A PROPOSED FRAMEWORK FOR DEVELOPING DESTINATION PRODUCT PACKAGES

- A Discussion about Business Complexity in Networks and Implementation of IT support

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Abstract

This paper is on the complexity when a tourist organisation is developing a product package in a network setting of different business actors, in order to improve the utilisation of the resources within its destination. Product development, including cooperation among the actors and coordination of the activities is discussed - with a special emphasis on the pros and cons with implementation of IT-support. The problems and complexity when developing such packages is illustrated with a case study. The analysis of the case is theoretically inspired by a business network approach and methodologically focused on business interaction and information technology. From the analysis we are proposing a framework for developing destination product packages. The framework consist of three steps; 1) The product development step, 2) The alliance creating step, and 3) The routinization step (including implementation of IT-support).

Keywords

Tourism, destinations, product packages, business networks, IT-support
1. Introduction

This paper is on the complexity when a tourist organisation (TO) is developing a product package in a network setting of different business actors, in order to improve the utilisation of the resources within its destination. Product development, including cooperation among the actors and coordination of the activities is discussed - with a special emphasis on the pros and cons with implementation of IT-support. In this first section the problem area and the aim of the study is presented. In the next section we discuss our theoretical framework. In section number three we present a case study, which is analysed and discussed in the following section. Our general conclusion is presented in the last section, number five.

A tourist destination can be looked upon as an amalgam of different tourist components (services) (Buhalis, 2000). Some of these components attract visitors; they are tourist attractions for different target groups. Others are supportive, like accommodation, transportation and catering (Gunn, 1994). The components are, in other words, complementary. The tourist components can be coordinated into a travel experience in two ways: either the coordination is done by the tourist or the components are coordinated into a package (a bundle of components – attractions and supportive services) by a coordinating agent. Destination product packages are justified from the customers’ point of view when they add value – which they do when the customer perceives them as an interesting offer, easily accessible at a reasonable price.

From the point of view of the destination - the ones responsible for developing the destination, which is often similar to the management of the TO operating in the destination - developing and selling product packages is a way of improving the utilisation of the capacity of the destination resources. Developing and selling destination product packages can thus be seen as one strategy for the TO to improve businesses within its destination. The TO then, has the role of the coordinating agent. As such, the TO often has limited resources and does not have any formal power over the other actors - the producers of attractive and supportive components within the local tourism industry (Middleton, 1994). This means that they have to reveal opportunities and convince other actors that they should participate in such packages.

In order to be able to launch a successful package, the package must be designed in a way to meet the needs of its market, cooperation between complementary business actors must be formed, and the activities which have to be handled in order to distribute the package must be coordinated. Besides that, the TO is also responsible for the quality of the package – i.e. that the package meets the expectations that have been communicated to the target groups. Creating and delivering product packages at a reasonable volume with a controlled quality standard, generating a sufficient profit for the actors involved is, in other words, a complex task to perform for the TO. Information technology (IT) can be a way of enabling new business processes and making the interaction more efficient (Davenport, 1993). Sheldon (1997) points out the great potential IT has in supporting the interaction between the different actors in the tourism industry. IT has, in other words, the ability to enhance the interaction in the distribution process of product packages and to improve its efficiency. Still, we also think that implementing an IT-system in a setting with several different business actors raises problems of a different kind from when a system is implemented in one organisation.

The aim of this paper is, in other words, to point out the complexity when a TO is developing a product package in a network setting (when several other business actors are involved), and propose a way that this could be handled. This is done through a case study were we have studied the complexity of the interaction that occurred between the actors when a product package was developed and distributed by a local TO in Sweden. The product in this particular case was quite simple and was delivered without any IT-support. In spite of the
simple package, the TO experienced the interaction in the delivery process as complex and asked for IT support to solve the interaction problems. In this particular case no support was implemented and in our analysis we identify why this never happened. The analysis in this study is theoretically inspired by a business network approach (Håkansson & Snehota, 1995) and methodologically focused on business interaction and information technology. From our analysis of this case, we discuss the prerequisites for an IT-system to be successfully implemented in a network setting. In our conclusion we propose a framework of three preparatory steps that have to be considered before an IT-supported product package is developed. Before we present the case study and the analysis, we will give a presentation of our theoretical point of departure.

