The Difficult Customer:
- on the construction of SAS’ domestic airline customer -

Hans Kjellberg and Anders Liljenberg

Abstract
As part of their everyday marketing practice, companies contribute to perform their customers. This includes deciding upon and implementing strategies of approaching customers, be it in order to alert interest in the first place, to realise commercial exchanges, or to promote the repetition of such exchanges. An important part of the marketing process is also to create representations of these customers, e.g. in terms of surveys, loyalty programs, satisfaction indices, etc.

Although continuously discussed within marketing departments, the question of who the customers are and what it is they demand is not as often given public attention. This paper follows the efforts to reduce the ambiguity of the customer concept during a legal controversy between Scandinavian Airline Systems and the Swedish Competition Authority in the Swedish Market court, the supreme national legal instance for market surveillance. The issue at stake is whether SAS, by applying their Frequent Flyer Program on domestic air travels in Sweden, is abusing their dominant position. During the proceedings, the character of the domestic airline customer becomes a central topic, and each party seeks to establish their version.

It is suggested that the ambiguity surrounding the customer concept in the controversy can be attributed to differences between the model underlying the European competition law and the model underlying modern marketing practice.

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Introduction
Markets presuppose customers. Similarly, the existence of customers seems closely connected to the existence of markets as governance regimes for economic exchange. Despite the seeming omni-presence of both markets and customers in contemporary society, however, accounts of how they come into existence and are maintained are relatively scarce (confer Swedberg (1994, p 257)). More often than not, it would seem, scholarly work in economics simply assumes both the existence and the character of these entities. Recent studies of markets in-the-making has suggested that the realisation of markets require considerable and continuous efforts on behalf of a large number of actors (confer Callon 1998). This suggests that market(ing) practice, to a large extent is concerned with the construction of customers, suppliers, goods and terms of exchange.

Within the subject of marketing, which is more closely associated with practical aspects of market action, the frivolity of economics in this respect is not to be found. For various reasons, including efficient product development and market communication (see, e.g., Von Hippel 1986; Peppers and Rogers 1997) it is considered to be both problematic and extremely important for a selling company to correctly identify who its customers are, what it is that they demand and how they can be reached. To this end, a wide variety of analytical procedures, models and measures have also been developed (see, e.g., Kotler 1999).

This paper follows the process of market construction in a slightly different setting than the actual exchange of goods and services, namely as part of a legal dispute between the Swedish Competition Authority (SCA) and Scandinavian Airline Systems (SAS). We take these legal proceedings as an opportunity to study how the customer is constructed. In doing so, we also highlight the interrelation of market(ing) practice and market(ing) ideas. For the controversy under study displays a clash between two different ideologies: those of legal economics and contemporary market(ing) practice.

During the controversy SAS and the SCA seek to characterise the customer as part of the positions they assume. In accordance with the particular section of law at stake, these efforts are concentrated on addressing two issues:

1. Which is the relevant market?
2. If a dominant position is at hand, does the practice involved in the EuroBonus-program then constitute abuse?
As the controversy unfolds, the customer comes to play a major role in both areas. The efforts of the two parties also result in very different conceptions of this central component of the market system, conceptions that have a decisive impact on the case.

Consider first the delimitation of the relevant market, where the two parties argue for entirely different definitions. The SCA argues that all Swedish domestic flights should be regarded as a single relevant market. Their major reason for this being that the relevant customers in the case are companies. According to the SCA, these customers demand air-transport for their employees to a number of destinations within Sweden. Furthermore, they value time more than money to the extent that other modes of transportation are not regarded as substitutes for flying. The relevant market should therefore be defined as the market for domestic air-transport in Sweden.

SAS contests this line of reasoning arguing that it does not reflect the situation that the customer, seen as the individual potential passenger, de facto is facing when choosing between transportation alternatives. The basic need of any domestic airline customer, they claim, is to move from point A to point B. Consequently, a flight from A to C cannot be regarded as a substitute. Since customers buy transportation from A to B, each such combination of origin and destination must constitute a market on its own. Furthermore, the customers may choose between a number of alternative modes of transportation offered on each such market.

Concerning the issue of abuse, the SCA argues that the individual traveller is highly influential in determining what airline to fly with. Since the individual passenger stands to benefit from the EuroBonus program, but does not pay for the ticket, the SCA argues that EuroBonus renders competition ineffective and prices higher. Consequently, SAS’ application of EuroBonus constitutes an abuse of their dominant position. On this account, SAS argues that the program is but one of several factors determining a customer’s choice of airline. And not a very important one. Consequently, the application of EuroBonus does not constitute abuse, in particular as it manifests an ongoing and globally accepted market practice in the airline travel business.

Throughout the case, then, the ambiguous character of the customer is underscored. Such ambiguity is also present in ideas about the customer put forward within marketing theory, a topic we will briefly discuss before moving on to the practical efforts of the parties to construct the customer.
The ambiguous customer

The customer concept is central to marketing. Peter Drucker has expressed the close link between the two as follows: “The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, *marketing should result in* a customer who is ready to buy.” (Drucker 1973, pp.64-65. Italics added.) Marketing can thus be regarded as a construction process that, among other things, creates customers. Apart from their ‘readiness to buy’, which supposedly is common to all customers, there are however no defining characteristics of the customers resulting from this process. Consequently, customers may take on a wide variety of shapes. Indeed, a central problem attended to within marketing theory is how to identify and characterise the customers that the marketing process gives rise to (e.g. through segmentation, surveys, loyalty schemes, etc.).

As an example of just how ambiguous the customer may be, consider for a moment the market for pharmaceuticals. When a patient gets a prescription and goes to the pharmacy to buy the prescribed product, who is then the customer? Is it the patient who ultimately consumes the drug? Or is it the medical doctor whose prescription is necessary for the exchange to take place? Or is it the government agency responsible for approving this drug to the list of reimbursed products? Or is it the local pharmacy that is obligated to substitute generically substitutable drugs for cheaper alternatives? Support can be found for each alternative. Indeed, the list could be made even longer.

