TRIADIC BUSINESS RELATIONSHIPS - THE CHANGING ROLE OF INTERMEDIARIES IN THE BUSINESS TRAVEL INDUSTRY

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ABSTRACT

The business travel industry is characterised by triadic relationships that are currently undergoing dramatic changes. In a business travel distribution context, the triad consists of the company buying business travel services, an intermediary, and the service supplier. Traditionally, airlines have used business travel agencies as an intermediary and distribution channel for selling the flight tickets to their clients. Airlines paid travel agencies a commission on the issuance of a ticket. However, today, most airlines have stopped paying commissions in order to save costs. In addition, they take advantage of e-commerce, for which the travel industry is well suited.

New technologies, such as the Internet, allow direct sales without the intermediation of travel agencies. These technologies have also allowed new distributors and distribution channels to emerge. The threat of a gradual reduction in the importance of travel agencies, or even their disappearance, has been a subject of debate within the industry. By studying the re-constellations of triadic relationship between clients, intermediaries and suppliers in the travel industry, new and important knowledge can be gained on the development of business networks and business network strategies. The paper will consist of a preliminary conceptual framework for conducting further empirical studies.

1. INTRODUCTION

Business relationships are most often studied as dyads, i.e. as the relationship between two parties, most often defined as a buyer and a seller. However, many relationships cannot be studied in isolation, since they form part of larger network of inter-firm relationships. Changes in one relationship, affect all other, and the study of relationships cannot ignore the influence of the network. Business networks is, however, a very broad concept, and difficult to define. (Havila 1996), on the other hand, has drawn attention to the importance of understanding business triads. Triads are also in focus here, since the business travel industry is characterised by triadic relationships that are currently undergoing dramatic changes.

In a triadic relationship, each of the three parties functions as an intermediating actor between the other two. In a business travel distribution context, the triad consists of the company buying business travel services, an intermediary, and the service supplier (for example an airline). The core roles of the buyer and supplier in a triadic business relationship are fairly clear, whereas the core role of the intermediary is more difficult to define (Håkansson and Snehota 1995, Havila 1996, Rosenbröjer 1994). It has a different meaning in different situations, and it changes over time. This has been particularly noticeable in the travel industry. Business travel distribution is currently characterised by a phenomenon called “disintermediation”. Firstly, new technologies, such as the Internet, allow direct sales without the intermediation of travel agencies. Secondly, these technologies have allowed new distributors and distribution channels to emerge. Furthermore, electronic commerce has transformed corporate travel management functions so that all parties have become more cost-conscious. (Bédard 2002, Mason 2002)

The changes that are currently taking place in the industry offer a unique opportunity for studying how the actors, activities and resources of inter-firm relationships change in the triads. Past studies of business relationships have largely concentrated on understanding the basis of long-term relationships
in static environments. By studying the re-constellations of triadic relationship between clients, intermediaries and suppliers in the travel industry, new and important knowledge can be gained on the development of business networks and business network strategies.

The purpose of the paper is to present a preliminary conceptual framework for conducting further empirical studies regarding the re-constellations of triadic relationship between clients, intermediaries and suppliers in the travel industry. The paper will also draw upon the author’s extensive experience from within the industry.

2. DEFINITIONS

Dyadic business relationships are relationships between two parties, most often between a buyer and a seller. (Havila 1996) Triadic relationships exist when three individuals are observed to interact on successive occasions. (Thibaut and Kelley 1959) In business context, the triad consist often of buyer, seller and intermediary. Triadic relationship is a small network. The term network refers to exchange relationships between multiple firms that are interacting with each other (Möller and Wilson 1995). Business networks can be regarded for example as a set of connected firms, or a set of connected relationships between the firms. (Rosenbröijer 1994) When it comes to business travel industry, the focal business relationship, the triad, consist of the client company, business travel agency and the supplier, for example the airline. Travel agencies concentrating on corporate clients are called business travel agencies, or travel management companies. The term business travel agency, or agency, will be used in this paper.

