

# Adapting to changing buying behavior -A challenge for relationship management

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*This paper addresses the changing buying behavior in travel purchase from relationship management perspective. The focus is on corporate travel, and on the long-term relationships between the three core actors in corporate travel management, i.e. the buyer, its travel management company, and service supplier partners. The network approach by the Industrial Marketing and Purchasing group is taken to analyze the relationships, and adaptations that occur in them. The service marketing and management approach by the Nordic School underpins the service perspective. The results of a case study indicate strengthening relationships between the buyer and its TMC partner. Suppliers are blamed not to understand their clients' needs.*

Field of research: relationship marketing, service marketing, buyer behavior, marketing case studies.

## 1. Introduction

Suppliers providing travel related services traditionally categorize their customers into two main segments: business travelers and leisure tourists. They assume that business travelers place higher value on ticket flexibility and lower value on cost. Thus high cost, fully flexible tickets have been aimed at this market. Leisure tourists are traditionally regarded as less demanding and more price conscious. However, there is a multitude of different segments that exist today, because the buying behavior of both these groups has changed. For business travelers, price goes often before flexibility. (Teichert & al., 2006; Archambault & Roy, 2002; Lindstädt & Fauser, 2004; Mason, 2005) Moreover, demographic, geographic and political trends shape leisure travelers who have become more sophisticated, knowledgeable and demanding. (Rubin & Joy, 2005).

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From the suppliers' perspective, corporate travel is featuring elements of both consumer and business markets, and it is difficult to specify whether services consumed for business-related reasons are consumer or business services. Airlines, for example, do not distinguish between travelers if a business traveler wishes to purchase a ticket directed to leisure traveler, or vice versa. (Mason & Gray, 1999) However, business travel is conducted due to work-related tasks, and the trip is usually paid by the employer, who generally wants control travel costs and the quality of services.

For both business travelers and leisure tourists, the Internet provides direct access to suppliers. For corporate buyers, it is a helpful tool to book simple point-to-point trips. However, corporate buyers rely on travel management companies' (TMS) expertise to plan and package complicated itineraries. Thus, there are three actors involved in corporate business travel.

Business relationships are generally researched as dyads. Havila et al. (2004) raised a question whether the dyadic approach to international business relationships should be extended to a triadic one (see also Phillips & al., 1998). Madhavan & al. (2004) argue that triadic approach is especially relevant in triads where an intermediary is involved, and all the three actors have direct connection with each other. When applying triadic perspective, the interconnections link the dyads to the wider network. (Anderson & al., 1994)

Adaptation is considered as a defining characteristic of a business relationship. It is argued that the presence of an adaptation indicates the existence of a relationship, whereas the absence of it points to a transactional approach to marketing and purchasing. By adaptations, firms seek to respond to the dynamic business environment in which they operate (Canning & Brennan, 2004; Canning & Hanmer-Lloyd, 2002). Thus, adaptation can be assumed to be a significant feature in the dynamics of business relationships (Hallén & al., 1991; Schurr, 2007). In business services, adaptation is important, because the services are created in co-operation with the buyer and the supplier (Grönroos, 2000)

The purpose of this paper is to investigate how service suppliers and intermediaries adapt to the buyer's changing buying behavior in a long-term business relationship. Multiple perspectives are utilized by studying relationships in a specific business triad, and by taking into account all the three actors' viewpoints to specific adaptations.

## **2. Literature review**

The core concept of the current research is adaptation. Prior research focuses on *interfirm adaptation*, i.e. it sees adaptation as a *dyadic phenomenon*. (e.g. Canning & Hanmer-Lloyd, 2001; Canning & Hanmer-Lloyd, 2002; Brennan & al., 2003; Canning & Brennan, 2004; Schmidt & al., 2007). There are some major differences in dyads and

triads that may have an impact on adaptation. *First*, dyadic perspective neglects the network effects of adaptation. Relationships are interconnected, and a given relationship does not only affect itself and the two actors involved, but it may also have an effect on other relationships (Walter & Ritter, 2003). *Second*, the interaction patterns in triads differ if compared with dyads or larger groups. In dyads, the actors have the possibility to interact directly with each other, and adaptations may be agreed between the two of them. In a triad, the third actor may have an impact on adaptations, either by facilitating them, or by hindering them. *Third*, there is a tendency to coalition formation in triads (Caplow, 1956; Coser, 1977), which affects the adaptive behavior. Adaptations may be coerced by two powerful actors against one.

Adaptation in the context of services is important, because the services and service processes are developed in co-operation between the buyers and suppliers. (Grönroos, 2000) However, prior research focusing on adaptation is mainly conducted in the manufacturing sector and research of adaptation in the context of “pure” service industries is scarce. Exceptions are the studies of Halinen (1994), and Schmidt et al. (2007), which is primarily service based.