This ambiguous character of the customer has been subject to some scholarly treatment within the area of marketing. An influential model describes the customer as a ‘buying centre’; a nexus of functional roles including those of the ‘buyer’, the ‘influencer’, the ‘decider’, the ‘gatekeeper’, and the ‘user’ (Webster and Wind 1972). Such a characterisation also has implications for marketers, e.g. if the ‘decider’ and the ‘user’ roles are performed by different individuals, to whom should then market communication be directed? The model does not, however, address how a customer comes to be configured in a specific way, i.e. the process of customer construction. A study of practical efforts to construct customers may thus contribute to marketing theory, as well as to our understanding of markets.

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2 Of course, there may be ambiguities associated with the characterisation of the supplier as well. In this paper, however, we leave these aside.
A brief background to the case
The controversy between SAS and the SCA arises as a consequence of SAS’ application of its Frequent Flyer Program (FFP) called EuroBonus on domestic flights in Sweden starting May 1, 1997. In response to a notification to this effect from SAS, the SCA states that: “FFPs are loyalty-creating and can be regarded as a fidelity-rebate. If fidelity-rebates are applied by a dominant company, this can constitute abuse of dominant position.” (Konkurrensverket 1997)

In November 1998 the SCA receives a complaint from Braathens Sverige AB, a competitor to SAS on domestic flights (Konkurrensverket 1998). In February 1999, another complaint is received from the Swedish Confederation of Travel Agents (Konkurrensverket 1999a). The complaints concern “the use of loyalty-creating conditions in company-specific contracts, travel agent contracts, and EuroBonus” (Konkurrensverket 1999b, p. 3).

Based on these complaints, the SCA tries whether SAS abuses its dominant position through its application of the EuroBonus-program on Swedish domestic flights. SCA concludes that EuroBonus constitutes an abuse of dominant position according to article 19 of the Competition Act (SFS 1993:20), and decides to impose upon SAS, at a penalty fine of SEK 100 million, the discontinuation of its EuroBonus program on domestic flights (Konkurrensverket 1999b).

SAS appeals against the decision taken by the SCA to the Market court, referring primarily to the fact that “the relevant market delimitation pursued by the SCA [is] incorrect and not in accordance with legal practice of the EU” (Marknadsdomstolen, 2001, p. 2). SAS urges that the decision taken by the SCA should be invalidated, something that the SCA disputes. The court proceedings and the preparatory phases thereof follow accordingly as elaborated below. The dispute is settled in early 2001 as the Swedish Market court rules largely in favour of the SCA. SAS is prohibited from applying its EuroBonus program on those domestic routes where there is competition.

A note on the method of inquiry
The method used for the study is borrowed from the sociology of science and techniques (see, e.g., Law 1986, 1994; Latour 1987, 1996). A central aspect of this approach is a shift from an ostensive to a performative definition of the world (Latour

3Upon a question from SCA, SAS has by then altered its practices concerning company-specific contracts and travel agent contracts. As a consequence, SCA leaves these complaints unattended.
1986). In practice, this means that we allow the involved actors to define each other as well as the relevant aspects of their world, and that we follow the efforts of these actors to realise their version. This is possible since the controversy we study involves questions regarding the constitution of reality. To understand how such a situation unfolds, we would be ill advised to apply an elaborate theoretical framework that establishes à priori what the world under study is or is not like (Latour 1987).

An interesting methodological and empirical finding for studies of this kind concerns the ontological status of acting entities. On two occasions after the final ruling, SAS has sought a clarification from the Market court as to how they are to interpret this ruling. The Market court, however, does not comment its own rulings and SAS has therefore been forced to turn to the SCA for advice. Similarly, when we approached some of the members of the court in an attempt to discuss the case ruling, we were informed that they are not allowed to comment on the proceedings. For all practical purposes, then, as far as “SAS vs. the SCA” is concerned, the Market court now exists only through its ruling. This ruling builds upon the constructs established by the parties to the case in their unfolding arguments to which we now turn.

As discussed above, the relevant section of law concerning potential abuse of a dominant position posits that there are two main issues at stake in the case; a) which is the relevant market and to what extent SAS is dominant on that market? and b) provided that SAS is dominant, does the use of the EuroBonus program constitute abuse? These two main areas are scrutinized below as regards the construction of customers.

**The relevant customer – how to delimit the market**

The first area where the customer comes to play a significant role in the controversy between SAS and the SCA concerns the definition of the relevant market and the subsequent determination of SAS’ position on this market. In its original decision dating back to late 1999, the SCA takes as its starting point the fact that according to European legal praxis, the relevant market must be delimited both as the *product-market* and as the *geographical market*. The SCA also observes that the substitutability of different products for those who demand them is decisive for determining the relevant product market after which the relevant geographical market is established accordingly. (Konkurrensverket 1999)
Consequently, those who demand the products become an important facet of any position taken concerning the relevant market. The identification of the product-demand, the customer, is hence the compass by means of which the relevant market can be delimited. This starting point is shared by SAS very much in line with EU-level praxis and advice in the area. Still, the two parties manage to arrive at widely diverging definitions of the relevant market. Largely, it seems, this discrepancy is due to the different views held as to how the customer should be characterised. Below, we present a summary account of the positions taken by each party.

The SCA: customers demand domestic air transports in Sweden as a whole
In its decision, the SCA notes that attention must be paid both to the product market and the geographical market when determining the relevant market. To determine the former, the substitutability of different products for those who demand them, is decisive. On this issue, the SCA argues that it is necessary to separate private travellers and business travellers, whose tickets are paid for by their employer. Using what they admit to be a stereotypical characterisation, the SCA argues that “[b]usiness travellers can conventionally be said to choose from the time-table, private individuals from the price-list.” In support of this characterisation, the SCA uses statistics from Luftfartsverket (the Swedish Board of Civil Aviation), SAS’ own price-list and SJ’s (The Swedish State Railways) price-list, to show that: ”Despite that the average price per kilometre for travelling by train is less than half of the average price for an airline ticket, a majority of the business travellers choose to fly at distances exceeding 400 kilometres.” (Konkurrensverket, 1999, p.17)

Based on this reasoning, the SCA concludes that ”only under certain conditions and for certain passengers are air-transports substitutable with land-transports” and that ”air-transports [particularly for business travellers] display such particular characteristics that they therefore cannot generally be considered substitutable with other modes of transportation.” (Konkurrensverket 1999, pp.17-18) Subsequently, the SCA also finds support for this position in a report from IATA (International Air Transport Association), submitted as evidence by SAS. The report shows, the SCA claims, that the time-table is by far the most important factor for choosing an airline, and that delays are what concerns these travellers the most.