2. A Theoretical Framework for Business Networks

Companies are always dependent on others in order to perform their businesses, but to different degrees. Pfeffer & Salancik (1978) have shown that no organisation has control of every resource they need for their operations, and Richardson (1972) has pointed out that a company is often dependent on other companies’ activities and results. This means that companies have to relate to others in order to be able to get access to crucial resources and in order to link their activities (Håkansson & Snehota 1989; 1995). When companies become interrelated they have created interdependencies, and those interdependencies place restrictions on what a company can or cannot do. A company is part of a wider network when its direct relationships with others will be affected by what happens in other, indirectly connected relationships (Cook & Emerson, 1978). So, a company is acting and reacting to others’ actions, in a context of relationships based on interdependencies. How they (the individuals who act on behalf of a business entity) are able to act and react is a matter of how they enable and understand the business network, i.e. its “network horizon” (Axelsson, 1996).

Business networks then, can be analysed in terms of how resources are tied and how activities are linked between the actors, and, finally, how the actors are bonded together themselves (Håkansson & Johansson, 1992). In the latter case, the bonds could be expressed formally or just by personal trust. From this perspective an actor does not need to be a company in itself. The actor is rather the business unit that controls the resources and/or performs the activities. The actor then, is always the one the counterpart identifies as the one who controls resources and/or performs activities. The actor’s identity is based on the counterpart’s perception of what the actor can and cannot do. From the counterpart’s perspective the actor could thus be a company as well as a department or a single individual.

In accordance with the discussion above, we see the destination as a network of different actors. Some of these actors could be identified as companies, with unified policies which they act according to, others could be identified as individual entrepreneurs, who make their own decisions, and still others could be identified as “departments” of larger companies, like a local hotel, which is part of a larger chain. In the latter case, such a hotel could be restricted by the policies of the chain on some issues, while on other issues it is able to act locally. Common for all the actors at the destination is that they are all restricted in one way or another by their relationships, i.e. by the logic of the network setting – the resource ties, the activity links and the actor bonds - which they are a part of. Those restrictions and the effects a change will have on the actors and on their relationships with their counterparts must be understood and taken into consideration when a product package is to be developed. In other words, the TO needs a wide network horizon.

Below we will show some of the interaction problems that have occurred in our case study and which are likely to occur when a package is developed and launched without proper understanding of the network.
3. The case study - a ski-resort package

In this section we will illustrate, through a case study, some of the problems that could occur when a destination product package is developed and later delivered. Furthermore, we will show how the TO in this study interprets those problems and how they think they could solve them by implementing IT support. Finally, we discuss why no such IT support was implemented, but first a few words about our method.

3.1 Method

The case study has been carried out through interviews with employees at the TO, with suppliers and with one customer. Checklists to enhance the possibility of dealing with important aspects have guided the interviews. The checklists have been put together to reflect the network approach and the methods used in the interaction analyses. The statements from the respondents have been structured and analysed by using the following methods:

- Action diagrams (Goldkuhl/Röstlinger, 1988) have been used to describe and explain activities in the distribution process, i.e. the distribution routines. In order to use this kind of diagram, our attention to performed actions, sequences and communication to coordinate the actions was heightened.
- Interaction diagrams (Christiansson, 1998) have been used to emphasize the interaction between the participating actors in the distribution process (see for example figure 1 below).
- Problem diagrams (Goldkuhl/Röstlinger, 1988) have been used to structure and examine problem statements identified in the interviews. To use this kind of methodology special attention is paid to causal connections and effects.

The statements and our interpretations and analyses in this qualitative study have been checked with the respondents to reduce the risk of misunderstandings. It is important to stress the deductive use of the network approach in the data collection, analyses and conclusions.

3.2 The Ski Resort Package

The TO in the case study is situated in a medium-sized municipality (around 50,000 inhabitants) in Sweden. The TO is run by the municipality and it has only a limited budget to work with, which means that it has no special funds for developing product packages. In other words, the package has to bear it own costs, from the TO’s perspective. The supply of usable components to fit in tourism product packages is limited. The TO has some employees who develop and distribute product packages part-time. The Ski Resort Package was one of a few packages offered by the TO at the time of our study.