3. TRIADIC BUSINESS RELATIONSHIPS

In industrial markets, long lasting business relationships are regarded as beneficial. According to Zineldin (2000), companies seek ways “to develop formal, ongoing relations with customers in order to reach repeating transactions”. For the development of enduring and mutual beneficial business relationships the following conditions are important: two or more individuals, groups or organizations are willing to be engaged and to interact in a relationship. Each party must acquire something of value that the other party desires; there must be mutually rewarding connection in the relationship. Håkansson and Snehota (1995a) give an additional explanation for the existence of a business relationship: “Relationships produce something that neither of the two can produce in isolation and something that cannot easily be duplicated.”

The importance of exchange concerning relationships is stressed by Grönroos (2000) by the following way: “Marketing is to identify and establish, maintain and enhance and when necessary terminate relationships with customers (and other parties) so that the objectives regarding economic and other variables of all parties are met. This is achieved through a mutual exchange and fulfilment of promises.” It is important that both parties are free to accept or reject the terms and conditions of the exchange that will leave them better off than before the exchange.

According to Håkansson and Snehota (1995a), companies are connected through activity links, resource ties and actor bonds. Activity links, for example technical and administrative links, can be connected to those of another company as a relationship develops. Resource ties connect the different resources, for example technological, material and knowledge resources of two companies. Actor
bonds are established in interaction and reflect the interaction process of the companies. The effects the relationship has and is subject to require consideration of three functions: function for the dyad, function for the individual company and function for the third parties. As a relationship is a building element in the larger network structure, a relationship can affect and is affected by other relationships. The effects on third parties and from third parties depend on how tight the connections in the relationship in the overall network are.

In several empirical studies, interorganizational relationships in industrial markets have been found to be fairly stable and continuous. Reliable business partners are essential in order avoid the risks in complex purchasing functions. The companies and their customer relationships are embedded in the wider context of focal networks, the ones of the supplier and the customer. (Tikkanen & Alajoutsijärvi 2002) Relationship management is argued to be the most critical marketing challenge, particularly in a business-to-business situation where companies are often dependent on a small number of customers and suppliers. Moreover, in these circumstances markets are relatively static and maintaining existing relationships is often necessary to on-going business success. As a result, key and global account management systems are being implemented, preferred suppliers are nominated and relationship management schemes are taken into use to identify relationships central to company’s competitive advantage. (Zolkiewski and Turnbull 2002)

Direct relationships are relationships connecting two actors together, dyadic relationships. Indirect relationships are defined as the relationships between two firms which are not directly related but which are mediated by a third firm they both have a relationship with. To understand dyadic business relationships, a greater attention needs to be given to the business network context where the dyadic business relationships take place. Business networks can be regarded for example as a set of connected firms, or a set of connected relationships between the firms. (Rosenbröijer 1994, Anderson et al. 1994, Havila 1996)

According to Granovetter (1973) triadic relationships are common if the relationships between A and B, and A and C are strong. It is then most likely that there also exists either a strong or a weak connection between B and C. Triadic relationships exist when three individuals are observed to interact on successive occasions. (Thibaut and Kelley 1959) Applied to business relationships, A, B and C come together repeatedly and are in communication often, they for example converse and exchange products or services. Connections are strongest in relationships which are closer to each other in the network. In a triad, each of the three parties functions as an intermediating actor between the other two. Accordingly, the relationship between A and B is influenced by both of the relationships, the one between A and C and the one between B and C. (Rosenbröijer 1994) Figure one visualizes a basic business relationship triad.
3.1 THE ACTORS IN THE TRIADIC BUSINESS RELATIONSHIP

The core actors in the triadic business relationship are for example: customer (buyer), supplier and intermediary. The core roles of the buyer and the supplier are quite clear, meanwhile the core role of the intermediary is somewhat more difficult to define, and has a different meaning in different situations. (Havila 1996)