To further underscore the relevance of this market definition, the SCA posits that SAS has chosen a strategy, which clearly focuses on “the business-segment.” This
claim is supported by information, allegedly emanating from SAS, that 76% of SAS’
total revenues for domestic airline tickets in 1998 came from sales of business class
tickets. (Konkurrensverket 1999, p.18) Consequently, companies constitute an
important group of customers for SAS.

For these customers, who "buy air travels for their employees for travels that are
part of their work”, departure and travel-times, supply of destinations, flexible re-
scheduling possibilities and good service are often decisive for the choice of ticket and
mode of transportation. (Konkurrensverket 1999, p. 6) Further, since companies often
negotiate agreements concerning bonuses and rebates that include the whole, or parts
of, an airlines’ route-network, the SCA claims that the market cannot be delimited to a
specific combination of origin and destination. (Konkurrensverket 1999, p.18)

In its concluding presentation before the Market Court, the SCA maintains:

SAS’ agreements with its company-customers thus expresses that the most important
consumer group demands the general service air-transports in Sweden. This service
is provided by SAS during the period of agreement to the destinations that the
company for the moment wishes to send its employees.

Marknadsdomstolen 2001, p.25.

The SCA also finds support for this position in a previous case involving SAS.4
There, the Market Court found reason to apply a wider definition of the relevant market
than had been applied "within the EC in some cases.” Since SAS operates on routes
throughout Sweden, and since its behaviour had consequences for the entire domestic
air travel market, the Market court found that the market should be defined as
comprising all domestic regular flights.

Here, then, the characterisation of companies as the major customer group and as
primarily time- rather than price-sensitive, is used as part of the argument for applying a
definition of the relevant market, which is relatively narrow. The characterization of
Sweden as the geographical market is on the other hand relatively broad. When putting
these two market definitions together (as one should do according to legal practice), a
definition appears that is narrow in the sense that it acknowledges no general substitutes
for air travels but broad in the sense that it comprises all domestic air travels
irrespective of destination.

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4 (Marknadsdomstolen 1999)
SAS: customers demand transport from A to B

The starting points for SAS, in its appeal to the Market court, are the principle for determining the relevant market established by the European Commission and the legal praxis in the area. “A relevant product market”, SAS claims with reference to the commission, “comprises all goods or services that due to their characteristics, their price and the intended use, are regarded as substitutable by the consumers.” SAS also observes that the Commission holds demand-side substitutability to be the most important factor for delimiting the relevant market, and that the best way of analysing this is by way of the so called SSNIP-test. According to SAS, the delimitation made by the SCA does not allow such a substitutability analysis to be performed. “There are no consumers who demand the general service regular air transports of passengers within Sweden, and it is consequently not possible to perform any meaningful substitutability analysis for a market delimited in such a way either.” (Marknadsdomstolen 2001, p.9)

In the light of this principle argument, SAS does not find it surprising that the SCA’s delimitation also runs counter to existing legal praxis in the area. According to this praxis, SAS claims, the relevant product market comprises the individual route together with other substitutable routes and other modes of transportation. In support of their claim, they cite a large number of EU-rulings on cases concerning the airline industry that have applied this principle.

[...]pursuant to the case law of the Court of Justice and the Court of First Instance, an overall national or European market cannot be defined for transport, but alternative transport must be assessed for each route, or for substitutable routes. (SAS 1999, p.23)

To further underscore the argument, SAS also claims that this line of reasoning is natural from a customer perspective:

From a customer perspective there is no general substitutability between passenger- and goods-transport on different routes. It is not an alternative, for the passenger who wishes to fly from Stockholm to Malmoe, to instead fly from Stockholm to some other community. With other words, customers cannot, for reasons easily grasped, consume such a transport-service from any other location that the given points of departure and destination. (SAS 1999, p.23)

Hence, the relevant customers buy individual air-transport services and, when so doing, choose between alternatives on the specific route they wish to travel. In consequence the geographical market and the product market coincide very clearly as the particular route travelled between two well-defined points. To further underscore the SCA’s failure to determine the relevant market correctly, SAS states that not only is the EU-
praxis in the area considerable, but also unanimous: "we have not found a single ruling where a different delimitation of the market for air-transport has been made."

In response to the SCA’s claim that the existence of agreements entitling companies to bonuses based on the total number of travels purchased suggest that the company is the customer, SAS argues that this is irrelevant to the market definition. This would be similar, they claim, to arguing that the entire range of products offered by a wholesaler is part of the same market, just because the wholesaler awards their customers rebates based on annual purchases. (SAS 1999)

Two representations of the relevant customer
As seen above, the parties’ respective delimitations of the relevant market are directly affected by the way in which they characterise the relevant customers. The SCA claims that the relevant customer category is companies and that these demand domestic air travels in general. Consequently, the relevant market is that for domestic air travels in Sweden. SAS, on the other hand, argues that the individual traveller is the customer and that these demand transport between points A and B. Consequently, the relevant market is a particular combination of origin and destination. The delimitation of the relevant market is thus made to directly depend on the stabilisation of the customer. Different customer constructions indicate different market delimitations.

This suggested causality between the stabilisation of customers and the stabilisation of the market should be seen in the light of the situation at hand. How to delimit the relevant market is an open issue of considerable import according to competitive legal practice. In another situation, an established market definition might just as well be used to stabilise who the customers are.

