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FACTORS AFFECTING CUSTOMER SATISFACTION OF ONLINE TRAVEL AGENCIES IN INDIA

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Review

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Abstract

Purpose – The purpose of this paper is to identify the factors affecting customer satisfaction for online travel agencies in India. It will help guide existing online travel agencies and future entrants to have an in-depth understanding of customer satisfaction and customer loyalty in their domain. It will also help to improve their business operations and investment focus, which in turn will lead to greater customer satisfaction and loyalty.

Design – This paper defines the concept of customer satisfaction. It helps to understand the antecedents and consequences of customer satisfaction with a focus on the online travel agencies and their correlation to each other.

Methodology – Based on extensive literature review, the author proposes a model to identify the factors affecting customer satisfaction. This research follows an online survey method. The proposed hypotheses of the model are tested using structural equation modeling. The Cronbach Alpha approach is used to check the reliability of the data collected.

Approach – The research sample consists of customers who have used online travel agencies in India, the number of respondents amounted to 384 customers.

Findings – This research confirms six proposed hypotheses. Hence, this research clearly contributes to the development of the theory and concept of customer satisfaction for online travel agencies in India. It also helps managers to channelize their investments in a scientific manner to variables which are impacting the customer satisfaction the most.

Originality – This is for the first time a researcher has considered identifying and analyzing the factors affecting customer satisfaction for the online travel agency industry. Additionally, no researcher has conducted any academic research for online travel agencies in India

Keywords customer satisfaction, customer loyalty, online travel agencies, E-commerce, Indian travel market

1. INTRODUCTION

A significantly low (19%) but fast-growing Internet population of 243 million in 2014 is an indicator of the sector's huge growth potential in India. The e-commerce business in India has grown 34% (Compound Annual Growth Rate) since 2009. The online travel agencies command an enviable 70% of the total e-commerce market (PwC, 2015). Based on a study conducted by Phocuswright, the online travel market in India is estimated at US\$9.1 bn in 2014 which comprises of air travel US\$5.1bn, rail travel US\$3.1bn, hotels 0.8bn and others US\$0.1bn.

The online travel agencies phenomenon was initiated in India in 2000 with the start of Makemytrip. There were a lot of challenges in those days like negligible consumer acceptance and access, lack of airline trust to the new method of ticketing, industry practice of paper tickets and technology infrastructure limitations. Over the last 16 years, there have been considerable technological advancements, and the market share of online travel agencies in India have grown drastically with the market leaders being Indian online travel agencies Makemytrip, Yatra and Cleartrip followed by the international online travel agencies Expedia and Travelocity.

The initial focus of online travel agencies was airline ticketing, but due to the low margins and downturn in the airline industry in recent times, the margins have decreased. Since a handful of airline players now exist in India the customers have got encouraged to visit the airline website based on the airline marketing strategy for better deals on their website. Now the online travel agencies current focus is hotel bookings where the margins are much higher ranging from 6% to 30% of the room rate. You also have new entrants like Oyo rooms and Airbnb which are specifically targeting the budget segment and apartment renting respectively where the opportunities are tremendous. The technology in this space has now developed to become automated and real time. The hotel business (especially in the budget segment) is not adopting technology in the speedy manner in which the online travel agencies would like. The hotels have shown resistance to real-time platforms due to lack of investment, interest, and education hence there is a requirement to manage this process through people, leading to huge investments in this space to gain market share. The good news is that since these kinds of businesses are benefitting from this new distribution, over a period the acceptance of technology will increase in these kinds of businesses. The online travel agencies are also aggressively pursuing additional income sources from travel packages, bus ticketing, car rental services and table reservations. These have been made possible recently with technological advancements which now allow managing large inventories and complex combinations. Also, there has been a significant growth of players specializing in these services only.

In this high growth environment, it becomes critical for the online travel agencies to understand the factors which affect customer satisfaction so that resources may be deployed correctly to strengthen processes which impact the customers most.

In 2015, online travel agencies commanded a respectable 39% of the total travel market which means that approximately four out every ten purchases are booked online. It indicates that traditional travel agents in India are not only still very strong but growing as well. For the online travel agencies to increase their share of the total Indian travel market, they will require improving the convenience for the customer further. It can only happen if there is a greater understanding of what is driving customer satisfaction for the online travel agencies.