According to Havila (1993b, 1996) triadic relationship between supplier, customer and intermediary can be characterized in two different ways depending on the role of the intermediary. All the three parties interact on successive occasions, and meet each other face-to-face between certain intervals. What makes the difference is the strength of the relationship between the supplier and the customer, which means that the role of the intermediating actor, and thus the nature of the business relationship are different in the two situations. These two kinds of situations are described in figure two.
In the serial triadic business relationship (a), most of the contacts take place between the supplier and the customer, with the help of the intermediary. The situation reminds of a series of two dyads, there is one relationship joining the supplier and the intermediary and another relationship joining the intermediary and the customer. In the series, one dyadic exchange precedes another in the sense that the first has an impact on the dyadic exchanges. Each party also has a specific position and a specific task to be performed in the system. (Havila 1996)

In the unitary triadic business relationship (b), each party has more or less equal contact with the other parties, and the nature of the triad is a group. In small groups, where the members are able to discern the other participants, there is the tendency to maintain the group as a unit and cooperate. (Thibaut and Kelley 1959) In business relationship context this in turn leads to differentiation of the tasks in different areas within the group.

3.2 CHANGES IN THE TRIADIC BUSINESS RELATIONSHIP

The division between serial triads and unitary triads is important when studying the changes in the roles in triadic business relationships. An ongoing business relationship changes continuously in content and strength through the interaction between the involved parties. Reasons for change can be found for example in the activities carried out by the companies or by the individuals involved in the business relationship. However, in a network all the relationships impact one another. (Havila 1996)
The changes in the structure of a triad are visualized in figure three. According to Havila (1996), in triadic relationships, the structure of the relationship can change in three different ways. Firstly, the business relationship as such ceases to exist (situation 1) and the triad becomes a dyad. The second and third situations arise when the relationship changes to another type of a triad (situations 2 and situation 3).

A dyadic relationship can be considered terminated if one of the parties leaves and no activity links or resource ties exist between the parties involved in the relationship. Nevertheless, in triadic relationship, even though one of the three parties leaves the triad, the relationship may continue to function as a dyad (situation 1). (Havila 1996, Giller and Matear 2001)

The business relationship triad can also change to another type of triad (situations 2 and 3). In the first situation (1), the supplier and the customer cease dealing with each other and the triadic business relationship as such comes to its end. In the second situation, the structure of the business relationship changes from triadic to dyadic structure (situations 2 and 3). The intermediary continues to deal with one of the parties, either with the customer, or with the supplier. (Havila 1996) The structure can also change if the intermediary is changed to another one (situation 3b), for example to an electronic distribution channel.

Figure 3: Changes in triadic business relationship.

An additional situation can be added to Havila’s model. This is the situation where each of the parties continues to function independently, the total dissolution of the triad (situation 4).

As pointed out earlier, industrial networks can be considered as interconnected systems of actors, resources, and activities. This implies that any change episode is not made in isolation. Change influenced by one actor creates the conditions under which others must work. The others can also try to affect the change. Having been set in motion, the dynamics of the network develop into a force of they own. (Håkansson and Henders 1995)
4. BUSINESS TRAVEL DISTRIBUTION

For most companies the costs of purchased goods and services represent the dominant portion of total costs and the majority of the corporate purchase is spent on services, especially in the service and government sectors. (Fitzsimmons, Noh and Thies 1998, Gadde and Håkansson 2001) Business travel is estimated to be the second largest controllable expense in the US companies and the third largest in European companies after recruitment and tele-communication costs (American Express 2001). The largest expenditure in business travel is the flight tickets, which typically covers more than half of company’s travel budget. Within the European Union, business travel accounts for 48 % of all air travel passenger trips, an important market for the airline industry (Mason 2002). Additional business travel related costs are for example accommodation, daily allowances, car hire, and other means of transport.