The Ski-Resort Package is offered to families and individuals. The package, which was developed by the TO according to special request and with specific requirements from the national railroad company, “Statens Järnvägar” (SJ), consists of four components:

1. A return train ticket to the destination.
2. Accommodation at an optional hotel at the destination.
3. A rented car available at the destination.
4. A day-ticket to the Ski-Centre at the destination.

The offer can be characterized as partially standardized, because the customer has some freedom of choice, though the structure of the package is fixed. For example, the customer
must decide the day and time for the train ticket and the customer also has freedom of choice among the hotels at the destination and the choice of a suitable car.

Before distribution, the TO made the following preparations:

- Agreements with SJ about prices and booking procedures.
- Agreements with several hotels at the destination for special weekend prices.
- Agreements with the car rental company about prices and booking routines.
- Purchase of undated day tickets at the Ski Centre.

From the TO’s point-of-view as the coordinator and retailer of the package, distribution involves a lot of business communication, i.e. interaction that is performed in order to coordinate the distribution process and to book the specific options that the customer has made. In figure 1 (below) we can see that the distribution process is divided into two phases; one “Request-for-availability phase”, and one “Booking phase”. Between the two phases the TO has to break the communication with the customer, and then resume it after extensive communication with three of the suppliers of the package, to get all the information about availability.

In the “Request-for-availability phase”, the TO must make enquiries at the optional accommodation, which means that the TO has to interact with at least one hotel by telephone. If the first-choice hotel is not available at the specific time, the TO has to call the hotel that has been chosen as the second choice, etc. The TO then has to make an enquiry about a train ticket that matches the customer’s requirements, which implies that the TO has to interact with SJ by fax or telephone. To make enquiries about a rented car, the TO has to interact with the car rental company by telephone to ask for a suitable car. No interaction with the Ski Centre is necessary in order to distribute the day-ticket. When all the necessary information is available the TO calls the customer and offers a package deal in accordance with the customer’s special requirements.

After a verbal customer order, the “Booking phase” is started for the TO. In this phase a definite hotel booking is made, and the train tickets and the car are also ordered. After that, the TO prepares a written confirmation consisting of a hotel voucher, train tickets and instructions for the customer. The process is shown in the diagram in figure 1 on next page.

From the diagram we can see that the business interaction is complex, although the package is not so comprehensive. The TO has no available computerised IT system to support the distribution process. The diagram shows the ideal case, which implies that there are no misunderstandings, that the customer does not change his mind, and that the suppliers’ phones used in the interaction in order to make enquiries, bookings and confirmations are not occupied or unmanned. In other words, the interaction is usually even more complicated than the diagram above. The complexity is caused by the way the three components (hotel, train ticket and the rental car) are booked. The sales person at the TO must interact in this complex way because she has no direct access to the necessary information and she cannot control the booking of the components by herself.

The coordination problems resulted in a lot of work in the distribution process and they were caused by:

- Indistinct routines about how to interact in “the Request phase” and in “the Booking phase”. This resulted in ad hoc solutions and uncertainty.
- Low availability of information in the Request phase and the Booking phase. To put the connection with the customer on hold in order to contact the suppliers by telephone was an obstacle. Furthermore, the suppliers’ telephones and faxes were often engaged or unmanned.

The TO could not take advantage of any of the other actors’ IT systems, since none of the actors participating in the package had access to IT support for compound packages. Instead,
the hotel has strong connections to the hotel chain’s routines and SJ has strong connections to its own travel booking system.

The complex interaction needed to deliver the Ski Resort Package led to much work and poor profitability for the TO. To solve those problems and to improve the business process, the TO experienced a great need for:

1. An uninterrupted dialogue with the customer.
2. Direct access to necessary information in the Request phase.
3. Control over the booking of the components in the Booking phase.
4. Support for invoicing and payments.

To solve those needs, the TO asked for IT support. In fact, an IT solution was interpreted by the TO as the overriding solution to all the problems connected with the package, but such a
solution (presented below), was never developed. We will soon discuss why, but in order to understand why no IT support has been developed to support the delivery process, it’s necessary to give an outline of a principal IT solution of the kind the TO was asking for.