The paper is structured into sections of literature review, methodology, results, and conclusion. The objective of the paper is to understand the importance of customer expectation for online travel agencies and its impact on customer satisfaction. It will also help us to understand the relationship between perceived quality and perceived value and

its impact on customer satisfaction and loyalty for the customers of online travel agencies.

Thus the research questions identified in the paper are as follows:

- What are the antecedents of customer satisfaction for online travel agencies in India?
- What are the consequences of customer satisfaction for online travel agencies in India?
- What are the relationships between the antecedents and consequences of customer satisfaction for online travel agencies in India?

2. LITERATURE REVIEW

The American Customer Satisfaction Index Model (ACSI Model) was developed in 1994 by Dr. Claes Fornell as a director of the National Quality Research Center. It is a research unit within the University of Michigan, in cooperation with the American Society for Quality and the Customer Feedback Insights Group in the United States of America (Fornell et al. 1996). The ACSI was based on the Swedish Customer Satisfaction Barometer (SCSB), a model designed for a measurement of the Swedish economy by measuring consumer satisfaction (Fornell, 1992). The ACSI can be applied to economics at both the macro and micro levels. As the model can measure customer satisfaction based on their actual experiences, therefore it is used to measure product and service quality at the organization and industry levels. It also can be applied to marketing to enable it to reach more consumers.

A unique ability of this model is the ability to predict business outcomes (Fornell et al., 1996; Johnson et al. 1995). Many studies have shown a correlation between results from the application of the model and business outcomes (see for examples, Fornell et al., 1995; Martin, 1998).

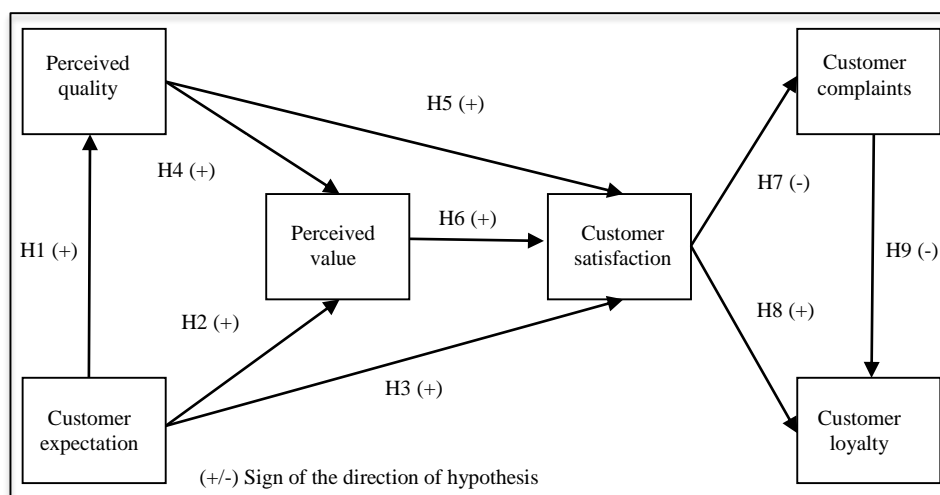
Many countries that have adopted the ACSI model and developed it to suit the context of their country. Some of them are New Zealand and Taiwan (Fornell et al., 1996), Austria, Norway (Andreassen and Lervik, 1999; Andreassen and Lindestad, 1998), Thailand (Thailand Productivity Institute, 2012) and India through the Hexagon Consulting in 2015.

The concept behind ACSI, namely, a measure of overall customer satisfaction that is uniform and comparable, requires a methodology with two fundamental properties. First, the methodology must recognize that ACSI and the other constructs in the model represent different types of customer evaluations that cannot be measured directly. Accordingly, ACSI uses multiple indicator approaches to measuring overall customer satisfaction as a latent variable. The result is a latent variable score or index that is general enough to be comparable across firms, industries, sectors, and nations. Second, as an overall measure of customer satisfaction, ACSI must be measured in a way that not only accounts for consumption experience but also is forward-looking. To this end, ACSI is embedded in the system of cause and effect relationships, which makes it the centerpiece in a chain of relationships running from the antecedents of overall customer satisfaction—expectations, perceived quality, and value—to the consequences of overall

customer satisfaction—voice and loyalty. As was indicated, the primary objective in estimating this system or model is to explain customer loyalty. It is through this design that ACSI captures the served market’s evaluation of the firm's offering in a manner that is both backward- and forward-looking (Fornell et al., 1996).