The loyal EuroBonus customer or? – The issue of abuse
The second area where the customer plays a significant role in the controversy concerns the issue of abuse. According to a definition supplied by the Court of the European Community (ECR):

The concept of abuse is an objective concept relating to the behaviour of an undertaking in a dominant position which is such as to influence the structure of a market where, as a result of the very presence of the undertaking in question, the degree of competition is weakened and which, through recourse to methods different from those which condition normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance
of the degree of competition still existing in the market or the growth of that competition.

Hoffman-La Roche Case 85/76 [1979] ECR 461.

To determine whether abuse is at hand or not, the SCA sets out to evaluate the "loyalty-creating effect of EuroBonus," something which, once again, leads to a characterisation of the customer. This time the customer is not just an object of reference, but an entity heavily affected by the benefits offered to the individual traveller through EuroBonus. For the argumentation, the SCA enrols a number of allies: the relevant section of the law, the plaintiffs (Braathens and the Swedish Confederation of Travel Agents-SRF), a trade-organisation for business travels (SBTA), the Swedish Board of Civil Aviation (LFV), the European Commission (DG IV), the respondent (SAS!) and a number of scientific articles that in some way discuss the issue.

Once again, SAS provides a different view of the customer as part of its appeal. First of all, SAS claims that EuroBonus constitutes an established and accepted marketing practice and that this alone means that it cannot be abusive. Second, SAS argues that the loyalty-creating effect of EuroBonus in any case is considerably smaller than the SCA claims it to be. In support of this, SAS submits reports based on surveys made among business travellers, showing that FFPs are but one of several factors influencing their choice of airline.

We start off, however, with a brief look at the EuroBonus program as presented by SAS through a membership guide submitted as evidence to the Market court.

A closer look at EuroBonus

The member guide that SAS provides the Market court with, allows us to describe some of the details of the EuroBonus-program. This is of particular relevance concerning the issue of abuse. A first observation is that there are three membership levels in the program: Blue level, Silver level and Gold level. Which of the three levels a member belongs to is determined by the number of Basic points the member has earned during a personal period of qualification (see Table 1, below). These points are awarded when the member flies with SAS or its Star-alliance partners. In addition to the Basic points, members can earn Extra points when flying with other airlines flying for SAS, when staying at certain hotels, when renting a car, etc.

The points earned by a member can subsequently be used for bonus-travels according to a "price-list" that is continually updated. As an example, in 1999 a member, after having flown 17 times with SAS on domestic flights in Business Class,
would have earned 20400 Basic points. The member can then use 20000 of these for a domestic bonus trip in economy class.

According to the membership terms, a member who intends to earn bonus points on travels, hotels or car rentals paid by his or her employer, must report this in advance to the employer. Points earned through "travels in the line of duty" cannot be used privately without the consent of the employer. Public employees are legally prevented from such private use of earned points.

Table 1. Membership levels and requirements in EuroBonus. Source: (SAS 1999)

<table>
<thead>
<tr>
<th>Membership Level</th>
<th>No. of points required</th>
<th>Other means of qualification</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue</td>
<td>-</td>
<td>Trading points to bonus-travels Ticketless travelling on selected routes</td>
<td></td>
</tr>
<tr>
<td>Silver</td>
<td>35000 Basic points</td>
<td>Blue level plus: &quot;2 for 1&quot; in Business Class, standby priority, simplified check-in, 10 kg extra luggage, priority and upgrading at Radisson SAS, exclusive benefits and rebates from Hertz and Avis.</td>
<td></td>
</tr>
<tr>
<td>Gold</td>
<td>100000 Basic points</td>
<td>50 flights in SAS business class or 50 domestic flights in Denmark, Norway or Sweden at full price</td>
<td>Silver Level plus: highest stand-by priority, 20 kg extra luggage, access to Star alliance lounges, access to PC, fax etc. at lounges, free Diners Club card with access to DC-lounges.</td>
</tr>
</tbody>
</table>

The choice is theirs, but not really a choice, the position of the SCA
Speaking partly through, and partly on behalf of a number of allies, the SCA presents their interpretation of the effects of EuroBonus on the market for domestic air-travels. Now the individual comes to the fore to an extent previously not recognized by the SCA. As a starting point, the SCA argues that "business travellers", that is, those individuals who make use of the tickets bought by the companies, have a considerable influence over the choice of airline to travel with. Second, they claim that this influence works largely in favour of SAS since the individual travellers do not pay for the ticket, but stand to benefit personally from travelling with SAS. The effect of this is that competition through means of price and quality largely is eliminated...

Braathens: EuroBonus is very loyalty creating. Business travellers choose to fly with SAS even in those cases where Braathens or some other company can offer a lower price and a more suitable departure-time. Employees in companies with which Braathens have signed rebate-contracts, in many cases chose to fly with SAS despite these contracts.

(Konkurrensverket 1999, p.23)

SRF: The purpose of the EuroBonus system is to create incentives for the customer to continue using SAS and disregard what company it is that offers the most suitable departure to the lowest price. Business travellers in many cases influence the choice of airline to receive bonus points. Since the traveller
normally doesn’t pay for the trip, the price becomes of secondary importance. Thereby, the market’s mechanism for price-competition is eliminated…

(Konkurrensverket 1999, p.23)

SBTA FFPs limit competition on the air travel-market through increasing the barriers to entry for new actors. … Normal business contracts between airlines and companies are often rendered ineffective by the FFPs since the employees strive to optimise their bonus.

(Konkurrensverket 1999, p.24)

LFV The system has considerable similarities with fidelity rebates from dominant companies towards which the competition authorities have a negative position in principle. Typically, such rebate-systems have competition-inhibiting effects since they render it more difficult for other companies to start competing against the dominant company.

