularities

- How can we account for the fact that while each market exchange *in principle* is determined anew, many aspects of those exchanges *in practice* have been determined in advance?
- Or: how do we approach efforts to pre-format market exchanges and the *organized regularities* that result from these efforts?
Questions of interest

- *What* dimensions of market exchanges are subject to pre-formatting efforts?
- *Who* engages in efforts to pre-format market exchanges?
- *How* are such organised regularities achieved and maintained across time and space?
Main arguments

• Market exchanges rely on considerable *investments* made over time to *fix their form* and *content*.

• The outcomes of those investments depend on *what the investments seek to fix* and *how*, but also on other *parallel and complementary investments* which they may *exploit*, *build on* or *interfere with*. 
Empirical context

- US Airline Deregulation Act (1978)
- Deregulation intended to encourage competition between airlines on routes, services, and prices.
- Incumbent airlines struggled to find ways of differentiating their offers
Organised regularities

• Backdrop: institutions as constitutive forms (emphasised by sociology) or regulative forms (emphasised by economics) on which action is predicated (DiMaggio 1994)

• The basic insight of institutional approaches is important: there are organised regularities in all economic orders.

• We are primarily interested in the forms that market exchanges take and the efforts of actors to preformat such exchanges.
Exchanges of (business) air travel in 1978

- Airline
- Ticket for destination (open)
- Travel agent
- Air transport
- Customer company

Lancaster University Management School
Exchanges of (business) air travel circa 1985
Institutional theories’ traps

- *Institutions* are easy to use as blanket explanations for observed regularities, discouraging empirical scrutiny of organising processes.
- Institutional approaches underplay the importance of both *material structures* and *agential activities* when accounting for regularities.
- Diffusion of institutions is unproblematic and speedy.
Giving form to relations between entities

- We address the pre-formatting of market exchanges by regarding it as an *investment process* (Johanson & Mattsson, 1985), i.e. as a process in which resources are committed to create assets for future use.

- We use Thévenot’s (1984, 2007) work on *investments in form* – the immobilization of resources to allow some relation to be fixed and reproduced over time and space.

- This process brings types and categories into existence.
Empirical context

- The deregulated market for air travel and the introduction and spread of FFPs (along with business class and CR systems).
- ’Global’ market changes
- Longitudinal case allows the tracing of how airlines (old and new), travel agents, legislators, and competitive authorities engaged in the process.
Investment in form: the frequent flyers (1)

• “Frequent flyers” identified as accounting for a disproportionate share of airline revenues.

• How to target this group? By having them identify themselves and by awarding them something they valued, but which cost little to the airline.

• Drawing on previous investments – redesigning the ‘coupon program’ to ‘build loyalty in a commodity market’.
Investments in market forms (1)

- *Investments in form* bring forth certain dimensions and characteristics of a relation between two entities.

- What becomes subject to copying is not determined beforehand, nor is it completely arbitrary.

- Not enough to think in terms of frequent flyers, or to set up rules recognizing this category - material investments are necessary to create the category and make it actionable.
Investment in form: the frequent flyers (2)

- FFPs required procedures for registering flyers, keeping track of and rewarding flying (manually or by computer).
- Complementary investments:
  - Appearance of magazine columns, how-to guides, websites, etc.
  - Emergence of gray markets where travelers could turn miles into cash.
- Miles fixation and inflation (double, triple, quadruple)
- Repeated questioning by other actors.

“Airline pinball”
“What matters is not how long it takes to get some-where, but how far it is.”
Investments in market forms (2)

- There is more to organized regularities than imitation to achieve legitimacy.
- Investments in form do not determine all aspects of a relation; they typically leave room for variation within the limits set up by the form.
- The consequences of an investment in form depend on how it has been invested in.
- Multiple actors invest in different layers of the form cf. the how-to guides, the gray market, CRS, etc.
Investment in form: the frequent flyers (3)

- Expanding the form: added tiers of flyers, new areas for rewards and new ways of earning (beyond flying).

- FFPs as assets (for effective marketing, fine-tuning offers, establishing alliances, creating new business opportunities)

- ... but also as liabilities (zero-sum game, bonus inflation, growing point backlog, airlines imprisoned by the form).
Conclusions

• Alternative explanations – relationship marketing, mimicking to achieve legitimacy

• Several parallel and sequential investments in form (deregulation, FFPs, gray market for bonus travels, etc.)

• Exchanges with FFP were consolidated through regenerative and constitutive forms (e.g. programs and miles-fixation), material arrangements (e.g. databases, routines), and complementary investments which jointly underpinned the “miles-optimising” behavior and other effects on air travel exchanges.

• The consequences of investing in form are difficult to assess – FFPs became both an asset and a liability to airlines.