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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

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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)**

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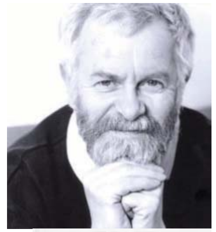
Marketing and Markets

- **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)**

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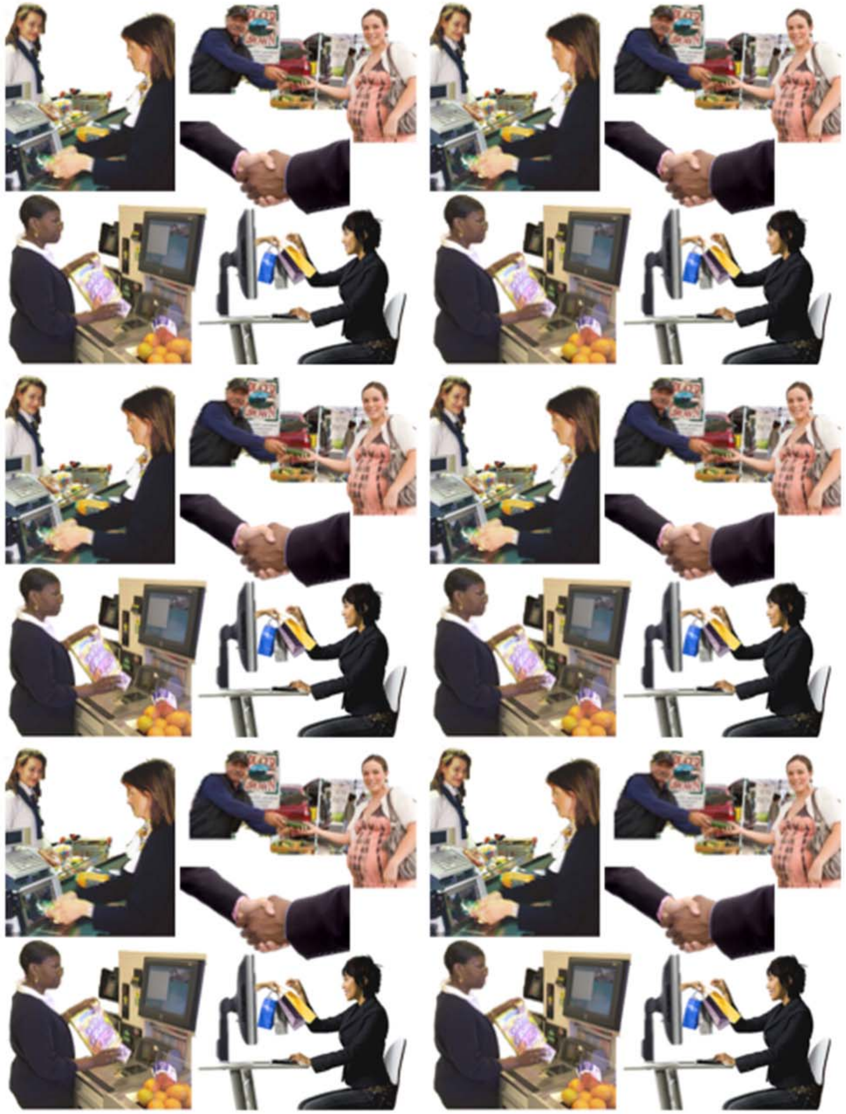
The issue: organized market regularities

- **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**

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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.