(Konkurrensverket 1999, p.24)

Mr. Drabbe (DG IV): FFP may be considered to constitute a barrier to entry for new entrant airlines with a small network. … Potential passengers, already members of the incumbent’s FFP, are unlikely to make use of the new entrant’s services on routes overlapping with the network of the incumbent. … Passengers are more likely to join a major airline’s FFP than one offered by a small carrier because a larger network increases the possibilities for the passenger to accumulate usable bonus points. … In addition to that, market entry may be made difficult for a new entry by an incumbent airline with a FFP because FFP is targeted at business passengers. As a carrier derives substantial revenue from business passengers, it is essential for a new entrant to attract them to make a route profitable. They are less price sensitive than the other categories of passengers and FFP can be a very powerful marketing tool.

(Konkurrensverket 1999, pp. 24-25)

To further strengthen its case, the SCA invites SAS (through its 1997 annual report) to speak about the positive effect of FFPs in general, and EuroBonus in particular, for the frequent flyers’ choice of airline.

SAS The airline’s FFPs are gaining a more and more strategic role in a deregulated market characterised by intense competition. The import of customer loyalty on profitability can hardly be overestimated. … Today, there is no doubt that a good FFP is a strong means of competition, which very much contributes to creating preferences for and loyalty towards specific airlines and partner-constellations. In various surveys, more than 80% of the frequent flyers who are members of an FFP state that this affects their choice of airline. … When SAS has experienced quality problems the bonus system has most considerably contributed to maintaining the traffic-volume. [Emphasis by the SCA]

(Konkurrensverket 1999, p.25)

In the final sentence quoted, SAS seems to suggest that EuroBonus in fact makes customers choose to fly with SAS despite there being better alternatives. This would then support the SCA’s claim that EuroBonus renders competition by means of price and quality ineffective.
The SCA also cites an American study from 1990, made by the US General Accounting Office, where 57% of the responding travel agents reported that business travellers "always or nearly always" choose airline tickets to collect bonus points. Since the company pays for the ticket and the individual benefits from the bonus, it is likely, the SCA argues, that the individual will choose the airline that gives him or her the greatest personal advantages, paying less attention to the airline’s time-table and price. Since bonus points cannot be transferred between programs, the customer is not likely to be inclined to spread his or her earning of points between different programs more than necessary. This means that the FFPs lock a large share of the frequent business travellers to a certain airline, thus reducing the possibilities for potential new actors to durably enter the market, even if they offer lower prices. This effect becomes more pronounced if the airline can offer a widespread network, and thus increases the benefits of a large network of destinations to the extent that it becomes a necessary condition for competing in the business traveller-segment.

According to the SCA, SAS has access to such a network, and is the dominant actor on the Swedish market. Since many travellers must concentrate their air travels to one airline in order to utilise the bonus points maximally, the SCA claims that they are directed to SAS and its partners, also on distances where alternatives exist. For frequent flyers, the existence of FFPs create an artificial cost for switching to another supplier, since each individual travel cannot be evaluated independently of which airline the traveller has utilised for his previous travels. Since a traveller receives most benefits by concentrating his or her travelling to one company, a powerful loyalty-creating effect arises. EuroBonus thus delimits the market by strongly weakening or completely eliminating the normal price-competition between companies. The travellers to some extent cease to search for suitable flying-services to competitive prices, it is argued.

With reference to the preparatory work to the Competition Act, the SCA argues that “normal competition” should be understood as competition by means of price and quality. Competition by other means can thus be abusive. As evidence to the abusive effect of EuroBonus, the SCA also submits a survey conducted by SBTA. According to this survey (sent to 182 companies, with responses from 67) 42 out of 59 companies argue that it is possible to estimate how often a traveller chooses SAS despite that another airline has been recommended by his or her company, or travel agent (see Table 2). Based on the responses, SBTA concludes that "it is quite rare that one deviates from the recommendation made by the company or the travel agent.”
Table 2. Estimates of how often a traveller chooses SAS despite another airline having been recommended. Source: SBTA.

<table>
<thead>
<tr>
<th>How often?</th>
<th>0-25%</th>
<th>25-50%</th>
<th>51-75%</th>
<th>76-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of responses</td>
<td>18 (43%)</td>
<td>11 (26%)</td>
<td>6 (14%)</td>
<td>7 (17%)</td>
</tr>
</tbody>
</table>

The subsequent question concerns how often such a deviant choice is made due to EuroBonus. Here 40 out of 58 respondents hold that it is possible to estimate the impact of EuroBonus on such choices (see Table 3). SBTA interprets these responses as follows: ”A cautious analysis indicates that roughly every other time, the choice is made due to EuroBonus.” This particular conclusion was also underlined by the SCA.

Table 3. Estimates of how often a traveller chooses SAS despite another airline having been recommended. Source: SBTA.

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<thead>
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<th>How often?</th>
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<th>51-75%</th>
<th>76-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of responses</td>
<td>16 (40%)</td>
<td>6 (15%)</td>
<td>8 (20%)</td>
<td>10 (25%)</td>
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According to the SCA, the evidence they have submitted shows that ”EuroBonus is thus undeniably loyalty-creating in such a way that the customer chooses service on grounds other than price and quality.” (Italics added.) To SCA, this makes EuroBonus an abnormal means of competition. (Konkurrensverket 1999) Here then, the SCA characterises the customer as an individual traveller with considerable discretion as to the choice of airline.

The SCA claims that the purpose of FFPs is to tie customers to the airlines at lesser cost than through lowering the prices or increasing the quality of the service. Moreover, there are ”mechanisms” that make the traveller join the FFP that offers most departures and the greatest route-network. Since the traveller receives the greatest pay-off by concentrating his or her travels to one company or within one alliance, a powerful loyalty-creating effect arises. The SCA also finds additional support for its position in an article containing an interview with the Marketing Director at SAS, Erik Strand. In the article, Mr Strand is reported to have said that the SCA’s decision would mean ”a deathblow to the airport of Malmoe in southern Sweden, Sturup, since the international route to Copenhagen continues to yield the beneficial bonus points.” The SCA’s interpretation is that Strand is stating that a domestic traveller from Stockholm to Malmoe would choose the detour through Kastrup (Copenhagen) in order to earn bonus points also after a prohibition. This, the SCA claims, shows that the travellers’ choice is not made on the basis of price- and quality-issues. (Konkurrensverket 2000)
In their argumentation concerning abuse, then, the SCA identifies the individual traveller making the choice of airline as the customer. Above, we saw that for the definition of the relevant market, SCA argued that companies should be regarded as the relevant customers. That is to say, the SCA chooses to reconstruct the identity of the customer once the issue of abuse is pondered upon. This follows from the way in which the EuroBonus-program is constructed where points earned accrue to the individual traveller. This reconstruction of the customer identity should be seen in the light of the overall purpose of the SCA’s action: to the SCA, the core concern is not to stabilize the customer identity once and for all, but to reach out for arguments by means of which abuse can be proven.