Purchase of services is in general regarded as more complex and riskier than purchase of goods, and selecting a professional service provider can be one of the costliest mistakes a buying company can make. (Day and Barksdale 1994, Fitzsimmons et al. 1998) The grade of the complexity depends on the importance and scope of the purchase and the intangible nature of services adds the complicity. Purchasing specifications regarding services are difficult to create, and it is challenging to develop and maintain a standard of quality. Service quality is often determined by the persons delivering the service, not only in terms of their skills, but also in terms of their attitudes towards their jobs and other personal characteristics. Moreover, the complexity is also caused by the need to satisfy a larger number of affected personnel. Contracted services, such as travel bookings are an example of services that affect employers personally. (Webster 1984: 8, Fitzsimmons et al. 1998)

According to Cohen (2001), “in the world of corporate purchasing, travel is different from anything else”. Firstly, there is a great number of distribution channels selling travel services. The services are perishable, and the pricing changes sometimes by the minute, especially when it comes to flight rates. Secondly, there is the high emotionality involved in business travel. It is easier to change a supplier of a good than persuade the travellers to stop using the hotel or the airline he or she is used and attracted to. Therefore, a broad range of skills and sensitivity are needed to buy business travel. It requires, in addition to purchasing skills, human resources skills as it is “human cargo” that is send around the world. Moreover, if for business travel the components of travel are managed to minimize stress, the traveller will arrive at the destination able to function to the best of his or her ability. (Gilbert and Morris 1995) In business travel context, airlines have difficulties in defining who the client is. Mason and Gray (1999) argue that business-related air travel may be defined as well a consumer service as an industrial service because of the consumer, business traveller, uses the air service as a completed product. In contrast, business related air travel could also be considered as an industrial service, since demand for business travel is derived from a need for business people to travel in order to commit their work obligations.

4.1 THE CHANGES IN THE BUSINESS TRAVEL DISTRIBUTION

There have been major changes in business-to-business marketing during the past 30 years, not only in the phenomenon studied but also in the conceptualization of the processes at work. The changes have a major impact on how business is conducted. Leek et al. (2002) present four major changes that have taken place: the growth of information technology, increasing globalization, the changing nature of
industrial structures and customer expectations. All these changes have impact on business travel and the relationships and networks it is included in. Firstly, the technology development affects tourism in many ways, offering quicker ways to travel and new means of communication instead of face-to-face meetings, for example net-conferencing and telephone meetings. Technology also enables the use of new booking channels and ticketless travel, thus changing the roles in the distribution chain. (Westwood et al. 2000, Buhalis and Licata 2002, Bédard 2002). Secondly, globalization increases the need for business travelling. Thirdly, industrial structures have changed bringing along the growth in services sector, the demand for technological innovation and economic efficiency, and the complexity of relationships. Fourthly, customers are more experienced and their expectations and demands are higher than earlier.

During the past few years, travel agencies have faced severe threats in the external environment. Porter’s (1980) competitive analysis of industrial sector includes the following competitive forces: the intensity of the competition, the power relationships they have with customers and suppliers, and the threats from substitution and new arrivals. Firstly, intense competition refers to the fact that the number of travel agencies is very high compared to the size of the markets and many of them have been forced to cut down their functions. Secondly, power relationships refer to the consumers’ strong bargaining power as travellers and buyers are today more experienced and demanding than ever, as stated earlier. Moreover, suppliers have great power over travel agencies because they determine the selling price and the commissions. (Bédard 2002)

Thirdly, the threat from substitution and new arrivals is noteworthy for travel agencies. Travel industry is one of the sectors that is best suited for e-commerce and consumers and companies will increasingly purchase directly from suppliers and producers without going through an intermediary. Traditionally, scheduled airlines have used business travel agencies as an intermediary and distribution channel for selling the flight tickets. Airlines paid travel agencies a on the issuance of a ticket. However, today, most scheduled airlines have stopped paying commissions in order to save costs, and to take advantage of e-commerce. (The Nordic competition authorities 2002). The emerging use of low-cost airlines in business travel is as well supporting the use of e-commerce, because of they have from the very beginning preferred selling without intermediaries. The threat of a gradual reduction in the importance of travel agencies, or even their disappearance, has been a subject of debate within the industry. (Bédard 2002) A restructuring of the industry can also be observed. Many international business travel agencies have been renamed travel management companies to portray their change from being ticket bookers to offering consultancy services, developing customer and supplier relationships, performing information management and being involved in technology development.