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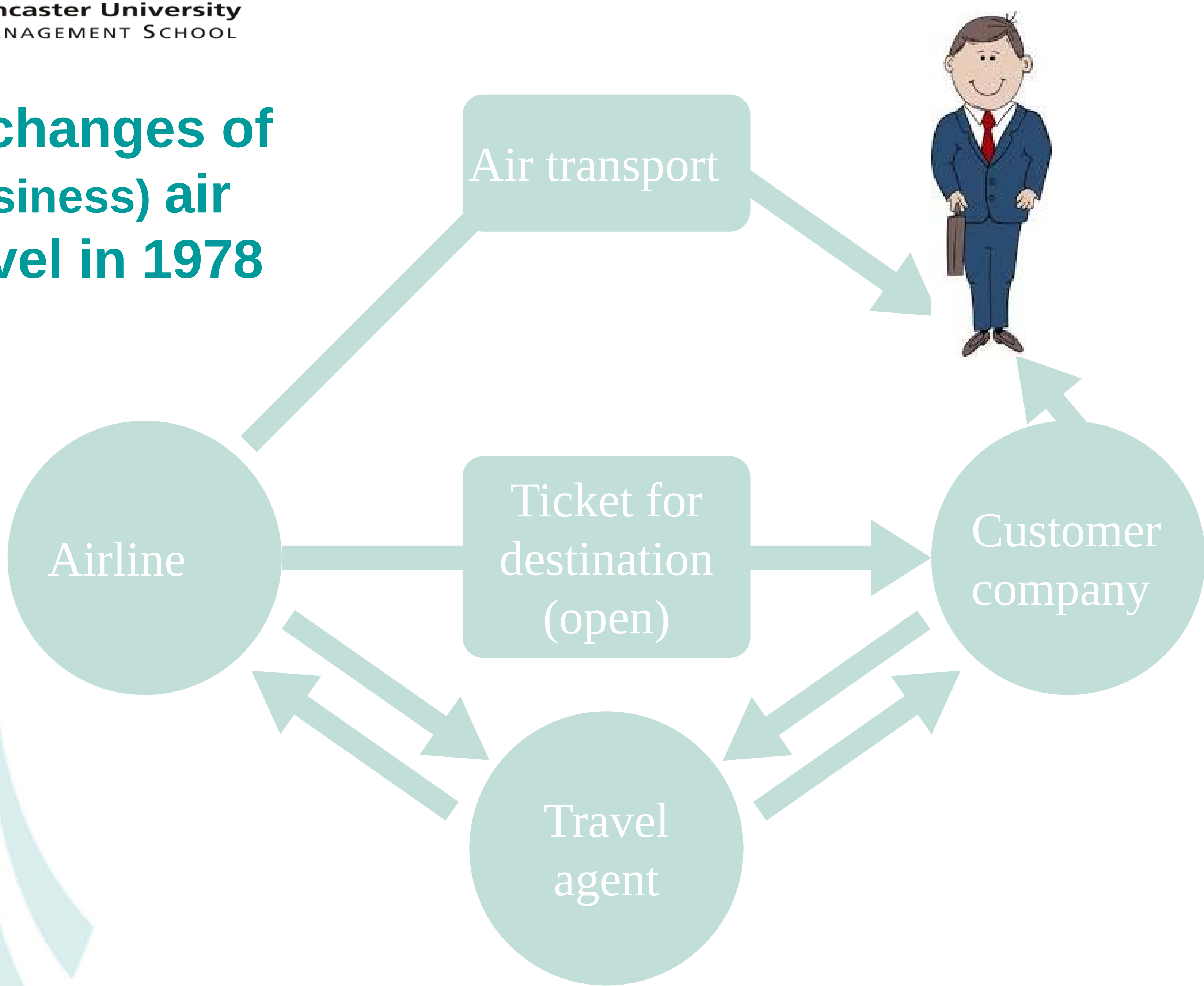
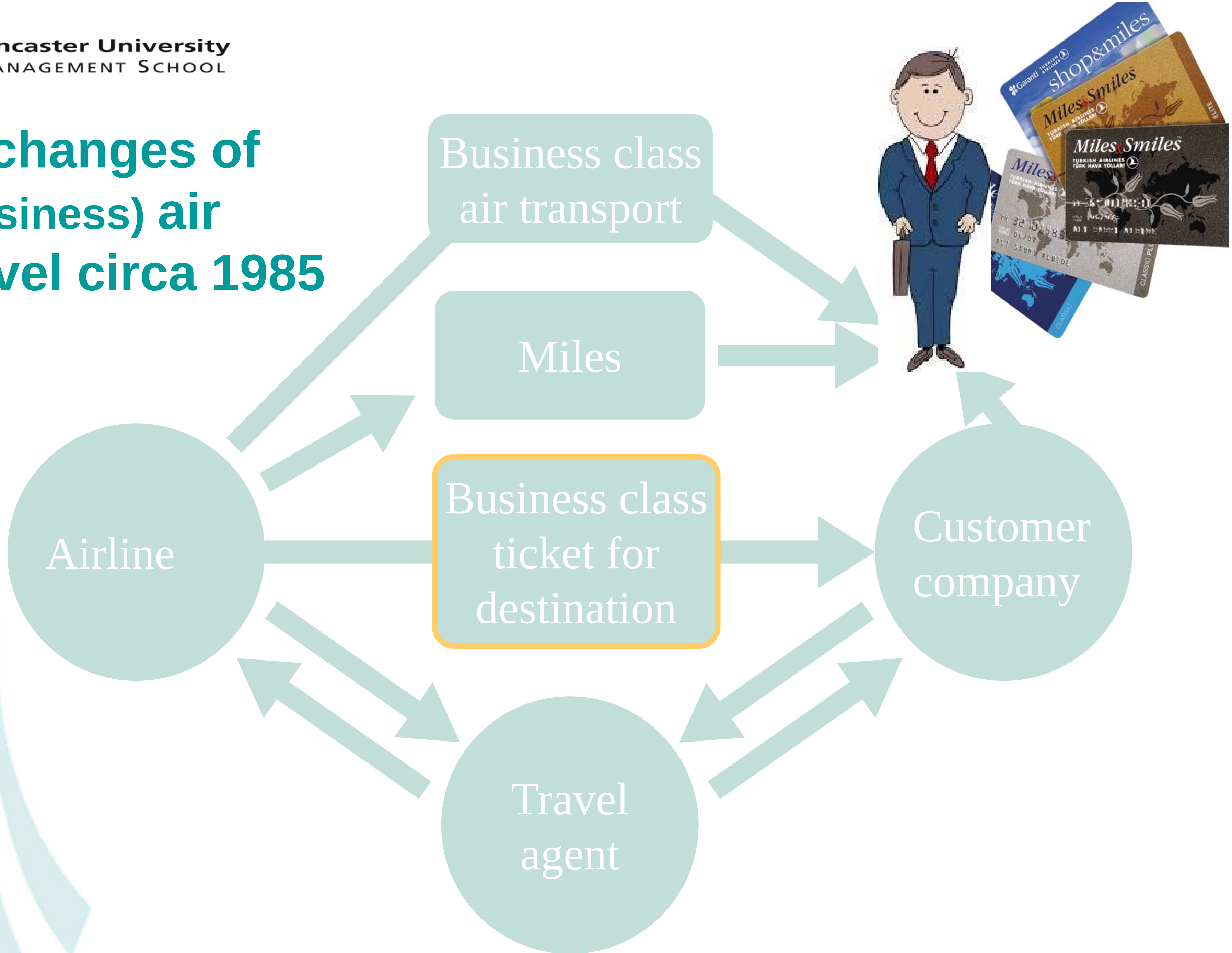
Exchanges of (business) air travel in 1978