Each customer is free, the position taken by SAS
Far from surprising, SAS argues that the SCA has reached an incorrect conclusion also concerning the issue of abuse. A first reason for this is that the application of an FFP constitutes a well established and generally accepted means of competition in the airline industry (irrespective of how the customer is identified). Since the ECR has defined the concept of abuse as necessarily involving ”methods different from those which condition normal competition in products or services on the basis of the transactions of commercial operators,” SAS argues that their application of EuroBonus cannot be abusive. Instead, it is argued, the EuroBonus-program is a means of enhancing customer value since, when the individual traveller is identified, it is easier both to communicate with her and to find out about her individual requirements.

With reference to Mr Drabbe, a representative of DG IV, SAS further points out that: 1) The EuroBonus-program cannot be regarded as a fidelity rebate. There are several reasons for this: first, it is open to every individual that is at least 18 years of age, second, it places no requirements concerning the member’s fidelity, and third, it does not restrain members from entering into other bonus programs (in fact, many business travellers are members in several programs in order to optimise their benefits). 2) The EuroBonus-program does not constitute a target rebate as it contains no progressive scale and sets no restrictive final date after which the earned points no longer are valid, but each point is valid for five years from the date on which it was earned. As seen the very nature of the customer is not really subject to discussion here since it is not necessary in order to support the position taken.
SAS’ second line of argument concerns the effects of EuroBonus, and more directly includes a characterisation of the professional airline customer as the traveller herself. SAS here asserts that there are no indications that the application of EuroBonus has constituted any real disadvantage for SAS’ competitors. In support of this, the positive development for Malmoe Aviation (which by then had become part of Braathens) during the period 1994-1998 is referred to, i.e. the period during which the EuroBonus program was introduced on domestic flights. Neither, argues SAS, can the relative passenger development be used to show any noticeable effects of the introduction of EuroBonus. (SAS 2000)

As far as the alleged loyalty-creating effect of EuroBonus is concerned, SAS then directs attention to AirTrack 1999, a survey based on interviews with 2412 business travellers from 13 European countries including Sweden, Denmark and Norway (see Figure 1). Only 15% of the interviewed travellers are reported to hold FFPs to be of major importance for their choice of airline. In the second survey, made by IATA and covering more than 1000 business travellers worldwide, this share was as low as 6%. According to SAS, these studies show that the import of FFPs on the choice of airline is much less than what the SCA claims. Since most business passengers also are members of more than one FFP, the effect becomes even lesser.

The conclusion that can be drawn from the passenger surveys from AirTrack and IATA is that the traveller attributes considerably greater import to other factors when choosing airline than to the possibility of earning bonus-points. … Given the above, it can be concluded that the loyalty-creating effects that FFPs allegedly have are considerably less far-reaching than SCA claims. 

(SAS 2000)
Contested claims and other tactics

The claims made by the SCA and SAS in the process of filing petitions with the Market court are not left uncontested by the other party. This is particularly the case concerning whether EuroBonus has a loyalty-creating effect. Here, the two parties use a number of sources that supposedly testify to the great (according to the SCA), or modest (according to SAS), effect of EuroBonus.

First, SAS argues that the SCA’s claim that the application of EuroBonus inappropriately hinders competition, lacks factual support. According to SAS, the SCA’s arguments are based on theoretical reasoning and studies that do not reflect current market conditions. (SAS 2000)

As far as the loyalty-creating effect on individual travellers are concerned, SAS contests both the methods used by the SCA to quantify this effect, and the results reached, i.e. that the market-effect of an FFP corresponded to a 10% lower price. SAS claims that Nako’s *Frequent Flyer programs and Business Travellers*, a “ten year old American masters thesis”, does not reflect the market conditions in the case at hand since it is based on an analysis of American FFPs which at the time yielded bonus progressively. SAS also presents two studies in support of their claim that the American surveys used by the SCA provide an incorrect view of the loyalty-effects of FFPs.
Just as SAS seeks to discredit some of the sources on which the SCA relies, the SCA voices doubts concerning the relevance of the AirTrack survey presented by SAS:

In all cases falling under the competitive law, the point of departure is that the particular practice should be evaluated against the market conditions that apply in the individual case. The SCA cannot find that the voluminous AirTrack-investigation in any aspect concerns the conditions for domestic air travel in Sweden. The conclusions that are drawn in the investigation concerning the travel patterns, behaviour, etc. of the European business travellers, ought therefore to lack any relevance to the case at hand.

Konkurrensverket, 000531, p.3.

Here, the SCA suggests that only the specific conditions that apply to the particular case are relevant. This statement stands out given the fact that the SCA submits Hanlon’s *Global Airlines* (which reports on an American survey dealing with FPPs that admittedly differ from the one under scrutiny) as evidence along with the very comment in which such reports are said to be irrelevant.

Neither party furthermore seems to make any profound attempts to show that the Swedish domestic air travel customers act in one way or the other. This is particularly so as both parties argue that the claims of the other lack factual support. SAS, on the one hand, claims that since the SCA bases its arguments on theoretical reasoning and survey-results from other national markets, they are not in touch with the market conditions at hand. The SCA, on the other hand, claims that the support called upon by SAS is irrelevant for the case.