### **3. Methodology and research design**

This study is explorative, and the theory development is based on an abductive research, to which qualitative case studies are linked. The study is characterized by systematic combining (Dubois & Gadde, 2002), where theoretical framework, empirical fieldwork, and case analysis advance simultaneously. To capture the frame of reference, I used the critical interview technique developed by Chell (2004). It

*“...facilitates the investigation of significant occurrences, events, incidents, processes or issues, identified by the respondent, the way they are managed, and the outcomes in terms of perceived effects. The objective is to gain an understanding of the incident from the perspective of the individual, taking into account cognitive, affective and behavioral elements”.* (ibid. p.48)

The core actors of the case studies are *the corporate buyer*, its *three preferred service supplier*, and *two TMCs partners*. Ten in-depth interviews were conducted with actual co-operating partners from each of the case firms. The buyer is an international enterprise with a large travel budget. The TMCs belong to international TMC chains, and the suppliers are internationally operating airline carriers, and a hotel chain. The travel manager is the key informant who handpicked the supplier and the TMC informants for the study. He is the one who negotiates contracts with the suppliers and the TMCs.

The analysis of the interview data was carried out in two stages: within-case analysis and cross-case analysis (Yin, 2002). Within case analysis provided a description for each side of the case. These descriptions were central to generating insight (cf. Pettigrew, 1987) and coping with the great volume of data. The data were organized

into categories of themes with the help of the NVivo software package. Each case was analyzed in a three-stage interactive process as suggested by Miles and Huberman (1994): data reduction, data display, and conclusion drawing. The data were cross-case analyzed to compare the embedded cases.

The major findings of the case studies are presented in the following. Direct quotations from the data are used to support the conclusions, and to highlight the closeness between the empirical data and the results. Multiple perspectives allowed triangulation of the empirical data.

## **4. Discussion of findings**

The actors, resources and activities (ARA) model by the Industrial Marketing and Purchasing (IMP) group is used to evaluate the adaptations and their outcomes. According to the model, relationships develop between firms when activity links, resource ties and actor bonds are created. *Actor bonds* reflect the interaction and adaptation processes between the companies (Håkansson & Snehota, 1995). They may be, for example, financial, structural and social (Dwyer & al., 1987; Morgan & Hunt, 1994; Perry & al., 2002, Storbacka & al., 1994). *Resource ties* connect different resources, which may take the form of several adaptations in the product and process areas (Håkansson, 1982). Business travel management is based on resource allocation and technology integration between its core actors. *Activity links* include for example technical and administrative links between co-operating firms. (Håkansson & Johanson, 1993). Travel management process is an activity chain where the core actors combine their technological and human resources.

In a triad, dyads are the receivers and transmitters of change (Halinen & al., 1999). As an outcome of adaptation, actor bonds, activity links and resource ties may strengthen or weaken. Adaptations may lead to generative relationship development when bonds, ties, and links become stronger. It means, for example, increased co-operation and trust, more mutual benefits, and mutual understanding. Degenerative development takes place when actor bonds, resource ties, and activity links become weaker, denoting declining co-operation and trust, declining understanding and mutual benefits. (cf. Schurr, 2007)

### **1.1 Buyer – supplier relationships**

Corporate travel buyers traditionally negotiate corporate discounts that are based on purchasing volume, and provided off published fares. However, published fares have risen and economy fares gone down. Negotiated fares have lost their importance. The buyer and the TMC perceive the present rate structure unfair. They criticize service suppliers for disability to adapt to the buyers' needs.

*“... corporate fares have been useful for a period of time, but now we see that typically they are based on flexibility, which is fine, of course... And if company has a policy saying you need to travel as cheap as possible, you need to plan, because planning is the golden key to obtaining savings.” (TMC, manager)*

*“The whole travel business should go through a major structural change...there are a lot of leisure travelers who have the money, and who do not want to have the cheapest...they [suppliers] should change their services so that they would get to the expensive class those travelers who want to pay, and they are not necessarily business traveler ...” (buyer, travel manager)*

The economy fares are less flexible than the contract rates. The tickets are usually return tickets, non-refundable, non changeable, and require travel over the weekend. The airlines still believe that accessibility and flexibility are the client's major criteria when selecting flights.

*“...from the corporate buyer's point of view, the accessibility decides what is the best rate for them...They want to have inexpensive rates...but with inexpensive rates you don't get the flexibility, and the accessibility varies flight by flight.” (supplier, director)*

In the hotel sector, corporate rates are valid seven days a week. The weekend rates are usually cheaper, but with stricter rules, and less benefits.

*“Sometimes the corporate buyers think they get the cheaper rate, but with all the positive benefits the corporate rate includes.” (supplier, sales manager)*

## **1.2 Supplier – TMC relationships**

TMCs are also dissatisfied with their supplier co-operation. Suppliers make efforts to bypass them.

*“...the rates are mixed up, they [airlines] have services they don't want us to deliver...they should adapt their services to meet the clients' needs.” (TMC, clerk)*

The TMCs have learned to do their best to excavate all the possible alternatives for their clients. For instance, a way to bypass the minimum stay requirements was to buy two return tickets that could be used crosswise:

*“And then the creative people found out that you could then use two tickets instead, one for the outbound and one for the homebound, and basically buy two journeys and that way save money.” (TMC, manager) “*

*“...their [airlines] price politics has led to crosswise tickets, even though nobody likes them...airlines do not want to sell them...” (TMC, clerk)*

Travelers learned to use the crosswise tickets. They were aware of the risks, and sometimes the tickets ended up in a dustbin, and there was an empty seat on the plain.