### 3.4 The IT support the TO asked for

To fulfil the four needs (presented above) the IT support has to be rather extensive and include the TO and all its suppliers except the Ski Centre. The technical solution can be designed in different ways, but the overall principle is shown in figure 2 (below).

![Diagram of IT support](image)

**Figure 2. Principal IT support for the Ski-Resort Package distribution**

The TO needs to have a local package system (PS) to support composite package administration. Such a system ought to have a functionality to keep track of possible components and how they can be combined. Furthermore, the system ought to keep track of packages that have been delivered, i.e. commitments made by the TO, and give support to produce specifications, schedules and valuable documents that are to be sent to the customer.

The employees at the TO need to have access to see what components are available and they should be able to book them. This can be accomplished in several ways, from direct access to the suppliers’ booking systems (BS) where the TO is one of several retailers of the components, to agreements where the TO has the exclusive right to book all or parts of the suppliers’ capacity (i.e. allotments). The extent of the integration between the TO’s local system and the suppliers’ systems can be accomplished in different ways. To get direct access to the suppliers’ booking systems, especially if the local system at the TO is to communicate with the suppliers’ booking systems, means that rather complicated resource ties and activity links have to be developed. To get the exclusive right to book normally demands that less complicated resource ties have to be developed, but it also means that the functionality becomes more rigid.

### 3.5 Why no IT support has been developed

In our analysis of the case we discovered a lot of problems – except from the coordination problems mentioned above - that influenced why no IT support was developed for the Ski
Resort Package. We have structured those problems into two other groups (not including the coordination problems). We have called them design problems and cooperation problems.

The package has design problems, which leads to suppliers hesitating about investing in an IT solution:

- Doubts were expressed about whether staying at hotels was an appropriate form of accommodation for this kind of tourism package. Skiing requires a lot of luggage and a more appropriate form could have been cottages closer to the Ski Centre. Still, the TO had the ambition of utilising the capacity of the hotels, which have a low level of occupancy during weekends.
- The hotels certainly wanted to be a part of weekend packages, but preferably together with bus tour organizers because of their ability to take coherent groups.
- There were also doubts about the combination of the travel components (train and rental car). Since skiing requires a lot of luggage, one means of transport, like a bus or private car, would have been preferred. A private car seemed to be a reasonable solution, since the main target group for the package lives no more than some 250 km from the destination. Still, the TO wanted to meet the requirements of SJ.

One conclusion one can draw so far is that the design of this product package was more production oriented than market oriented.

Besides the design problems, cooperation problems also put some restraints on development, e.g.:

- SJ was primarily interested in cooperation with the TO because of their destination competence. SJ wanted to try out the TO’s ability and judge if they should build an extended relationship with them, rather than sell this weekend package.
- Some suppliers, like the hotels, have ongoing businesses which they consider to be much more important than the newly developed package offered by the TO. The hotels have strong connections to the central booking policies of the hotel chains they belong to. The connections to the chains also put restrictions on how the local hotels can act. One of the leading hotels at the destination is bound by central agreements that they should work with another car rental company than the one involved in the package.

The problems with this product package, as we can see, were not so much a question of lack of resources or competence in implementing IT systems. The TO could not show a high sales volume for the package and this led to the suppliers hesitating about adapting themselves to the TO. Consequently, the TO had to adapt to its suppliers in many ways, e.g. the TO had to adapt to the hotels’ booking routines and also that the TO had to accept prices given by the suppliers. The TO had, in other words, a weak negotiating position. This position was caused by a production oriented designed package and by a limited network horizon, i.e. a lack of understanding for the other actors’ motives and how they were restricted by their involvements in other relationships.

Our interpretation is that the fundamental causes mentioned above were not known to the TO before the study. Instead, great frustration about the complexity of interaction involved (see figure 1) made the TO put too much emphasis on the coordination problems and on IT support as THE solution. This led to poor attention to the package design and to finding the right cooperation partners. If the resources, in terms of economy and personal competence, for developing IT support had been available at the TO, they would probably invested in such a system, but according to our opinion, such an attempt would have failed.

However, we claim that IT support could be an important means of improving coordination when distributing packages, but one has to have an appropriate view of how to develop busi-
ness networks and of the possibilities and effects of IT. We will discuss this below, in terms of a proposed framework.