Regarding the buyers, the responsibility for organizational buying is usually delegated to specialist purchasing departments and buyer professionals in the organization, thus separating the users from the producers. On the other hand, the technological advancement enables producers to interact with users and the functions earlier performed by intermediaries can be taken care directly. (Webster and Wind 1972, Seth and Parvatiyar 1995, Hutt and Spech 1995) According to Seth and Parvatiyar (1995) in the era of relationship marketing, the roles of producers, sellers, buyers and customers are blurring. There is less need for intermediaries and the boundaries between producers and consumers are getting weaker. Figure four illustrates the major changes in the traditional triadic relationships in a business travel context.
Figure 4: The major changes in the roles in the triadic relationship in business travel context.

4.2 DISINTERMEDIATION IN THE BUSINESS TRAVEL DISTRIBUTION

Internet represents a serious possibility for a substitute for travel agencies providing computerized distribution system which is directly accessible by consumers. Moreover, global distributions systems (GDSs), which have traditionally developed information and reservation tools for travel agencies only,
have begun to introduce consumer products during the last few years. However, GDSs have also developed new products for travel agents using Internet technology, thus helping the travel agencies to develop their distribution. These products allow agents to offer value-added services. (Bédard 2002, Alamdari 2002) Figure five visualizes the change in the intermediary’s role in business travel context.

![Figure 5: Airlines’ distribution channels. Source: Alamdari 2002: 340, modified](image)

Figure five illustrates the phenomenon called “disintermediation” coming from two fronts. New technologies, such as services available on the Internet, allow direct sales without the intermediation of travel agencies. *Airlines call centres and ticketing offices, airlines own web sites, intranets and airlines portals* give possibilities to direct bookings thus replacing the traditional travel agencies. (Bédard 2002: 72) The relationship changes to a dyadic relationship.

Conversely, the new technologies have allowed new distributors and new channels to emerge representing an alternative to the traditional distribution network. (Bédard 2002) As several kinds of travel distributors are penetrating the field, the lines between different types of distribution channels are difficult to draw. Many travel management companies have built technology to handle what traditionally would be known as GDS functions. Moreover, traditional GDS providers are transforming themselves in the corporate market. (Campbell 2003) When business travel is purchased via traditional travel agencies, consolidators and on-line travel agencies, the triadic relationship still exists, even though there might be fundamental changes in the ways of operating.
According to Tapscott (1996) “intermediates need to move up the food chain to find new ways to create value to customers”. Intermediaries are usually assumed to have a general role based on the assumption that they stand between consumption and production. However, in triadic business relationships the role of the intermediary cannot be defined solely based on the assumption that they stand between something. (Havila 1993a) According to Alderson (in Seth and Parvatiar 1995) “intermediary traders are said to create time, place and possessions utility because transactions can be carried out at lower cost through them than through direct exchange”. If the transactions cannot be carried out at lower costs, the value has to be created by some other means. If travel agencies want to survive, they will no longer be able to be content with printing airline tickets, but will have to act as a consultant and as travel package tailor, thus being able to use their special knowledge. This means reverting back to their original profession, the function that became blurred with the boom in the travel industry, which was called for a mass distribution of tourist products. (Bédard 2002)

Regarding the entire travel industry, including leisure travel, on-line travel sales has made remarkable increase during the last few years, 61% from year 2001 to 2002. Air travel increased its share from 59.7 to 62.3% during 2002. (www.crt.dk/uk/staff/chm/trends.htm) Table one describes the trends in overall on-line travel market size in Western Europe in 1998 - 2006.