It is critical for the research that the ACSI model can explain customer satisfaction for online travel agencies in India, in the same way as it has for other countries that have used the ACSI model which has been validated in 2015 with Hexagon Consulting preparing an Indian Customer Satisfaction Index for banks using the same methodology. In the past, no researcher has considered identifying and analyzing the factors affecting customer satisfaction for the online travel agency industry. Additionally, no researcher has conducted any academic research for online travel agencies in India. Thus, the researcher incorporated the ACSI model and had predicted nine hypotheses to understand all the variables and latent variables affecting the Indian customer satisfaction for online travel agencies.

Figure 1: Proposed Model



Source: Compiled by Author

The hypotheses are as follows:

Antecedents of Customer Satisfaction

Hypothesis 1 (H1): There is a positive relationship between customer expectation to perceived quality being offered by the online travel agencies.

Hypothesis 2 (H2): There is a positive relationship between customer expectation to perceived value being offered by the online travel agencies.

Hypothesis 3 (H3): There is a positive relationship between customer expectation to customer satisfaction being offered by the online travel agencies.

Hypothesis 4 (H4): There is a positive relationship between perceived quality of the service to perceived value being offered by the online travel agencies.

Hypothesis 5 (H5): There is a positive relationship between perceived quality of the service to customer satisfaction being offered by the online travel agencies.

Hypothesis 6 (H6): There is a positive relationship between perceived value of the service to customer satisfaction being offered by online travel agencies.

Consequences of Customer Satisfaction

Hypothesis 7 (H7): There is a negative relationship between customer satisfaction to customer complaint being offered by the online travel agencies.

Hypothesis 8 (H8): There is a positive relationship between customer satisfaction to customer loyalty being offered by the online travel agencies.

Hypothesis 9 (H9): There is a negative relationship between customer complaints to customer loyalty being offered by the online travel agencies.

3. METHODOLOGY

3.1. Sample Size

To determine the sample size the researcher used the widely acceptable – confidence level approach (Israel, 1992). By the end of the year 2016, the internet users in India are expected to reach 330,000,000 out of which 38% users visit travel sites every month (Aranca, 2015). Hence the population size to be considered for the confidence level approach is 125,400,000 who are going to visit online travel agencies. The researcher was comfortable with 95% confidence level with a margin of error of plus or minus five (also known as confidence interval). Based on this desired level of accuracy the sample size is determined to be 384.

3.2. Sampling Approach

There are hundreds of online travel agencies in India, and each online travel agency has its unique customer interaction channels like the desktop website, mobile website and mobile app. The online travel agency leaders based on market share are the Indian online travel agencies MakeMyTrip (47%), Yatra (20%) and Cleartrip (20%), which means that these three players hold an impressive 87% market share (Aranca,2015). With a market share such as this, these three players would be ideal representatives of the online travel agencies in India. The researcher adopted a purposive sampling approach wherein three criteria were required for the participant to qualify for research. These were that the participant was an Indian and residing in India, the participant was 18 years and above, and the participant has used either MakeMyTrip or Yatra or Cleartrip in 2016.

An online survey invitation was sent through email, SMS and WhatsApp through which a total of 733 people responded out of which 384 qualified and completed the survey.

3.3. Scale and Questionnaire

Likert scales were developed in 1932 as the familiar five-point bipolar response that most people are familiar with today. These scales range from a group of categories—least to most—asking people to indicate how much they agree or disagree, approve or disapprove, or believe to be true or false. There’s no wrong way to build a Likert scale. The most important consideration is to include at least five response categories (Allen and Seaman, 2007). The scale used to measure the variables in the questionnaire in Table 1 will range from (1) to (5). The questions are based on questions in the ACSI model which were adjusted to make it applicable to this survey and the Indian context.