The problems that occurred in the case presented above were interpreted by the TO involved as a coordination problem, with an emphasis on the lack of IT support. The interaction that had to be carried out by the personnel at the TO became complex and the need for rationalisation became obvious. But, as we have shown, there were some other problems with this package which caused a situation where no one was interested in investing in a suitable IT solution, except from the TO who did not have the resources that were required. We saw that the product package just had a marginal positive economic impact, if any, on the other actors’ results. It did not create a value that made these actors ready to invest in a joint IT-solution. Still, the other actors were bound into different relationships, which made them less interested in developing a long term cooperation around these packages. The TO was not able to recognize the character and strength of the different links, ties and bonds that the other actors were involved in – they did not have an appropriate network horizon.

The conclusion drawn so far is that there was not just a coordination problem in this case, but there was also a design problem for the product and there was a cooperation problem between the actors. In order to be able to develop a successful product package we believe that all these problems have to be dealt with, and they should be, at least conceptually, handled in a sequential order. We propose three steps, according to the discussion above:

Firstly, the package must be designed to meet demands; secondly, a cooperative alliance based on mutual interests and long term commitment must be developed among the involved actors, and thirdly, a development of rational routines to secure the coordination of the necessary interaction and to find solutions so that large volumes could be handled efficiently. Proper IT-solutions are obviously an important part of the last step. We would like to discuss the three steps in detail below. We will put the most emphasis on step number two, since we believe that the understanding of this aspect is often neglected, but this aspect is of crucial importance when we talk about implementation of IT supported destination product packages in network settings. In the following discussion we call the steps; 1) the product development step, 2) the alliance creating step, 3) the routinization step.

1) The product development step

The whole idea of a destination product package is to combine existent resources in a way that can attract a sufficient demand. This means that one must be able to see opportunities on the market. One way of doing that is market research (Kotler, 1994). But we could also assume that the TO (and other actors in the destination) have a fairly good idea about market potentials, since they deal with tourists and their different demands as part of their everyday work. So, the crucial issue is to have the ability to reveal opportunities and to see the potential in how these opportunities could be exploited (see for example Kirzner, 1973). The problem in this case was that the product idea was not based on a market opportunity, but rather on SJ’s desire to start a cooperation with the TO in order to get access to their destination competence.

The TO needs to have a strong product concept – an idea of how to attract customers and of how to organise distribution and production. This means that the TO needs some resources themselves that are attractive for others – they could have a strong customer base, strong relationships with different suppliers, an ability to coordinate production (where reliable routines and IT systems could be involved) etc. (see for example Hedberg et. al. 1997);
otherwise they are hardly attractive for others. The product concept must also be able to communicate to potential partners in a convincing way. The TO must have a strong and appealing vision about their idea.

2) The alliance creating step

The combination of tourist components into a package requires access to different actors’ resources. The TO has to find actors that are complementary. As mentioned above, they can do that by presenting a convincing idea. But still, the partners chosen must be willing to develop a long-term cooperation based on mutual interests. Without mutuality and a long-term commitment between the actors, there will probably not be a creative and developmental atmosphere. This could also be observed in the case study. There must, in other words, be a good fit between the actors.

Laage-Hellman (1998) has put together a list of five aspects of good and bad fit between business actors. This list is presented below and the findings from the case are discussed in relation to each aspect.

- **Functional complementarity.** This aspect is mentioned above and it means that the actors complement each other’s resources. One actor has some knowledge or capability that the others are missing. The partners of the TO in the case study obviously complement each other in a functional way, although we can have some doubt about the resources the TO itself brings into the cooperation. The TO has the role of the coordinating agent. As such, it has competence in what resources there are at the destination and they have contacts with tourists who contact them for tourist information, but they do not have a customer base or a system for handling the coordination. We believe that the actors in the case participated in this project because they want to have a good relationship with the TO, since they have a key role at the destination. But at the same time they did not expect the TO to have any special resources to make this package a success, so they were not committed to the project. In other words, we believe it is of importance to see resources like customer bases, coordination abilities and systems (IT-solutions) as complementary resources, in addition to the attractive and supportive tourism components (attractions, accommodation, catering, transportation etc.). One should deliberately try to link actors with these resources in a project like this one.

