PRICE, SERVICE QUALITY AND CUSTOMER LOYALTY: A CASE OF AIR ASIA

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ABSTRACT

Nowadays, the market is getting competitive in all aspects of survival of the company. Companies especially in the service industry realize that in order to win the market, they need to explore new ways of approaching customers. Therefore, it is important for the company to foster customer loyalty. In this study, SERVQUAL or Gap Analysis Study has become an adapted model for the researcher in measuring the service quality in Air Asia. SERVQUAL measured tangibles, reliability, responsiveness, assurance and empathy. This research aimed to study the relationship between service quality and price towards customer loyalty in the Air Asia services. For this study, the survey method was used as instrument for collecting data. A mall intercept was the method of data collection used by researchers where passengers at the arrival and departure halls of LCCT were given the questionnaire. Based on this research, the result indicates that there are significant relationship between service quality towards customer loyalty and price towards customer loyalty. Based on the correlation analysis, it shows that between service quality and price, price is the most influencing factor that will affect customer loyalty. It can be concluded that, if Air Asia remains as the low fares to the customers, the likeness to increase the customer loyalty is high. However, it does not mean that the service quality is not important, but, price gives slightly higher influence that will lead to customer loyalty.

Keywords: Service Quality, SERVQUAL, Price, Customer Loyalty

INTRODUCTION

The research related to service quality and customer satisfaction in the airline industry has been growing in interest because of the delivery of high service quality is essential for airlines’ survival and competitiveness. A number of researchers have applied service quality related theories and methods in the airline industry. Although examining the customer satisfaction of service attributes has potentially great utility for airline managers, the effects of customer loyalty of airline service quality has not been fully investigated in previous airline service studies especially in Malaysia. Since investigating the effects of airline service quality to customer loyalty is an important factor for airline marketers to develop their marketing strategies, it is considered as an important variable in this paper.

As the nation’s flag-ship carrier, Malaysia Airline System (MAS) enjoyed monopoly status in the domestic air travel industry since commencing operations in 1947. However, with Air Asia (AA) entry in December 2001 as a low-cost carrier, AA has changed the face of the Malaysian air travel industry into a more competitive market. The Malaysian airline industry nowadays is in an oligopoly market structure, where it consists of one full service carrier (FSC) Malaysia Airline System (MAS) and two no-frills carriers, namely Air Asia and Firefly. The Malaysian airline industry is tightly regulated by the government and was dominated by the state-controlled MAS before the government’s domestic liberalization exercise opened up the market to allow Air Asia to join the industry. Following Porter’s (2001) generic competitive strategy, MAS and Air Asia operate on different business models. As a full service carrier (FSC), MAS follows a differentiation strategy and charges a fare premium. In contrast, Air Asia uses a cost leadership strategy. Due to their different strategic positioning, Air Asia and MAS differ in their customer value propositions as well as target market segments.

No matter how excellent the service a company delivers, every company still makes mistakes in meeting the expectations of today’s customers, who tend to be more demanding and less loyal than ever before. Bitner (1993) argues that due to the unique nature of services, it is impossible to ensure 100 percent error-free service. Even the most customer-oriented organization with the strongest quality program is still unable to eliminate all service failures (del Rio-Lanza et al., 2009). Therefore, failures in service delivery represent a significant challenge for every service organization. Previous research findings have confirmed that product and service failures can lead to many undesirable consequences for organizations. Among these undesirable consequences are customer anger (Folkes, 1984; Folkes et al., 1987), dissatisfaction (Bitner et al., 1990; Bitner, 1990; Hess et al., 2003; Tsiros et al., 2004), complaint intentions (Folkes, 1984; Folkes et al, 1987), a desire to hurt the firm’s business (Folkes, 1984), and exit/switching (Keaveney, 1995).