The comments that interchangeably are submitted to the Market court by SAS and the SCA, also display some interesting interpretations. Thus, for instance, the SCA claims that the IATA-report submitted by SAS (which at any rate should have little relevance for the case according to the SCA’s reasoning above) *confirms* that bonus points are best utilised if air-travels are concentrated to a certain airline. They quote:

**FFPs are loyalty schemes with the objective to encourage repeat purchase of the airline. The problem is that their effectiveness decreases when passengers are enrolled in not just one but several programmes allowing them to earn mileage towards free travel on almost any airline. In fact, the more passengers decide to become multiple members of FFPs, the more those programmes risk becoming a zero sum gain for airlines.**

Konkurrensverket, 000531, p.2

The SCA goes on to argue that the ”problem” indicated in the IATA-report does not exist on the Swedish domestic market, i.e. there is a single FFP that is highly
dominant. Based on this, the SCA concludes that "In Sweden, EuroBonus thus has such loyalty-creating effects as has been claimed by the SCA."

The customer as a duality or a composite
The various re-presentations of the customer brought forward during the controversy are summarised in Table 4, below. As observed above, the two parties argue for decidedly different characterisations of the customer on the issue of how to determine the relevant market. Companies demanding domestic air travels in Sweden for their employees vs. customers demanding transport from A to B.

Table 4. The basic characterisations of the customer made by SCA and SAS when determining the relevant market and when discussing the issue of abuse.

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<th>SCA</th>
<th>SAS</th>
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<td>Relevant market</td>
<td>Companies demand domestic air travels throughout Sweden.</td>
<td>A customer demands transport from A to B.</td>
</tr>
<tr>
<td>Abuse</td>
<td>Individual travellers choose SAS for reasons other than the price and quality of their service, i.e. their FFP-membership.</td>
<td>A customer chooses airline based on a number of aspects, one of which is FFP.</td>
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The two parties seem to argue for relatively similar definitions of the customer on the issue of abuse. Here, both parties attribute considerable import to the individual traveller in enacting the customer. The major difference seems to be to what extent the existence of EuroBonus affects these customers’ choices of airline. On this issue, the two parties display widely diverging opinions. The SCA argues that EuroBonus gives rise to a considerable loyalty effect and that it consequently is highly influential in determining the choice of airline. SAS, on the other hand, argues that this effect is a modest one. Possibly, however, these differences are a consequence of diverging actor definitions. For whereas SAS maintains a composite view of the customer on both issues, SCA alternates between two customer configurations.

5 The observant reader will perhaps notice the curious logic to be found in this statement. SCA is saying that since there is little or no dilution of the loyalty-effect of EuroBonus on the Swedish domestic market, their original assessment was correct. One may of course ask in what way this observation supports their original claim? It is like arguing that since the more money you loose, the less you have left, and you have lost no money, you must consequently have a lot…
SAS does not explicitly discuss the composition of the customer in their argumentation. However, when discussing the relevant market, they argue that a customer perspective must include also the wishes of the passenger. The passenger is suggested to be highly involved in the purchase of the transport service, i.e. the passenger is part of their representation of the customer. This line of reasoning is applied also to the issue of abuse. Here, SAS seeks to show that passengers are affected by a multitude of factors when choosing what airline to fly with. In doing so, they also suggest a number of entities that contribute to performing the customer, e.g. in-plant or off-site travel agents, the company, the traveller’s secretary.

The SCA, on the other hand, explicitly make use of two different customer representations. As far as the relevant market is concerned, the individual traveller is attributed very little import. Here, the relevant customer is represented as a company with a need to send its employees to different destinations within Sweden. However, when discussing the issue of abuse, the customer changes shape. Now, the customer is an entity whose choice of airline is largely governed by the bonus points awarded to the individual traveller. Consequently, the individual traveller is attributed considerable import in performing the customer. Here, any interests that the company might have in affecting the choice of airline are suggested to be subordinate to the interests of the individual traveller.

SCA suggests that the customer is a duality. The entity capable of forming agreements with SAS and thus setting the terms under which individual purchases are to be made, is not the same entity as the one that performs the individual transactions. It seems, however, that both are necessary for performing the market.

The dual character of the customer as represented by SCA was further underscored by two spokespersons for the SCA, during an interview:

F.M. (From the legal department): … The Commission has issued guidelines for delimiting how the customer reacts… You’ll find it on page 47 of the ruling, I think. It is not possible to perform a SSNIP test in relation to travellers.

S.S. (analyst): It is cumbersome to deal with markets where there is double demand, from those who pay and from those who demand. The basic perspectives, or mechanisms in the model are destroyed; it becomes difficult for the market to work like it should.

Interview notes SCA 021212

Here, the analyst characterises the market for domestic air travel as one with ”double demand.” On the one hand, companies demand travel service for its employees, on the other, the travellers have personal demands on this service. The excerpt also
suggests some ontological confusion concerning "the market." The first speaker claims that the kind of test devised by the commission cannot be used at the level of individual travellers. Then, in the final sentence, the analyst starts off by saying that the model (presumably the one on which the analytical procedure involved in the SSNIP-test is built) does not work in this case. He concludes by saying that reality, that is, the market for air travels, does not work as it should and that this is somehow connected to the failure of the model. This suggests that to the SCA this particular model constitutes both a tool for characterising how markets do work and a norm for how markets should work, a duality that for obvious reasons is not at hand for SAS.