Table 1: Questionnaire

Customer expectations	How would you rate your expectations of the overall quality of the online travel agency?
	How well did you expect your online travel agency to meet your requirements?
	How often did you expect things would go wrong with your online travel agency?
Perceived quality	How would you rate the overall quality of your online travel agency?
	How well has your online travel agency met your personal requirements?
Perceived value	Given the quality, how would you rate the price paid?
	Given the price you paid, how would you rate the quality?
Customer satisfaction	Are you overall satisfied with all the services of the online travel agency?
	Did the overall service of the online travel agency meet your expectations?
	How good is the online travel agencies service when compared to what you expect from online travel agencies?
Customer complaints	Have you complained either formally or informally about the product or service?
Customer loyalty	How likely are you to recommend this online travel agency services to others?
	How likely are you to continue to use this online travel agency's service?

Source: Compiled by Author

3.4. Reliability of data collected

When using Likert-type scales, it is imperative to calculate and report Cronbach’s alpha coefficient for internal consistency reliability for any scales or subscales one may be using. The analysis of the data then must use these summated scales or subscales and not individual items (Allen and Seaman, 2007).

For this dataset, the Cronbach’s alpha is 0.855 which is reliable and good based on the thumb rule (George and Mallery, 2003).

4. RESULTS

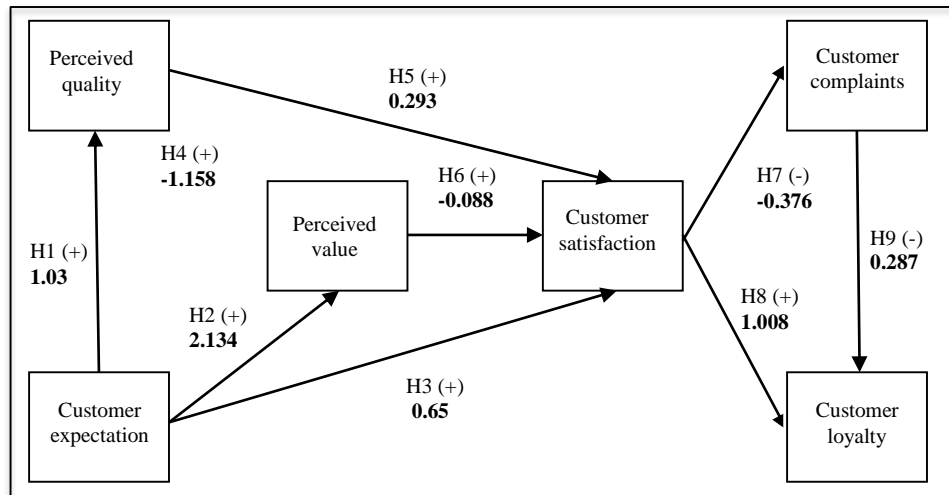
The ACSI model consists of the measurement model and the structural model. The measurement model helps us estimate the loading values of the observed variables to investigate how well each observed variable represents the latent variable and the structural model, on the other hand, estimates the path coefficients of the latent variables and shows the causal relationship between the latent variables.

Table 2: Loading values of each observed variable

Latent Variable	Variable	Loading Value
Customer expectations	How would you rate your expectations of the overall quality of the online travel agency?	0,787
	How well did you expect your online travel agency to meet your requirements?	0,585
	How often did you expect things would go wrong with your online travel agency?	0,247
Percieved quality	How would you rate the overall quality of your online travel agency?	0,856
	How well has your online travel agency met your personal requirements?	0,51
Perceived value	Given the quality, how would you rate the price paid?	0,851
	Given the price you paid, how would you rate the quality?	0,5
Customer satisfaction	Are you overall satisfied with all the services of the online travel agency?	0,647
	Did the overall service of the online travel agency meet your expectations?	0,679
	How good is the online travel agencies service when compared to what you expect from online travel agencies?	0,554
Customer complaints	Have you complained either formally or informally about the product or service?	0,098
Customer loyalty	How likely are you to recommend this online travel agency services to others?	0,898
	How likely are you to continue to use this online travel agency's service?	0,619

Source: Compiled by Author

Figure 2: The relationship between latent variables



Source: Compiled by Author

The model has chi-square value = 113.586, df = 57, CFI = 0.960 and RMSEA = 0.051. All the values fall within an acceptable range (Byrne, 2010), indicating that data collected is model fit. In the analysis of the structural model, three hypotheses (4, 6 and 9) are rejected, and the remaining six (1, 2, 3, 5, 6, 7 and 8) are accepted.