Low price alone is not sufficient to compete in a deregulated airline market. Consumers do make decisions about airlines based on their experience and perception about an airline’s customer service. Unlike a tangible product, an unsatisfied customer can neither ask for refund nor exchange a flight, once performed. Therefore, the only option an unsatisfied customer has is not to fly with that airline in the future. The researcher found that there are lot of customers’ complaint on bad services and experiences they get when travelling with Air Asia. There is one independent blog which is http://airasiareviews.blogspot.com/ built by someone who has no association with or endorsed by Air Asia to encourage everybody to give some reviews or complaints with Air Asia’s services in that blog. From that blog, the researchers found there are a lot of complaints from those who have experienced flying with Air Asia. Many incidents happened with Air Asia’s services such as flight delays, crash landing accident and the low quality of services to their customers. Hence, understanding the factors affecting customer loyalty is important so that Air Asia would know which criteria that they are lagging behind, the criteria that they need to prioritize and the criteria that
they need to improve. Objectives of this paper are to assess the relationship between service quality and customer loyalty and to evaluate the relationship between price and customer loyalty.

LITERATURE REVIEW

In the case of Air Asia that is the subject of the present study, there was initial uncertainty among practitioners as to whether the perceptions of a lower cost structure would alter accepted measures of service quality or whether the conventional measures continued to apply to the organization. It has subsequently become apparent to Low Cost Carriers (LCCs) that their lower fares to passengers are perceived to be due to cost reductions through efficiency in their operations, rather than to diminish service standards. As a result, compliance with service-quality standards continues to be important for the LCCs. Indeed, a comparative study of LCCs and Full Service Carriers (FSCs) found that service failures (such as flight cancellations, diversions, delays, strikes, and negative staff attitudes) resulted in more complaints for the LCCs than for the FSCs (Bamford and Xystouri, 2005).

The conceptual definition of service quality developed by Parasuraman et al. (1988) has been largely employed for comparing excellence in the service encounters by customers. Bitner (1990) defined service quality as the customers’ overall impression of the relative inferiority/superiority of a service provider and its services and is often considered similar to the customer’s overall attitude towards the company (Parasuraman et al., 1988). This definition of service quality covers several points. One of them is an attitude developed over all previous encounters with a service firm (Bitner, 1990; Parasuraman et al., 1985, 1988). The word “attitude” includes outcome quality and process quality. Similarly, other researchers have termed outcome quality as what the customer actually received and process quality as how the service is delivered (Groonroos, 1990). However, outcome quality is usually difficult for a customer to evaluate for any service because services tend to have more experience and credence qualities (Rushon and Carson, 1989). This situation leads customers to include process quality, i.e. the service is evaluated by customers during its delivery (Swartz and Brown, 1989). Hence, quality of service evaluation does not depend solely on the outcome quality of the service but it also involves evaluation of the process of service delivery. These components have a strong impact on future expectations of a service firm but the relative impact of each may vary from one service encounter to the other (Bitner, 1990). This definition briefly describes quality of service as the outcome and process quality of the service from all previous service encounters.

From the consumer’s perspective, the monetary cost of something is what is given up or sacrificed to obtain a product (Zeithaml, 1988). Thus, in studies on related topics, price has often been conceptualized and defined as a sacrifice (Anderson, Fornell and Lehmann, 1994; Athanassopoulos, 2000; Chang and Wildt, 1994; Sirohi, McLaughlin, and Wittink, 1998; Sweeney, Soutar, and Johnson, 1999). There are three components to the concept of price: objective price, perceived non-monetary price, and sacrifice (Zeithaml, 1988). The objective of monetary price (simply put, the amount of money paid for product) is not equivalent to the perceived price (that is, the price as understood and recorded in the mind of consumer) since consumers do not always know or remember the actual price paid for a product. Instead, they encode the price in a way that it is meaningful to them (Zeithaml, 1988). As to the relationship between price and satisfaction, research has shown that price is one of the determinants of customer satisfaction (Anderson, Fornell, and Lehmann, 1994; Parasuraman, Zeithaml, and Berry, 1994; Zeithaml and Bitner, 2000). When customers were asked about the value of services rendered, they consistently considered the price charged for the service (Anderson, Fornell, and Lehmann, 1994). In those cases in which consumers did not consider price in forming their judgments about the quality of service, it was generally because they lacked a reference price (Zeithaml and Bitner 2000). Still, though, this group ranked price as an important factor when it came to their overall satisfaction.