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 import 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.

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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.**

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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 depends 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.**

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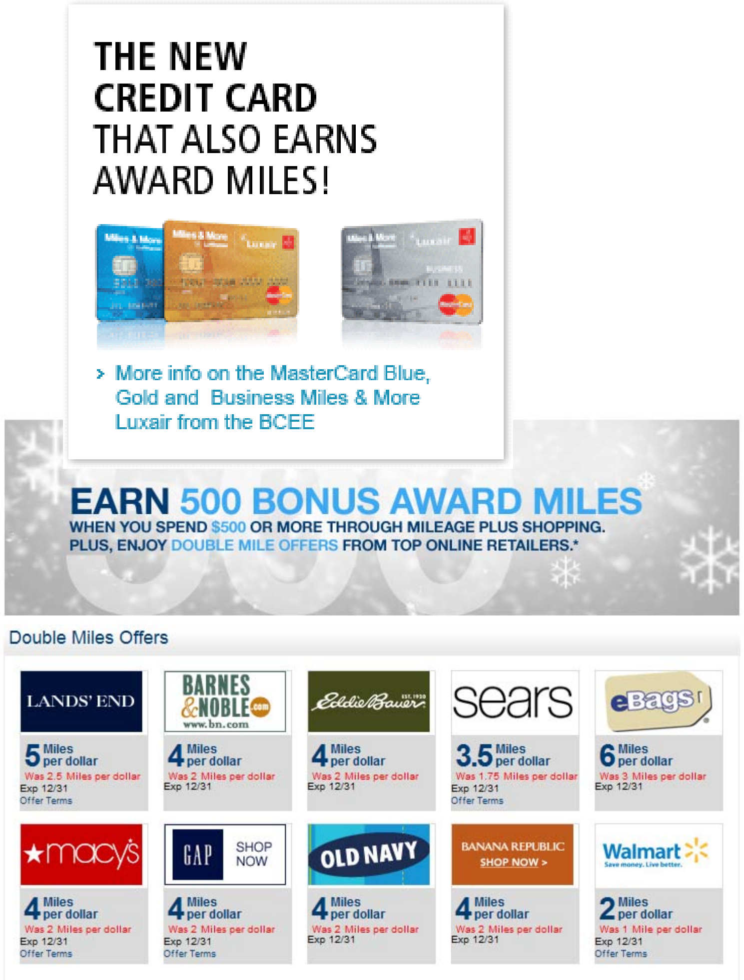
Investment in form: the frequent flyers (3)

- **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).**



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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 *regulative* 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.**