- **Strategic fit** means that the parties are heading in the same direction. We could see in the case that the hotels needed to better utilise their capacity at the weekends, while SJ had the opposite problem – they needed more customers on weekdays. The aim for SJ was not to sell weekend packages, but rather to find a way to start a relationship with the TO and at the same time research their abilities. The Ski-Centre, as well as the hotels, was more interested in developing its business with bus tour organizers than with the TO.

- **Organizational fit.** This aspect has to do with how well the different parties organizational design will facilitate cooperation. Unfortunately there was a lack of organisational fit between the hotel and the TO, since the hotel was bound by central restrictions, which led to difficulties with the freedom to develop local cooperation. The TO’s main task and organisational profile was to improve utilisation at the destination (local) level.

- **Business philosophy.** Do the parties have the same or diverging values in terms of how to do business and how to cooperate? Should it be opportunistic or truly cooperative, should it be short or long-term etc.? SJ had a philosophy and a wish to form a cooperation with the TO, which could eventually lead to something beneficial. The other
actors were less interested in the Ski Resort Package co-operation. They, and especially the hotels, seemed to have taken the services provided by the TO for granted, since the TO are publicly funded. At the same time the TO works under financial pressure and they need to have their expenses covered. There was a lack of understanding of the TO’s role and its working conditions.

- **Timing.** All the actors are involved in a number of different activities. This means that the timing of a new activity is critical. This could be clearly observed in the case study. SJ, as a strong actor, had a large influence on the TO when they really wished to form a cooperation with the TO to get a connection to their destination competence. The TO appreciated the invitation and liked the package idea, but did not have the time to reflect over and develop the necessary cooperative atmosphere the package design required. This situation more or less forced the development of the package forward.

Forming an alliance in order to develop and deliver a product package requires, in other words, a process of matching. Besides that, one needs also to mobilise support from others in the network – from the actors that are not involved but who are affected by the change (Håkansson & Eriksson, 1993). This has to do with the TO’s future legitimacy in the whole network. What we are basically saying here is that the TO needs a good understanding of the network function and the role of the different actors within the network – they need a wide network horizon.

When the right partners have been found, we think it is of crucial importance to form an alliance between them. When forming an alliance, the parties have to decide on the rules for entry of new members and exit for existing ones (Axelsson, 1996). It is also of importance to find an agreement where the parties share the risk in a way that supports the building of trust and commitment (Jarillo, 1988). To make alliances also means excluding actors who are not involved, which is evident when developing IT support between some actors.

**3) The routinization step**

The last step is the one that has to do with the coordination of the interaction amongst the actors. The demand for a precise way of communicating increases with the complexity of the delivery process, since communication increases with the number of components, with the information characteristics of the components and with the number of potential actors involved (Hultgren, 2000). As the case study has shown, interaction, even in a rather simple product, will become complex (see figure 1). If a good product concept, delivered by a set of mutually interested and long-term committed actors is to turn out to be a success, good coordination routines for handling the distribution of the product are required. Otherwise it will be hard, or probably impossible, to handle a sales volume which generates an acceptable profitability. The distribution process could be supported by implementing an IT-system (see figure 2). Such an investment requires in itself a long-term commitment, since it will mean that the actors will create strong resource ties and activity links among each other and exclude other actors from participation. It will also mean that each participating actor has to accommodate the new IT solution into its previous routines, and so into its existing IT systems. In other words, this causes a financially long-term investment, but also a process of adaptation. This underlines the importance of creating an alliance of actors, who fit well together and are committed, but also accept the rules about how to handle the cooperation.
5. Conclusion

One of the reasons we decided to write this paper is that we have the feeling that IT support is often seen as the solution when problems occur in developing and distributing product packages. A functional IT system is obviously a rational tool for managing complexity and solving some of the coordination problems. However, what we have tried to argue here is that implementing IT in a network setting of different actors requires that one has first reflected on the first two steps in the framework we have proposed above, i.e. that a good product concept is formulated and a cooperative atmosphere of mutual interest and long-term commitment is developed. If this is not done, any implementation of IT-support will probably lead to costly activity, which will not be beneficial to anyone. As a concluding remark, we would like to emphasize that the framework here is generated from theoretical ideas and from the analysis of a single case study. The proposed framework and its validity have to be tested - but that is yet to come.

References