DATA AND METHODOLOGY

In this section the researcher describes the research framework. Figure 1 indicates the relationship between service quality and price towards customer loyalty.
Based on the framework, what is proposed is that Service Quality and price will influence customer loyalty.

For this study, the survey method (paper based questionnaire) was used as instrument for collecting data. The unit of analysis was individual and respondents were Air Asia’s customers at Low Cost Carriers Terminal (LCCT) who are waiting for departure or just arrived from Air Asia’ plane. They were selected based on convenience sampling. The sample size is 110 respondents of AirAsia customers. The questionnaires were distributed randomly within LCCT area. After distribute the questionnaires, only 100 questionnaires been collected and answered by AirAsia customer. Most of the questionnaires were distributed at departure and arrival hall of LCCT. Technically speaking, a mall intercept was the method of data collection used by researchers where passengers at the arrival and departure halls of LCCT were given the questionnaires. The questionnaires were passed directly to the customer or passengers around the terminal building. The researchers also ask them if they would be willing to participate and a short brief are given to the customer.

The first section of the questionnaire evaluated service quality. The SERVQUAL model was adapted from Parasuraman et al. (1988) and used to measure service quality. SERVQUAL measured tangibles, reliability, responsiveness, assurance and empathy. The questionnaire asked respondents their perception of the three-airline service quality factors that make-up the core of the research. Respondents were asked to provide, based on their beliefs using 5-point Likert scale, SERVQUAL’s measurement also used 5-point Likert scale ranging from strongly agree (5) to strongly disagree (1).

The second section of the questionnaire evaluated price. Airlines have struggled with profitability, in recent years, and paradoxically faced intense competition from both established rivals and new entrants into the industry. Compounding this fight between the passenger airline carriers is the constant pursuit of cheap prices and travel deals by their customers. For any chosen travel route, the ticket price continues to vary continuously depending upon the time of departure, season and competition among many reasons. The fourth section will determine the respondents’ perception towards the price of Air Asia’s and their willingness to loyal with Air Asia based on their experiences with Air Asia.

The third section of the questionnaire evaluated customer loyalty. In the present study, the customer loyalty scale which originally developed by Narayandas (1996) was adapted to measure customer loyalty in airline industry (Aydin, Ozer & Omer, 2005). It measured customers’ repurchase intention, resistance to switching to competitors’ products and willingness to recommend their current using brand to other people.

The last section of the questionnaire evaluated demographic information collected from all respondents regarding age, gender, marital status, education level, employment status, and income level. In order to create further analysis, researcher have used SPSS to analyze the data that been obtained from the questionnaires. By using SPSS program, the collected data was processed and analyzed in order to capture and interpret it. The raw data obtained from the questionnaires was keyed in to the program, and analyzed using that particular statistical software program.

Descriptive statistics are used to explore the data collected and to summarize and describe those data. Descriptive statistic may be particularly useful if one just make some general observation about the data collected.

RESULTS AND FINDINGS

This chapter discusses the results of the data analysis. To assess the extent of Service Quality, a gap analysis have been carried out to determine the difference between the expectation of passengers and what they received from Air Asia. This is explained in Table 1 below.