<table>
<thead>
<tr>
<th>Year</th>
<th>Market (billion E.)</th>
<th>Internet sales (billion E)</th>
<th>Internet sales in % of market</th>
<th>Internet sales increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>192</td>
<td>0.227</td>
<td>0.1%</td>
<td>N.A.</td>
</tr>
<tr>
<td>1999</td>
<td>200</td>
<td>0.800</td>
<td>0.4%</td>
<td>252%</td>
</tr>
<tr>
<td>2000</td>
<td>208</td>
<td>2.550</td>
<td>1.2%</td>
<td>219%</td>
</tr>
<tr>
<td>2001</td>
<td>208</td>
<td>4.745</td>
<td>2.3%</td>
<td>86%</td>
</tr>
<tr>
<td>2002</td>
<td>212</td>
<td>7.6</td>
<td>3.6%</td>
<td>61%</td>
</tr>
<tr>
<td>2003</td>
<td>219</td>
<td>10.3</td>
<td>4.7%</td>
<td>35%</td>
</tr>
<tr>
<td>2004</td>
<td>225</td>
<td>12.8</td>
<td>5.7%</td>
<td>24%</td>
</tr>
<tr>
<td>2005</td>
<td>232</td>
<td>15.2</td>
<td>6.6%</td>
<td>19%</td>
</tr>
<tr>
<td>2006</td>
<td>239</td>
<td>17.6</td>
<td>7.4%</td>
<td>15%</td>
</tr>
</tbody>
</table>


However, even though there is such a wide range of booking options, only less than 5% of travel managers and business travellers book their flights on-line (Mason 2002). The reason for the low percentage is not argued to be due to lack of Internet infrastructure, but due to the threat of losing the control. The majority (72%) of travel managers discourage their travellers from booking on-line because nearly half of the travel managers believe that on-line booking causes increase in travel costs
and makes it harder to monitor and control the spending. (Mason 2002). Anyhow, companies are implementing on-line travel systems. Business travel agencies offer on-line services where corporate travel policies can be implemented to make sure that the contract compliance is not lost. Experts predict that within the next few years 20% of corporate transactions will be on-line driven. (Tasker Traditionally, airlines have used business travel agencies as an intermediary and distribution channel for selling the flight tickets. Airlines paid travel agencies a commission on the issuance of a ticket. However, today, most airlines have stopped paying commissions in order to save costs. In addition, they take advantage of e-commerce, for which the travel industry is well suited. (The Nordic competition authorities 2002). The threat of a gradual reduction in the importance of travel agencies, or even their disappearance, has been a subject of debate within the industry.

5. CONCLUSIONS AND IMPLICATIONS FOR RESEARCH

Business travel distribution changes dramatically when the buyers adopt new ways to take care of bookings. The traditional relationships between client company, service supplier and intermediary are under reconstruction. Business travel agencies are losing their position as a ticket printer and booking agent, and they have to find alternative ways to earn their living. As their role of the business travel agency has expanded, many of them have renamed themselves as travel management companies, in order to be able to describe better their value to their clients.

At the same time scheduled airlines are eliminating the commission payments to travel agencies. Travel agencies have to compensate the lost commissions by setting service charges for their clients, consequently encouraging them to use alternative ways to book travel, business travel as well. All this leads to changes in the roles of the actors involved in the business travel distribution process, and in the way they operate. The rapid growth of the Internet has stimulated the development of electronic commerce. The Internet and Web-based applications have transformed corporate travel from a revenue producing unit to a cost-conscious activity. Travel management companies also provide on-line services to their clients, with an additional value by making it possible to monitor and control the travel spending.

The fundamental changes that are at present taking place in the business travel industry offer a unique opportunity to study how the actors, activities and resources in client companies, travel agencies and airlines change. The new knowledge can be gained on the development of business networks and business network strategies. Furthermore, regarding the business travel industry and its actors, the knowledge gained, will help them, and especially the intermediaries, with managerial implications.
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