4.1. Rejected Hypothesis

H4: The regression weight from perceived quality of the service to perceived value being offered by the online travel agencies is -1.158 which is contrary to the positive relationship as previously hypothesized.

H6: The regression weight from perceived value of the service to customer satisfaction being offered by online travel agencies is -0.088 which is contrary to the positive relationship as previously hypothesized.

H9: The regression weight from customer complaints to customer loyalty being offered by the online travel agencies is 0.287 which is contrary to the negative relationship as previously hypothesized.

4.2. Accepted Hypothesis

H1: The regression weight from customer expectation to perceived quality being offered by the online travel agencies is 1.03 is consistent with the positive relationship as previously hypothesized.

H2: The regression weight from customer expectation to perceived value being offered by the online travel agencies is 2.134 is consistent with the positive relationship as previously hypothesized.

H3: The regression weight from customer expectation to customer satisfaction being offered by the online travel agencies is 0.65 is consistent with the positive relationship as previously hypothesized.

H5: The regression weight from perceived quality of the service to customer satisfaction being offered by the online travel agencies is 0.293 is consistent with the positive relationship as previously hypothesized.

H7: The regression weight from customer satisfaction to customer complaint being offered by the online travel agencies -0.376 is consistent with the negative relationship as previously hypothesized.

H8: The regression weight from customer satisfaction to customer loyalty being offered by the online travel agencies is 1.008 is consistent with the positive relationship as previously hypothesized.

5. CONCLUSION

Customer satisfaction is the key to success for most successful businesses, even more in the case of online travel agencies where the customer acquisition costs are quite high when compared to the margins. The business in India is in the growth phase which is currently being driven by discounting, and huge marketing spends. In this situation, it becomes critical for managers to channelize their investments in a scientific manner to variables which are impacting the customer satisfaction the most, as compared to gut feel approach. The argument to follow a scientific approach is further strengthened by the model; additionally, it gives a strategic understanding of which factors are affecting the Indian customers. The consumer decision-making process for service products is best modeled as a complex system that incorporates both direct and indirect effects on behavioral intentions (Cronin et al., 2000).

We observed that perceived value was not as important a factor when compared to the other antecedents of customer satisfaction like customer expectations and perceived quality which may help managers in communicating the correct marketing message and improve processes which are more relevant to the appropriate factors. Also, the observation that the customer's complaint does not necessarily have an impact on loyalty may be inferred as an opportunity to study this factor further to understand which variable apart from satisfaction is playing a critical role for loyalty.

Most of the factors are consistent with previous findings and ACSI model. Interestingly we noted that customer expectation plays an important role in the Indian online travel market as it has a major impact on perceived quality and value – this may provide an opportunity for the managers to focus their resources on this critical factor and monitor it closely.

The consolidation of the major Indian players has already started with the recent acquisition of Ibibo by Makemytrip in October 2016 making it essential for the managers to identify a niche and focus on that segment and improve satisfaction and loyalty which will enable the online travel agency to not only survive rather flourish. The research focuses on factors affecting the customer satisfaction for the online travel agencies in India. The researcher hopes that the finding will help the existing online travel agencies

and future entrants to have an in-depth understanding of customer satisfaction and customer loyalty in their domain. It will help to improve their business operations and investment focus, which in turn will lead to greater customer satisfaction and loyalty. Additionally, this research will provide a basis for similar studies across other industries in India.

The limitation of this research topic is that it is very extensive, and due to the time and resource restriction, the research was conducted through online survey method only. The findings are considered to be high in validity and possessing a generalizability quality. Further research through the interview process may provide a better understanding of the factors examined in this study.

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