<table>
<thead>
<tr>
<th>Service Quality</th>
<th>Expectation</th>
<th>Perception</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibility</td>
<td>4.30</td>
<td>3.46</td>
<td>-.84</td>
</tr>
<tr>
<td>Reliability</td>
<td>4.53</td>
<td>3.86</td>
<td>-.67</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>4.33</td>
<td>3.71</td>
<td>-.62</td>
</tr>
<tr>
<td>Assurance</td>
<td>4.37</td>
<td>3.71</td>
<td>-.66</td>
</tr>
<tr>
<td>Empathy</td>
<td>4.31</td>
<td>3.49</td>
<td>-.82</td>
</tr>
<tr>
<td>TOTAL GAP</td>
<td>4.37</td>
<td>-3.65</td>
<td>-.72</td>
</tr>
</tbody>
</table>

Table 1 shows the analysis of overall gap in service quality. The gaps between all the variables are negative. The highest gap among the variables is tangibility which is -.84. It can be concluded that customers’ expectation towards the appearance of the visible facilities and equipment that are serving in good condition to customers did not meet their expectation the most. In the meantime, the lowest gap is in terms of responsiveness. It shows that there is willingness to provide prompt or favorable services by the administrative staff to customers. Even though it is negative gap differences, the responsiveness is the lowest compared with other variables. On the other hand, the total gap indicated is -7.2, which Air Asia need to fulfill in order to meet their customers’ expectation.

Table 2 & 3 shows Pearson’s correlation analysis was conducted to examine the relationships among the independent and dependent variables.

As illustrated in Table 2, Service Quality has significant and positive relationship with Customer Loyalty (r = .37, p<.01). It shows that there is a positive relationship between Service Quality and Customer loyalty. However, the relationship appears to be rather low at .374. So, with Air Asia, passengers are more likely to set aside service quality in using Air Asia services.
Table 3, Price has significant and positive relationship with Customer Loyalty which is $r = .64$ and $p < .01$. It shows that there is a positive relationship between Price and Customer loyalty. Compared with service quality, the relationship between price and customer loyalty are higher at .642 than the relationship between service quality and customer loyalty. It shows that price have a strong relationship to determine customer loyalty compared with service quality. Therefore, it can be concluded that no matter how low quality of services provided by Air Asia, if the price are low and affordable, customers will always choose Air Asia.

Table 2: The relationship between Service Quality and Customer Loyalty

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Servqual</th>
<th>Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servqual</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Loyalty</td>
<td>Pearson Correlation</td>
<td>.374**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Table 3: The relationship between Price and Customer Loyalty

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Price</th>
<th>Loyalty</th>
</tr>
</thead>
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<tr>
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</tr>
<tr>
<td>N</td>
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</tr>
<tr>
<td>Loyalty</td>
<td>Pearson Correlation</td>
<td>.642</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4 illustrates the most effecting factors that will influence customer loyalty between Service Quality and Price. It shows that the factors influencing the most to the customer loyalty is price or low fares. Therefore, it can be concluded that price give a big influence to the customers in choosing their travel airline compared with service quality provided by Air Asia. However, it does not mean that the service quality is not important, but, price gives slightly higher influence that will lead to customer loyalty.

Table 4: The Most Effecting Factor That Will Influence Customer Loyalty

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>3.6783</td>
<td>.83527</td>
<td>100</td>
</tr>
<tr>
<td>Servqual</td>
<td>3.6500</td>
<td>.71716</td>
<td>100</td>
</tr>
<tr>
<td>Price</td>
<td>4.1760</td>
<td>.69763</td>
<td>100</td>
</tr>
</tbody>
</table>

CONCLUSION & RECOMMENDATION

The present study shows the analysis of overall gap in service quality. The highest gap among the variables is tangibility which is -.84. It can be concluded that customers’ expectation towards the appearance of the visible facilities and equipment are in good condition did not meet their expectation the most. In the meantime, the lowest gap is in terms of responsiveness. It shows that there is willingness to provide prompt or favorable services by the administrative staff to customers. Even though it is negative gap differences, the responsiveness is the lowest compared with other variables. On the other hand, the total gap indicated is -7.2, which need to be fulfilled by Air Asia in order to meet their customers’ expectation.