The customer as performed by the Market court
In its ruling, the Market court does not directly address the characteristics of the customer. Rather, the characterisation of this entity must be compiled by combining a number of statements that in various ways refer to it. Below is a list of statements that together sketches the contours of this entity as performed in the ruling of the Market court. In its ruling, the Market court:

finds that EuroBonus is directed primarily towards business customers
finds that the business customers, as fully paying customers, constitute an important target group for loyalty programs.
assumes that the business customer demands travels to different destinations within the whole country

The segment, which the program primarily is directed towards, the professional travellers, must be assumed to demand travels to different destinations within the whole country. The companies, on behalf of which the travels are undertaken and which pay for the costs, often negotiate customer-contracts with SAS concerning such travels.

finds that the co-ordinated booking and ticket system and the checking-through of luggage to the final destination, offers customers natural reasons to choose to fly with SAS or its partners on transfer flights.
finds that the number of departures and the attractiveness of the time of departure are important for the business customer
holds that the business customer prefers swift transports over cheap transports, transports by bus is thus hardly an alternative to air-transports
finds that it is incontrovertible that a bonus program has a loyalty-creating effect, the very objective of launching such a program is likely to be the creation of incentives for choosing the airline.
finds that the attractiveness of the EuroBonus-program increases due to the large number of destinations on which one can earn and use the earned bonus on.

finds that the attractiveness of the EuroBonus-program increases due to the fact that business travels are paid by the employer while the bonus is awarded and can be used by the traveller.

finds that a considerable loyalty-creating effect emerges as a consequence of the fact that a traveller can obtain the most beneficial result of his or her EuroBonus-membership by concentrating the travels to SAS or its partners.

finds that this limits the possibilities of airlines that are not part of the program to attract travellers, and increases the difficulties for new actors to establish on the Swedish market for domestic flights.

finds that the loyalty-creating effect of the EuroBonus-program can affect price-formation by lowering the traveller’s price-sensitivity.

finds, on the basis of testimonies, that there is a lowered price-sensitivity particularly among business customers, who do not pay for the travel themselves. The effect of the inadequate price-sensitivity is strengthened by the good opportunities for earning and using bonus points.

In brief, the Market court establishes the business customer as an entity with certain preferences (swift, convenient transports at suitable times to a variety of destinations, maximum benefits from his or her Eurobonds-membership), and a certain level of discretion as far as the choice of airline to travel with. The court argues that these preferences and this discretion lead the business customer to concentrate his or her travels to SAS, rather than choosing other airlines, even if these offered similar services at lower prices, that is, that they were loyal to SAS.

As far as the Market court is concerned, the only available source for reconstructing their representation of the (business) customer, is the ruling itself. This document, however, contains few details concerning how the evidence submitted by the parties was evaluated. Largely, then, the process of reaching a decision is black boxed.

The difficult customer – on the re-presentation of a heterogeneous collective

In the controversy between SAS and the SCA, the efforts to stabilise the customer plays a significant role. Although not of primary interest, the customer is drawn into the controversy in the efforts of the parties to establish the scope and character of the market. The strong link between the customer and the market is thus underscored.

Throughout the proceedings, however, there is considerable confusion as to the characteristics of the customers. This is reflected in the wealth of expressions used in
the documents submitted by the two parties. Individual passengers or travellers, customers, consumers, buyers, private individuals, business travellers, company customers, the business segment are but a few of the concepts used to discuss the party with which SAS is engaged in commercial exchange.

The unfolding story seems to suggest that the concept of a customer is both a highly generic and a highly specific term. It is generic since it is obviously capable of containing a wide variety of definitions and local stabilisations that refer to specific situations. In this case, most notably the marketing practices of SAS and their competitors, and the enforcement of antitrust legislation by the SCA. In the marketing vernacular of Webster and Wind (1972) we would say that these local customer representations display considerable variation in the dispersion of the functional buying roles. According to the SCA, for instance, the separation of the ‘buyer’ (who pays) and the ‘user’ (who travels) establishes the ‘buyer’ as the customer. SAS, on the other hand, attributes more weight to the ‘user’ role for determining the relevant customer identity.

During the legal controversy, however, efforts are made to turn the customer into a highly specific term. As the case unfolds, it becomes important for the parties to establish their version of the customer, since this will affect the outcome of the case. Hence, the two re-presentations of the customer (as a duality or as a composite) clash against each other following the overall views held by the parties. The final ruling by the Market court, another local and temporary stabilization, can be seen as adding reality to the version promoted by the SCA also for SAS (the losing party). After the ruling, SAS must find ways to align its own definition of the customer, which still has practical relevance, with the one provided by the Market court.

During this process of specification, it becomes evident that the term customer is riddled with ambiguity. We suggest that this largely is due to a clash between two ways of performing the market. One informed by the model underlying the legal framework for European competition law, the other informed by marketing theory.

As part of the ideal-type market that serves as a model for the competitive law, the buyer is ascribed considerable import and is defined in a relatively concrete way, i.e. as the party who pays for the good or service in question. The behaviour of this entity can then be modelled using a specific procedure called an SSNIP-test. Complementing this concrete conception of a buyer is a very abstract conception of the consumer defined as the entity that stands to benefit from a specific exchange, but usually realised in some aggregate form. The customer, on the other hand, is a more or
less unknown entity in this model. Given the prominent position of the concept on a more general level, i.e. as part of business rhetoric, we suggest, the SCA seeks to align it with their model. An attempt resulting in the conception of the customer as a duality.

From a marketing point of view, however, the customer is very important. From this perspective, the buyer is but one of several entities that together constitute the customer. This is evident also from the market(ing) practice of SAS. For SAS, identifying and characterising customers are very much part of business. For instance, SAS considers it necessary to attract customers in the business segment in order to survive and prosper as a major European airline. To manage this, SAS employs at least three different practical methods: First, they negotiate agreements with companies, awarding them rebates on specific destinations, or on SAS’ entire route-network. Second, they seek to interest travel agencies in promoting their assortment of flying services when assisting a potential passenger (a distribution function, distributes the customer). Third, they cater to the personal interests of individual passengers by offering them personal bonus flights through their FFP. Together, these efforts perform the business customer as a relatively complex collective. A collective which could be characterised as an actor-network.

These customers – i.e. the specific combinations of a company, an individual passenger who travel as part of his or her work for this company, and some sort of travel agent (internal or external) – are attributed certain preferences, such as short check-in and travel time, a wide choice of destinations and departures, comfortable travelling, extensive rescheduling possibilities, etc. Each individual entity that takes part in performing them, contribute in some way to these characteristics. Hence, to SAS, there are as many business customers as there are performed network constellations. As a collective, each such constellation is capable (with some variation, no doubt) of subscribing to the customer role implied by the actions of SAS.

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