*“...we can use the crosswise tickets quite fluently. However, quite often the other half of the ticket ends up in a dustbin because you are not able to plan, and there is a wrong date on the ticket.”* (buyer, traveler)

Cancelling the fake tickets would have been laborious for the TMCs, and they decided not to do it.

*“Because we as an agency have decided that when we book these [crosswise] tickets we don’t cancel the fiction ones, because we see it this way that the client has actually bought a product that can be used. Weather the client is going to use it or not, that’s not our business. So we book it and leave it there. And this is of course not very popular among the suppliers, because they have all these no-shows. But again, we see it that way, if they have been paid for these seats, so they should not cry over it, but what they want to do of course; they want to sell the same seat twice.”* (TMC, manager)

The loophole in crosswise tickets was noticed in the airline companies, and they have started to offer budget tickets with easier applicable rules and one-way budget fares.

*“We see a tendency now that once more the airlines are creating fare types where you get rid of this system [crosswise tickets]. If you are away for two days, for instance, you can do that in economy class same week on one ticket only.”* (TMC, manager)

Heavy competition, specifically in the airline industry, due to low-cost airlines has led to a jungle of rates, which is difficult for the buyer to manage.

*“...because of the jungle of rates, we are needed even more than earlier...”* (TMC, district manager)

### **1.3 Buyer – TMC relationships**

The problematic situation strengthened the buyer - TMC relationships, and made them interdependent. The TMC’s role as an advisor and an expert in travel related issues was emphasized.

*“...the value of the contract with TMC has strengthened.”* (buyer, travel manager)

Technology development makes it possible to bypass TMCs. However, the role of the TMC is crucial between the buyer and the suppliers. It represents multiple suppliers, and helps in saving the client’s time and money.

*“...and then we got these internet rates, and the value of the TMC returned to the same level it was in the 1980s when they were able to find all the best rates for their client, provided that they have the right equipment [technology]...we do not have time to surf in the internet, it is too expensive, and we do not find all the rates there”... (buyer, travel manager)*

**In summary**, when the agreed corporate rates started to overrun the general rate level, the buyer was not satisfied with the suppliers’ adaptations. There was no mutual understanding.

*“The benefits of the contract with service suppliers have clearly faded.” (buyer, travel manager)*

Specifically the relationships with the airlines were problematic. The relationship development may be characterized as degenerative. However, the co-operation continued because the buyer was dependent on the suppliers’ services. *Supplier – TMC relationships* as well, were degenerative. The TMCs, as an intermediary, are dependent on their client, and also on the suppliers that the client needs.

The buyer – TMC relationship development was generative. Actor bonds, activity links and resource ties strengthened. There was increasing co-operation, mutual understanding and trust.

## **5. Conclusions, implications and further research**

The results of the study show that the bonds, ties and links in the dyads may remain unaltered even though the relationship development is degenerative. This is due to interdependence between all the three actors, as the TMC clerk states:

*“We are all dependent on each other. The client needs us, and we need the client more than it needs us, whereas the supplier needs both of us, very much.” (TMC, clerk)*

Suppliers are generally expected to adapt to their clients’ needs (Brennan & al., 2003). The current case study proved that also the client may be the one to adapt to the suppliers’ offerings. This occurred with the help of the TMCs, and had features of coalition formation of two against one. (cf. Caplow, 1956)

The TMC has an important role between the client and the suppliers. It acts as a consultant and an advisor for its client. Despite of the possibilities to bypass intermediaries, the TMCs role has become even more important. However, their success depends on the ability to create new services to their clients:

*“...within this industry, you have to be a chameleon. You have to shed your skin every morning, and do the things in a new way...there are no limits, no*

*ceiling to finding new ways to serve your clients, all of them need their own solution.” (TMC, general manager)*

This study widens the adaptation research to incorporate three actors. It also shifts the focus from manufacturing industry to business services. The research integrates theories and concepts from the industrial network approach by the IMP group, and from the service marketing and management by the Nordic School.

Managerial implications of the study may help in developing co-operation in service supply and sourcing. Even though business travel management is a company specific function, this research may give some conceptions of how to make adaptations that support relationship development. Although the research is conducted in one industry, other industries featured by triadic relationships may take advantage of the results when developing relationships.

The empirical setting of this study represents one industry and one type of business triad. The actors have their own roles, and, besides their common goal, they have their own goals that may be even conflicting. Thus, different kind of triadic relationship setting would be interesting to research. Findings from triadic business relationships from another kind of service industry should also be studied.

Network effects of adaptation would be an interesting topic to research (cf. Walter & Ritter, 2003), i.e. how triad specific adaptations can favor the development of the industry. There are also research areas that could be reached by quantitative methods, for example quantification the extent of or emergent adaptation (cf. Canning & Brennan, 2004), the costs and benefits of adaptation decisions (cf. Schmidt & al., 2007), and evaluation of returns on investment once the adaptation process is completed (cf. Brennan & Canning, 2002).

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