In terms of tangibility, it shows that the highest gap is about the plane seats. The respondents put a high expectation before they travel with Air Asia regarding the plane seats, however, as they experienced themselves, they have a low perception as compared before. It shows that Air Asia have a slightly low quality of plane seats and not comfortable as customers expected. All the statements of tangibility have a negative gap and did not meet the customers’ expectation. However, the lowest gap indicated the acceptable quality of air-conditioning in the planes. It shows, the customers are really comfortable during the flight as the air-conditioning is in a good condition.
According to the respondents, in terms of reliability, their expectations are highest regarding the cleanliness of the airport toilet. However, it ends up in disappointment when their perception changed after they experienced themselves. It shows that the airport toilets are not as clean as customers expect it would be. The lowest gap indicated is about the safety of the airport terminal. It illustrates that the customers safety in the area of terminal building is always can be reliable. However, it is still a negative gap but lower as compared with others.

As regard to responsiveness, the highest gap indicated is about the responsiveness of Air Asia’s staffs in handling delays. The customers have a high expectation towards the staffs in handling these problems, however, when the problem aroused, the staffs are not really good to make sure the passengers understand the current situation. However, even though there is the gap, the differences is still negative, the lowest gap is regarding the staff which have a good knowledge in handling requests or complaints made by customers.

In terms of assurance, it shows that the highest gap is about the flight schedule. Customers expect that their flight schedule are assured all the time, however, Air Asia’s service did not meet their customers expectation. The flight schedule problems have a high gap compared with others in terms of assurance. It shows that the flights are always delayed and not precise in a timely manner. The lowest gap is on the Air Asia staffs in serving the customers. The staffs have the knowledge to answers customers inquiries to make them understand. However, it still did not meet the customers’ expectation as it has a negative gap differences.

In terms of empathy, the highest gap is regarding the service personnel. The customers expect that the service personnel will always find ways to resolve their problems/complaints, however, their perception are low and the service personnel did not meet their expectation. It shows that service personnel did not resolve the customers’ problem well. In the meantime, the lowest gap shows that there is always someone at the customer service counter who will look into customers’ problem, however, as regard to the highest gap, it can be illustrated that, the availability of the service personnel in the counter is meaningless if they cannot solve the customers’ complaints/problems. Furthermore, their services in terms of empathy did not meet the customers’ expectation.

In terms of responsiveness, the respondents agreed that Air Asia’s staffs are always willing to help the customers. However, based on this study, Air Asia’s staff is not really good in handling flight delays to make sure the passengers understand the current situation about their flight status. The respondents also agreed that their safety is always being a priority to Air Asia. The security and police at the airport are always there in order to control the situation and protect the belonging of the customers. However, for the time being, the parking space is one of the problems at LCCT (Low Cost Carriers Terminal). The parking space is not enough and not much available in order for customers to avoid traffic jam.

According to the study, the highest mean in the tangibility dimension is about the quality of air-conditioning in the planes. The respondents agreed that they are comfortable during the flight because of the quality of air-conditioning in the planes. However, the lowest mean is regarding the plane seats. The respondents do not feel really comfortable with the plane seats. It is because the seats are slightly small and uncomfortable. According to respondent’s feedback, it shows that in terms of assurance, they agreed that Air Asia’s staff have the knowledge to answer the customers’ inquiries to make customers understand. Nevertheless, the respondents mostly are not assured of their flight scheduled all the time due to the frequent flight delays. Flight delays are the most common scenario that happened in Air Asia.

In terms of empathy, the highest mean indicated that there’s always someone at the customer service counter who will look into their problems. It shows that the customer services in the counter are always available and ready to help customers. However, the lowest mean stated that when the customers make a complaint to service personnel, they give low services in finding ways to solve the customers’ problems. This is due to the situation where there is not every problem that can be solved by the service personnel. For example the flight delays problem and so forth.

After doing the correlation test, it shows that service quality has significant and positive relationship with customer loyalty which is r = .37 and p<.01. It is proven that there is a positive relationship between service quality and customer loyalty.

The second research question to be answered was whether price has positive relationship with customer loyalty in Air Asia. Based on this study, price indicated the highest mean as responded where flight with low fares influences their travel. It shows that the customers were influenced by low fares the most when they want to travel. Though, based on the study, the lowest mean stated that, if someone asked them about the Airlines, they will asked him or her to purchase Air Asia’s ticket because of value for money. It means the willingness to recommend others to travel with Air Asia are slightly low. It is because they may perceive that Air Asia’s ticket is not value for their money because of the services provided. Therefore, Air Asia should make a change in order to overcome this problem. However, after being analyzed, it shows that between service quality and price, price is the most influencing factor that will affect customer loyalty. It can be concluded that, if Air Asia remains as the low fare service provider, there is a negative gap differences.

The analysis was carried out so that the research questions and the objectives are answered. The summary of result is as below:

Research Question 1: Is service quality positively related to customer loyalty in Air Asia?
Service quality is positively related to customer loyalty in Air Asia

Research Question 2: Are pricing positively related to customer loyalty in Air Asia?
Price has positive relationship with customer loyalty in Air Asia
Research Question 3: What is the most affecting factor that influences customer loyalty?
The most effecting factor that influences customer loyalty in Air Asia is price.

RECOMMENDATION

After doing the analysis and finalizing all the finding, the researcher come out with several recommendation in order for Air Asia to improve the things that they lack behind and fulfilled the gap differences between passengers expectation and perception. The recommendations are as below.

Increase tangible resources and capabilities

Based on the research, the highest gap that Air Asia needs to fulfill is the tangible aspect. Air Asia’s passengers are mostly not satisfied with the condition of seats in the planes. They feel a bit uncomfortable with the seat provided in the plane. The seats are quite small and not comfortable. Furthermore, based on the findings, the passengers did not see the image that Air Asia is trying to project as appealing. Therefore, Air Asia should do an improvement by increasing their corporate image so that Air Asia will be the outstanding airline services regardless of the low cost services they offered. Furthermore, the condition and atmosphere of the airport also have to improve to show the tangibility of Air Asia’s service quality in order to increase customer loyalty. Besides, it is recommended to Air Asia to increase their corporate image to appeal to the high class travellers even if Air Asia is just a low cost carrier airline.

Increase local responsiveness and global integration

A localization strategy focuses on increasing profitability by customizing product and service so they can provide the taste and preferences in different national markets. Product or services' taste may vary with nation. By increasing the local responsiveness, Air Asia can capture the global market. Furthermore, it is important for Air Asia to increase global integration to widen their business, at the same time, this will make their customers at ease to travel around the world at a lower cost. It will somehow increase the loyalty and favorable attitude towards Air Asia.

Increase customer service

According to the findings, the second highest gap need to be fulfilled is empathy. Empathy is defined as the ability of the organization to provide personal attention and care to customers. It shows that the customer service of Air Asia is still low and not pleasing. There is lot of problem in the terminal including baggage handling, flight delay, reservation services, online booking services and so forth. These problem need to solved immediately by the service personnel in order to cater to the need of customers and to avoid the customers switching to other airline services. Besides, in order to build loyalty of the customers, customer service is strongly recommended.

This study has proven that service quality and price have significant and positive relationship towards customer loyalty in Air Asia. Hence it was able to answer the research questions of this study. The findings of this study showed tangibles, reliability, responsiveness, assurance and empathy were the determinants for service quality. The survival of Air Asia very much depended on the benefits it brings to their customers. Otherwise, these airline services have to pay the consequences when its customers begin looking for other alternatives for airline services. Air Asia should pay more attention on the relationship between tangibles, reliability, responsiveness, assurance, empathy and most importantly price of their fares. This is to ensure that Air Asia provides the best to its customers in order to compete effectively with other airline. A proper understanding of customer loyalty can thus be seen to have an extraordinarily high monetary value for Air Asia in a competitive environment. It is hoped that this findings will benefit Air Asia so that they could come out with better marketing strategies on how they can retain the loyalty of their customers.

REFERENCES


